



AUDITED FINANCIAL STATEMENTS
BLUMONT CORE HEDGE 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 CORE HEDGE 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 CORE HEDGE FUND

	2009	2008
ASSETS		
Long positions at fair value*		
Canadian equities	\$ 8,362,054	\$ 3,821,208
U.S. equities	6,379,569	2,489,029
Global equities	<u>236,800</u>	<u>197,433</u>
	14,978,423	6,507,670
Cash and broker deposits	18,604,346	19,277,614
Accrued investment income	36,224	24,124
Receivable from investment sales	<u>62,697</u>	<u>60,989</u>
Total Assets	<u>33,681,690</u>	<u>25,870,397</u>
LIABILITIES		
Short positions at fair value**		
Canadian equities	1,427,451	1,658,943
U.S. equities	<u>4,374,796</u>	<u>1,139,826</u>
	5,802,247	2,798,769
Accounts payable:		
Fees and operating expenses	68,007	58,124
Dividends payable	4,983	5,476
Payable for investment purchases	<u>9,734</u>	<u>214,905</u>
Total Liabilities	<u>5,884,971</u>	<u>3,077,274</u>
NET ASSETS REPRESENTING UNITHOLDERS' EQUITY		
Series A	21,923,371	16,037,834
Series F	<u>5,873,348</u>	<u>6,755,289</u>
	\$ 27,796,719	\$ 22,793,123
NUMBER OF UNITS OUTSTANDING (Note 4)		
Series A	218,144	172,798
Series F	<u>55,897</u>	<u>70,348</u>
NET ASSETS PER UNIT		
Series A	\$ 100.50	\$ 92.81
Series F	<u>\$ 105.07</u>	<u>\$ 96.03</u>
*Long positions, at cost	<u>\$ 13,477,841</u>	<u>\$ 9,224,612</u>
**Proceeds on short positions	<u>\$ (5,601,374)</u>	<u>\$ (3,546,860)</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 CORE HEDGE FUND

	2009	2008
INVESTMENT INCOME		
Dividends	\$ 397,430	\$ 474,335
Less: Foreign withholding taxes	<u>11,162</u>	<u>10,306</u>
	386,268	464,029
Interest	<u>49,686</u>	<u>594,834</u>
	<u>435,954</u>	<u>1,058,863</u>
EXPENSES (Notes 6 and 7)		
Management fees	562,029	672,020
Performance fees	-	271
Dividends paid on investments sold short	67,433	89,953
General operating expenses	282,552	211,777
Audit fees	18,570	22,405
Legal fees	1,310	33
Trustees' fees	1,957	977
Securityholders' reporting costs	8,080	12,552
Interest expense	<u>5,745</u>	<u>20,704</u>
	947,676	1,030,692
Less: Expenses absorbed by the Manager	<u>110,345</u>	<u>23,694</u>
	<u>837,331</u>	<u>1,006,998</u>
NET INVESTMENT (LOSS) INCOME	<u>(401,377)</u>	<u>51,865</u>
NET REALIZED LOSS ON INVESTMENT TRANSACTIONS	(974,413)	(981,336)
TRANSACTION COSTS (Notes 2(II) and 7)	(28,492)	(44,659)
NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS	3,268,560	(2,969,385)
EXCHANGE GAIN (LOSS) ON FOREIGN CURRENCIES AND OTHER NET ASSETS	<u>122,122</u>	<u>(162,996)</u>
NET GAIN (LOSS) ON INVESTMENTS AND TRANSACTION COSTS	<u>2,387,777</u>	<u>(4,158,376)</u>
NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
Series A	1,455,046	(3,056,687)
Series F	<u>531,354</u>	<u>(1,049,824)</u>
	\$ 1,986,400	\$ (4,106,511)
NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT (Note 2(VIII))		
Series A	\$ 7.44	\$ (14.07)
Series F	<u>\$ 8.82</u>	<u>\$ (14.29)</u>

