



**INTERIM FINANCIAL STATEMENTS**  
**BLUMONT CORE HEDGE FUND**

**JUNE 2010**





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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,

"James Wanstall"

Chief Executive Officer  
BluMont Capital Corporation  
August 27, 2010

## **NOTICE TO UNITHOLDERS**

**The auditors of the Fund have not reviewed these financial statements.**

The Manager of the Fund appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

**STATEMENT OF NET ASSETS**

As at June 30, 2010 and December 31, 2009

Unaudited

**BLUMONT CORE HEDGE FUND**

	2010	2009
<b>ASSETS</b>		
Long positions at fair value*		
Canadian equities	\$ 236	\$ 8,362,054
U.S. equities	-	6,379,569
Global equities	-	236,800
	<u>236</u>	<u>14,978,423</u>
Cash and broker deposits	18,819,203	18,604,346
Accrued investment income	3,649	36,224
Receivable from investment sales	-	62,697
Total Assets	<u>18,823,088</u>	<u>33,681,690</u>
<b>LIABILITIES</b>		
Short positions at fair value**		
Canadian equities	-	1,427,451
U.S. equities	-	4,374,796
	<u>-</u>	<u>5,802,247</u>
Forward contracts	111,950	-
Accounts payable:		
Fees and operating expenses	47,508	68,007
Performance fees payable	9,880	-
Dividends payable	2,814	4,983
Payable for investment purchases	-	9,734
Redemptions payable	291,094	-
Total Liabilities	<u>463,246</u>	<u>5,884,971</u>
<b>NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>		
Series A	15,534,870	21,923,371
Series F	2,824,972	5,873,348
	<u>\$ 18,359,842</u>	<u>\$ 27,796,719</u>
<b>NUMBER OF UNITS OUTSTANDING (Note 4)</b>		
Series A	156,719	218,144
Series F	27,118	55,897
<b>NET ASSETS PER UNIT</b>		
Series A	\$ 99.13	\$ 100.50
Series F	\$ 104.17	\$ 105.07
*Long positions, at cost	<u>\$ 413</u>	<u>\$ 13,477,841</u>
**Proceeds on short positions	<u>\$ -</u>	<u>\$ (5,601,374)</u>

Approved by the Board of Directors of BluMont Capital Corporation

"Veronika Hirsch"

"Stephen Johnson"

Veronika Hirsch

Stephen Johnson

Director

Director

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

**STATEMENT OF OPERATIONS**

For the six months ended June 30,

Unaudited

**BLUMONT CORE HEDGE FUND**

	2010	2009
<b>INVESTMENT INCOME</b>		
Dividends	\$ 147,829	\$ 181,185
Less: Foreign withholding taxes	<u>5,663</u>	<u>3,859</u>
	142,166	177,326
Interest	<u>1,700</u>	<u>49,559</u>
	<u>143,866</u>	<u>226,885</u>
<b>EXPENSES (Notes 6 and 7)</b>		
Management fees	289,232	238,531
Performance fees	9,880	-
Dividends paid on investments sold short	32,901	24,818
General operating expenses	144,433	107,739
Legal fees	5,528	-
Audit fees	11,592	7,300
Trustees' fees	600	997
Securityholders' reporting costs	9,338	1,840
Interest expense	<u>931</u>	<u>826</u>
	504,435	382,051
Less: Expenses absorbed by the Manager	<u>82,857</u>	<u>36,851</u>
	<u>421,578</u>	<u>345,200</u>
<b>NET INVESTMENT LOSS</b>	<u>(277,712)</u>	<u>(118,315)</u>
<b>NET REALIZED GAIN (LOSS) ON INVESTMENT TRANSACTIONS</b>	1,310,614	(459,109)
<b>TRANSACTION COSTS (Notes 2(1) and 7)</b>	(23,502)	(9,607)
<b>NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS</b>	(1,299,885)	1,387,314
<b>NET CHANGE IN UNREALIZED DEPRECIATION OF FORWARD CONTRACTS</b>	(111,950)	-
<b>EXCHANGE GAIN ON FOREIGN CURRENCIES AND OTHER NET ASSETS</b>	<u>78,477</u>	<u>41,478</u>
<b>NET GAIN (LOSS) ON INVESTMENTS AND TRANSACTION COSTS</b>	<u>(46,246)</u>	<u>960,076</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>		
Series A	(271,133)	590,151
Series F	<u>(52,825)</u>	<u>251,610</u>
	<u>\$ (323,958)</u>	<u>\$ 841,761</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT (Note 2(VI))</b>		
Series A	\$ (1.42)	\$ 3.58
Series F	<u>\$ (1.05)</u>	<u>\$ 4.05</u>