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

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31,

BLUMONT CORE HEDGE FUND

	2009	2008
Net Assets, Beginning of Period		
Series A	\$ 16,037,834	\$ 22,991,395
Series F	<u>6,755,289</u>	<u>6,775,781</u>
	<u>22,793,123</u>	<u>29,767,176</u>
Net Increase (Decrease) in Net Assets from Operations		
Series A	1,455,046	(3,056,687)
Series F	<u>531,354</u>	<u>(1,049,824)</u>
	<u>1,986,400</u>	<u>(4,106,511)</u>
From Capital Unit Transactions: (Note 4)		
Proceeds from issue of units		
Series A	426,356	3,433,440
Series F	<u>270,230</u>	<u>3,228,965</u>
	<u>696,586</u>	<u>6,662,405</u>
Units issued upon fund merger (Note 1)		
Series A	19,745,799	-
Series F	<u>480,470</u>	<u>-</u>
	<u>20,226,269</u>	<u>-</u>
Consideration paid for redemptions of units		
Series A	(15,741,664)	(7,333,240)
Series F	<u>(2,163,995)</u>	<u>(2,201,381)</u>
	<u>(17,905,659)</u>	<u>(9,534,621)</u>
Reinvestment of distributions		
Series A	-	10,671
Series F	<u>-</u>	<u>5,008</u>
	<u>-</u>	<u>15,679</u>
	<u>3,017,196</u>	<u>(2,856,537)</u>
From Distributions to Unitholders:		
From net income/capital gains		
Series A	-	(7,746)
Series F	<u>-</u>	<u>(3,259)</u>
	<u>-</u>	<u>(11,005)</u>
Net Assets, End of Period		
Series A	21,923,371	16,037,834
Series F	<u>5,873,348</u>	<u>6,755,289</u>
	<u>\$ 27,796,719</u>	<u>\$ 22,793,123</u>

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

BLUMONT CORE HEDGE FUND
STATEMENT OF INVESTMENTS AND OTHER NET ASSETS
As at December 31, 2009

	Number of Shares	Long: Avg Cost Short: Proceeds	Fair Value	% of Total Net Assets
LONG POSITIONS				
Canadian Equities				
Energy				
Canadian Energy Services LP 'A'	21,365	\$ 207,355	\$ 249,971	
Canadian Natural Resources Limited	4,680	310,314	354,042	
EnCana Corporation	9,640	302,984	328,242	
Fort Chicago Energy Partners Limited Partnership Unit	42,210	349,895	420,833	
Inter Pipeline Fund LP 'A'	25,670	224,747	277,235	
Nexen Inc.	11,955	382,471	300,548	
Suncor Energy Inc.	17,600	721,741	653,135	
TransCanada Corporation	31,490	982,197	1,138,363	
		3,481,704	3,722,369	13.4
Basic Materials				
Geovic Mining Corp Warrants	11,794	413	590	
HudBay Minerals Inc.	18,965	151,085	256,028	
Kinross Gold Corporation	4,135	82,822	79,930	
Quantum Fuel Systems Technologies Worldwide Inc.	39,105	52,895	45,012	
Thompson Creek Metals Limited	13,975	218,801	171,893	
Uranium Participation Corporation	17,690	124,522	116,400	
Yamana Gold Inc.	23,750	269,342	283,575	
		899,880	953,428	3.4
Industrials				
5N Plus Inc.	17,850	108,446	105,851	
Wajax Income Fund	14,370	243,406	311,542	
		351,852	417,393	1.5
Consumer Discretionary				
Cogeco Cable Inc.	2,375	82,203	82,935	0.3
Consumer Staples				
Loblaw Companies Limited	9,765	315,168	330,252	1.2
Financials				
Crombie Real Estate Investment Trust	20,360	171,241	219,888	
Genworth MI Canada Inc.	4,850	116,439	130,708	
H&R Real Estate Investment Trust	12,455	142,112	191,807	
iShares CDN S&P/TSX Capped REIT	34,465	308,769	399,449	
		738,561	941,852	3.4

	Number of Shares	Long: Avg Cost Short: Proceeds	Fair Value	% of Total Net Assets
Index Equivalents				
Horizons Beta Pro S&P/TSX 60 Bear	39,820	\$ 588,811	\$ 500,139	
Ultrashort Russell 2000 ProShares	9,720	343,864	256,721	
		932,675	756,860	2.7
Information Technology				
Celestica Inc.	17,550	156,566	173,219	0.6
Telecommunication Services				
COM DEV International Limited	38,620	146,900	132,080	
Rogers Communications Inc. 'B'	8,975	308,001	292,226	
		454,901	424,306	1.6
Utilities				
Just Energy Income Fund	38,850	518,584	559,440	2.0
Total Canadian Equities - Long		7,932,094	8,362,054	30.1
U.S. Equities				
Energy				
Vantage Drilling Company	8,050	15,571	13,562	
W&T Offshore Inc.	11,690	170,596	143,122	
		186,167	156,684	0.6
Basic Materials				
Nucor Corporation	730	32,593	35,635	0.1
Industrials				
Navistar International Corporation	1,775	66,502	71,770	0.3
Consumer Discretionary				
Abercrombie & Fitch Company 'A'	2,235	83,609	81,365	
BorgWarner Inc.	2,590	75,824	90,034	
Coach Inc.	8,820	267,263	336,874	
		426,696	508,273	1.9
Consumer Staples				
Constellation Brands Inc. 'A'	17,390	263,775	289,700	1.1
Financials				
ProShares UltraShort Financial	2,470	73,598	60,791	
SPDR Gold Trust	2,520	279,149	282,236	
		352,747	343,027	1.2