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

**STATEMENT OF CHANGES IN NET ASSETS**

For the six months ended June 30,

Unaudited

**BLUMONT CORE HEDGE FUND**

	2010	2009
<b>Net Assets, Beginning of Period</b>		
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>
<b>Net Increase (Decrease) in Net Assets from Operations</b>		
Series A	(271,133)	590,151
Series F	<u>(52,825)</u>	<u>251,610</u>
	<u>(323,958)</u>	<u>841,761</u>
<b>From Capital Unit Transactions: (Note 4)</b>		
Proceeds from issue of units		
Series A	-	151,356
Series F	<u>222,528</u>	<u>194,928</u>
	<u>222,528</u>	<u>346,284</u>
Consideration paid for redemptions of units		
Series A	(6,117,368)	(1,301,638)
Series F	<u>(3,218,079)</u>	<u>(1,379,647)</u>
	<u>(9,335,447)</u>	<u>(2,681,285)</u>
<b>Net Assets, End of Period</b>		
Series A	15,534,870	15,477,703
Series F	<u>2,824,972</u>	<u>5,822,180</u>
	<u>\$ 18,359,842</u>	<u>\$ 21,299,883</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 June 30, 2010  
Unaudited

	Number of Shares		Average Cost		Fair Value	% of Total Net Assets
<b>LONG POSITIONS</b>						
<b>Canadian Equities</b>						
<b>Basic Materials</b>						
Geovic Mining Corp Warrants	11,794	\$	413	\$	236	-
<b>Forward Contracts</b>						
Schedule 1	-		-		(111,950)	(0.6)
<b>Total Positions Including Transaction Costs</b>			<b>413</b>		<b>(111,714)</b>	<b>(0.6)</b>
Transaction Costs			-		-	-
<b>Total Positions Before Transaction Costs</b>			<b>413</b>		<b>(111,714)</b>	<b>(0.6)</b>
<b>TOTAL INVESTMENT PORTFOLIO</b>			<b>413</b>		<b>(111,714)</b>	<b>(0.6)</b>
Other Assets Net of Liabilities <sup>1</sup>					18,471,556	100.6
<b>TOTAL NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>				<b>\$</b>	<b>18,359,842</b>	<b>100.0</b>

<sup>1</sup>This amount is comprised of cash and broker deposits plus accrued investment income less accounts payable.

**SCHEDULE 1 – FORWARD CONTRACTS**  
June 30, 2010  
Unaudited

Settlement Date	To be delivered:	\$ Canadian Value as at June 30, 2010	To be received:	Contract Price	\$ Canadian Appreciation (Depreciation)
July 20, 2010	US\$2,300,000	CDN\$2,438,921	CDN\$2,326,971	\$1.01185	\$(111,950)

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**UNAUDITED**

**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) 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 June 30 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).

**(II) 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.

**(III) 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.

**(IV) 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.

**(V) 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.

**(VI) 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 weighted 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 June 30, 2010, and December 31, 2009, the Fund had no investments in debt instruments and minimal exposure to 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 June 30, 2010, and December 31, 2009, 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:

**June 30, 2010**

	<b>Less than 1 year (\$)</b>	<b>1 - 3 years (\$)</b>	<b>3 - 5 years (\$)</b>	<b>Non-Interest Bearing (\$)</b>
<b>Financial Assets</b>				
Equities - long	-	-	-	236
Other receivables	3,649	-	-	-
Cash	18,819,203	-	-	-
<b>Total</b>	<b>18,822,852</b>	<b>-</b>	<b>-</b>	<b>236</b>
<b>Liabilities</b>				
Forward contracts	(111,950)	-	-	-
Other liabilities	(351,296)	-	-	-
<b>Total</b>	<b>(463,246)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**December 31, 2009**