	Number of Shares	Long: Avg Cost Short: Proceeds	Fair Value	% of Total Net Assets
Information Technology				
Apple Inc.	5,195	\$ 830,165	\$ 1,145,396	
DigitalGlobe Inc.	2,200	56,210	55,711	
Exide Technologies	8,100	59,365	60,095	
GeoEye Inc.	1,950	57,728	56,788	
Intel Corporation	38,955	785,742	831,570	
International Business Machines Corporation	8,120	966,623	1,111,653	
MEMC Electronic Materials Inc.	7,310	99,821	104,107	
Oyo Geospace Corporation	8,930	227,481	400,787	
SanDisk Corporation	3,570	64,286	108,261	
		3,147,421	3,874,368	13.9
Telecommunication Services				
CenturyTel Inc.	12,795	442,046	484,813	1.7
Utilities				
UQM Technologies Inc.	85,840	476,520	615,299	2.2
Total U.S. Equities - Long		5,394,467	6,379,569	23.0
Global Equities				
Australia				
CGA Mining Limited	17,390	28,573	35,302	0.1
Bermuda				
Marvell Technology Group Limited	9,280	131,956	201,498	0.7
Total Global Equities - Long		160,529	236,800	0.8
Total Long Positions Including Transaction Costs		13,487,090	14,978,423	53.9
Transaction Costs		(9,249)	-	-
Total Long Positions Before Transaction Costs		13,477,841	14,978,423	53.9
SHORT POSITIONS				
Canadian Equities				
Energy				
iShares CDN S&P/TSX Capped Energy Index Fund	(54,020)	(1,036,747)	(1,005,852)	(3.6)
Basic Materials				
Inmet Mining Corporation	(905)	(55,541)	(57,721)	
Silver Standard Resources Inc.	(1,245)	(29,668)	(28,896)	
		(85,209)	(86,617)	(0.3)

	Number of Shares	Long: Avg Cost Short: Proceeds	Fair Value	% of Total Net Assets
Consumer Staples				
Maple Leaf Foods Inc.	(6,010)	\$ (58,152)	\$ (70,197)	
Metro Inc. 'A'	(6,115)	(227,366)	(239,830)	
		(285,518)	(310,027)	(1.1)
Financials				
First Capital Realty Inc.	(1,150)	(23,805)	(24,955)	(0.2)
Total Canadian Equities - Short		(1,431,279)	(1,427,451)	(5.2)
U.S. Equities				
Energy				
United States Oil Fund LP	(5,260)	(357,987)	(216,204)	(0.8)
Industrials				
C.H. Robinson Worldwide Inc.	(1,255)	(76,406)	(77,548)	
Industrial Select Sector SPDR Fund	(5,600)	(154,616)	(163,786)	
Paccar Inc.	(7,990)	(315,663)	(303,835)	
		(546,685)	(545,169)	(2.0)
Consumer Discretionary				
Tiffany & Company	(4,455)	(143,592)	(200,457)	(0.7)
Consumer Staples				
Diageo PLC ADR	(3,625)	(244,579)	(263,329)	(0.9)
Financials				
Retail HOLDRs Trust	(2,180)	(206,152)	(214,546)	(0.8)
Information Technology				
Semiconductor HOLDRs Trust	(27,485)	(736,689)	(806,741)	(2.9)
Index Equivalents				
PowerShares QQQ	(34,050)	(1,475,027)	(1,636,155)	
Standard & Poor's 500 Depository Receipts	(4,220)	(457,605)	(492,195)	
		(1,932,632)	(2,128,350)	(7.6)
Total U.S. Equities - Short		(4,168,316)	(4,374,796)	(15.7)
Total Short Positions Including Transaction Costs		(5,599,595)	(5,802,247)	(20.9)
Transaction Costs		(1,779)	-	-
Total Short Positions Before Transaction Costs		(5,601,374)	(5,802,247)	(20.9)
TOTAL INVESTMENT PORTFOLIO		\$ 7,876,467	9,176,176	33.0
Other Assets Net of Liabilities ¹			18,620,543	67.0
TOTAL NET ASSETS REPRESENTING UNITHOLDERS' EQUITY			\$ 27,796,719	100.0

¹This amount is comprised of cash and short-term investments plus accrued investment income plus receivable from investment sales less accounts payable.

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 Core Hedge 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, as amended from time to time, dated as of December 22, 2000. The Fund began operations on June 1, 2006.

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

(II) Fund Merger

Effective August 7, 2009, BluMont Canadian Opportunities Fund (“Canadian Opportunities Fund”) and BluMont Hirsch Long/Short Fund (“Long/Short Fund”), collectively the “Discontinued Funds”, were merged with the Fund. The Manager afforded unitholders of the Discontinued Funds the ability to participate in the wind-up of the Discontinued Funds by way of an in-kind transfer of their investment to the Fund. The termination of the Discontinued Funds did not occur on a tax-deferred basis.

Details relating to the merger are as follows:

Net Assets acquired by the Fund	\$20,226,269
Units issued by the Fund – Series A	203,148
Units issued by the Fund – Series F	4,746

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, 2009 between the Fund's net assets for financial reporting ("Net Assets") and the Fund's net assets 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 incurred. 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 each Valuation Day. A "Valuation Day" is the last trading day of each week on which 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 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. The new standards do not impact the daily price of the Fund's securities, nor the calculation of Net Assets.

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 provide superior absolute returns measured over a complete market cycle.

To achieve its investment objective, the Fund may employ the following strategies: 1) make investment decisions based upon fundamental analysis; 2) invest primarily in paired positions, which can be short or long term in nature, depending on the underlying fundamental thesis for the investment; 3) invest in high dividend paying and income trust securities to provide a total return to the portfolio based upon income and capital appreciation; 4) invest in a basket of securities, long and short, utilizing a theme based approach where there is a disruption or structural change in an industry; 5) engage in short-term trading on a limited basis to capture opportunities which may emerge from time to time in the market; 6) engage in the purchase and sale (including short sales) of securities such as common stocks, stock warrants and rights, call and put options and certain fixed income securities, including preferred shares, convertible bonds and debt instruments; and 7) employ financial leverage through margin borrowing or in other ways when the investment advisor deems such action to be appropriate.

The investment advisor will invest the majority of the portfolio in equities and other securities traded on a recognized stock exchange. The investment activities of the Fund will be conducted in accordance with certain investment policies and restrictions, which include the following: 1) the proportion of long positions versus short positions in the Fund will fluctuate from time to time and will be determined by the investment advisor. It is anticipated that under normal circumstances the net market exposure will range from -50% to +50% but may be exceeded if the investment advisor believes current market conditions warrant it; 2) leverage will be used in accordance with the rules of the Investment Industry Regulatory Organization of Canada. It is anticipated that under normal circumstances minimal, if any, leverage will be utilized; 3) the Fund will limit the weighting in a particular security at cost to no more than 10% of the Fund's NAV; 4) purchases of non-marketable securities at cost will be limited to less than 10% of the Fund's NAV; and 5) the Fund may make use of options and other derivatives to enhance returns or to manage risk.

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 fair 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 weekly cash redemptions of redeemable units. Units of the Fund are issued and redeemed weekly 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.

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. As at December 31, 2009, and December 31, 2008, the Fund did not hold any such securities.

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 (\$)	Non-Interest Bearing (\$)
Financial Assets				
Equities - long	-	-	-	14,978,423
Other receivables	98,921	-	-	-
Cash and cash equivalents	18,604,346	-	-	-
Total	18,703,267	-	-	14,978,423
Liabilities				
Equities - short	-	-	-	(5,802,247)
Other liabilities	(82,724)	-	-	-
Total	(82,724)	-	-	(5,802,247)

December 31, 2008

	Less than 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	Non-Interest Bearing (\$)
Financial Assets				
Equities - long	-	-	-	6,507,670
Bonds and treasury bills	14,989,860	-	-	-
Other receivables	85,113	-	-	-
Cash and cash equivalents	4,287,754	-	-	-
Total	19,362,727	-	-	6,507,670
Liabilities				
Equities - short	-	-	-	(2,798,769)
Other liabilities	(278,505)	-	-	-
Total	(278,505)	-	-	(2,798,769)

(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's sensitivity to interest rate changes was not significant.