	<b>Less than 1 year (\$)</b>	<b>1 - 3 years (\$)</b>	<b>3 - 5 years (\$)</b>	<b>Non-Interest Bearing (\$)</b>
<b>Financial Assets</b>				
Equities - long	-	-	-	14,978,423
Other receivables	98,921	-	-	-
Cash and cash equivalents	18,604,346	-	-	-
<b>Total</b>	<b>18,703,267</b>	<b>-</b>	<b>-</b>	<b>14,978,423</b>
<b>Liabilities</b>				
Equities - short	-	-	-	(5,802,247)
Other liabilities	(82,724)	-	-	-
<b>Total</b>	<b>(82,724)</b>	<b>-</b>	<b>-</b>	<b>(5,802,247)</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 June 30, 2010, and December 31, 2009, 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 June 30, 2010, and December 31, 2009, 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 49 data points (2009 – 43 data points) based on the monthly net returns of the Fund.

Benchmark	Impact on Net Assets	
	June 30, 2010	December 31, 2009
S&P/TSX Total Return Index	\$209,000	\$329,000

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 June 30, 2010, and December 31, 2009, are as follows:

Currency	As at June 30, 2010		As at December 31, 2009	
	Financial Instruments (\$)	Percentage of Net Assets (%)	Financial Instruments (\$)	Percentage of Net Assets (%)
United States Dollar (long)	4,898,602	26.7	6,184,103	22.2
United States Dollar (short)	-	-	(4,403,692)	(15.8)

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 June 30, 2010, 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 \$245,000 (December 31, 2009 – \$89,000).

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 June 30, 2010 and December 31, 2009.

**June 30, 2010**

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Assets</b>				
Equity securities - long	236	-	-	<b>236</b>
<b>Liabilities</b>				
Forward contracts	-	(111,950)	-	<b>(111,950)</b>

**December 31, 2009**

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Assets</b>				
Equity securities - long	14,978,423	-	-	<b>14,978,423</b>
<b>Liabilities</b>				
Equity securities - short	(5,802,247)	-	-	<b>(5,802,247)</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 includes a currency forward contract. 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 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:

	<b>Series A</b>	
	<b>2010</b>	2009
Balance at January 1	<b>218,144</b>	172,798
Units issued for cash	-	1,591
Units redeemed	<u><b>(61,425)</b></u>	<u>(13,773)</u>
Units issued and outstanding at June 30	<u><b>156,719</b></u>	<u>160,616</u>

  

	<b>Series F</b>	
	<b>2010</b>	2009
Balance at January 1	<b>55,897</b>	70,348
Units issued for cash	<b>2,129</b>	1,984
Units redeemed	<u><b>(30,908)</b></u>	<u>(14,239)</u>
Units issued and outstanding at June 30	<u><b>27,118</b></u>	<u>58,093</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 June 30, 2010 were \$23,502 (2009 - \$9,607).

## 8. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS

	Per Unit (\$)					
	June 30, 2010			December 31, 2009		
	Net Asset Value	Sec. 3855 Adjustment	Net Assets	Net Asset Value	Sec. 3855 Adjustment	Net Assets
Series A	\$99.13	-	\$99.13	\$100.62	\$(0.12)	\$100.50
Series F	\$104.17	-	\$104.17	\$105.20	\$(0.13)	\$105.07

## 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. During the period, the Fund did not use leverage.

## 10. FUTURE ACCOUNTING CHANGE

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations for publicly accountable enterprises, which includes investment funds, effective January 1, 2011. For the Fund, IFRS will apply to semi-annual and annual financial statements for fiscal years beginning on or after January 1, 2011. Management has been monitoring developments in the IFRS conversion program and has identified key issues and the likely impacts resulting from the adoption of IFRS. Management has commenced the process of developing a transition plan, which includes identifying differences between the Funds' current accounting policies and those it expects to apply under IFRS, as well as impacts to any accounting policy and implementation decisions, internal controls, information systems and training. Based on management's review of the differences between Canadian GAAP and IFRS, it is not expected that there would be an impact to the Fund's net asset value or net assets per unit. Management has presently determined that the impact of IFRS to the financial statements would be limited to additional note disclosures and modifications to presentation including unitholder interests. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

## **FUND INFORMATION**

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