(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 43 data points (2008 – 31 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	\$329,000	\$305,000

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	As at December 31, 2009		As at December 31, 2008	
	Financial Instruments (\$)	Percentage of Net Assets (%)	Financial Instruments (\$)	Percentage of Net Assets (%)
United States Dollar (long)	6,184,103	22.2	2,889,760	12.7
United States Dollar (short)	(4,403,692)	(15.8)	(1,888,937)	(8.3)

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 \$89,000 (2008 – \$50,000).

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 analyzes the Fund's financial assets and liabilities within the fair value hierarchy measured at fair value at December 31, 2009.

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Assets				
Equity securities - long	14,978,423	-	-	14,978,423
Liabilities				
Equity securities - short	(5,802,247)	-	-	(5,802,247)

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.

There were no movements between levels during the year.

4. UNIT TRANSACTIONS

In accordance with 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 units authorized for issuance are unlimited in number, have no nominal or par value and are issued and redeemed at their Net Asset Value per unit. The Fund offers two series – Series A Units and Series F Units. Series A Units of the Fund are offered on an initial sales charge or a deferred sales charge basis. Series F Units are offered to retail investors participating in programs that do not require the payment of sales charges by investors and do not require the payment of service fees to registered dealers or investment professionals. Unitholders are entitled to distributions when declared. Distributions on units of the Fund are reinvested in additional units of the Fund. 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:

	Series A	
	2009	2008
Balance at January 1	172,798	214,142
Units issued for cash	4,466	32,770
Units issued upon fund merger	203,148	-
Units issued on reinvestment of distributions	-	110
Units redeemed	(162,268)	(74,224)
Units issued and outstanding at December 31	<u>218,144</u>	<u>172,798</u>

	Series F	
	2009	2008
Balance at January 1	70,348	61,661
Units issued for cash	2,727	30,052
Units issued upon fund merger	4,746	-
Units issued on reinvestment of distributions	-	50
Units redeemed	<u>(21,924)</u>	<u>(21,415)</u>
Units issued and outstanding at December 31	<u>55,897</u>	<u>70,348</u>

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**
\$415,107	\$1,924,519

* 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. The management fee paid by the Fund is at an annual rate of 2.50% per annum of the Net Asset Value for Series A Units and 1.5% for Series F Units.

The Fund also pays the Manager a performance fee payable on a semi-annual basis. The Manager may change the frequency of this payment upon prior notification to unitholders. The performance fee in respect of the Fund is equal to 20% of the increase in Net Asset Value of the investment of each unitholder of the Fund. To the extent that the performance fee in respect of the investment in any period is negative, the negative amount is carried forward and deducted from any positive performance fee in respect of the unitholder's investment in future periods.

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 (including advertising, marketing and promotional expenses), 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.

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. The Manager may recover a portion or all of such operating expenses paid for by the Manager within a five-year period. These absorptions may be terminated at any time by the Manager, and at the Manager's direction may be continued indefinitely. The absorbed or recovered amounts are shown in the Statement of Operations. 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 \$28,492 (2008 - \$44,659).

8. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS

As at December 31,

	Per Unit (\$)					
	2009			2008		
	Net Asset Value	Sec. 3855 Adjustment	Net Assets	Net Asset Value	Sec. 3855 Adjustment	Net Assets
Series A	\$100.62	\$(0.12)	\$100.50	\$92.91	\$(0.10)	\$92.81
Series F	\$105.20	\$(0.13)	\$105.07	\$96.12	\$(0.09)	\$96.03

9. USE OF LEVERAGE

Leverage is defined as the degree in which a fund is using borrowed money and/or securities. If a fund is said to leverage up to 200%, then for every \$1 of assets, the fund can borrow \$2 of money and/or securities such that there will be a total of \$3 of assets employed by the fund. The leverage employed by the Fund for the period ended December 31, 2009 is summarized as follows:

Minimum Leverage	Maximum Leverage	Leverage End of Period
0.00%	4.62%	0.00%

10. 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 Assets 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.

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