

# **BLUMONT CANADIAN OPPORTUNITIES FUND**

## **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

**For the Year-Ended December 31, 2008**

This annual Management Report of Fund Performance contains financial highlights but does not contain either the complete annual financial statements for BluMont Canadian Opportunities Fund (the "Fund"). If you have not received a copy of the annual financial statements with the Management Report of Fund Performance, you may obtain a copy of the semi-annual or annual financial statements, at no cost, by calling 866.473.7376, by writing to us at BluMont Capital Corporation, 70 University Avenue, Suite 1200, P.O. Box 16 Toronto, Ontario M5J 2M4 or by visiting our website at [www.blumontcapital.com](http://www.blumontcapital.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the Fund.

### **Forward-Looking Information**

This Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Fund. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund's filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Management Report of Fund Performance, and the Fund undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **Management Discussion on Fund Performance**

### **Investment Objective and Strategies**

The Fund aims 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 investment objective of the Fund is to strive to deliver consistently positive returns each year independent of the performance of the S&P/TSX Total Return Index by investing in multiple investment styles with a low correlation to each other, which mitigate the overall risk of the portfolio through various hedging strategies. The Fund will seek to achieve its objective primarily by combining the skills of several investment advisors, each using different hedging strategies including qualitative, quantitative, directional and managed futures, which BluMont Capital Corporation (“BluMont Capital”), in its capacity as portfolio manager (“Portfolio Manager”), believes to have the potential for exceptional returns. The Fund may invest in bonds and other debt instruments from time to time, if determined to be appropriate by BluMont Capital. The Fund will not specialize in any one industry other than to concentrate investments in those Investment Advisors that BluMont Capital believes offer the best opportunities for exceptional returns at each stage of the economic and market cycle.

The Fund may take short positions, mostly in equity securities, in total not exceeding 100% of the net asset value of the Fund (at the time of investment), and so long as the margined short sales meet the minimum margin requirement of the applicable regulatory authorities.

The Fund may hold cash or invest in short term securities for the purpose of preserving capital and/or maintaining liquidity, based upon BluMont Capital’s ongoing evaluation of current and anticipated economic and market conditions. The Fund may also invest in foreign securities of the same type and characteristics as described above.

### **Investment Risk**

The risks of investing in the Fund remain as stated in the Offering Memorandum. The principal risks associated with the Fund are manager risk, stock market risk, specific issuer risk, short selling risk, foreign security risk, currency risk and liquidity risk.

The Fund is suitable for clients seeking medium to long-term growth (through capital appreciation) who have a moderate to high risk tolerance level.

### **Results of Operations**

The Fund was down 32.8% for the 6 months ending December 31, 2008, leaving the Fund down 33.4% for the year. The benchmark S&P/TSX Total Return Index was down 36.8% over the same period, leaving the benchmark down 33% for the year.

The second half of 2008 was one of the most difficult 6 month periods in the history of modern capital markets. The total drawdown from the peak in the S&P/TSX Total Return Index was equivalent to one of the worst market corrections in history. The losses for the index were driven by the Financial and Energy sectors. The unfolding crisis was first and foremost a credit crisis, and Financial stocks suffered as a result. Although Canadian banks were in a relatively better position, they were by no means immune to the crisis. With the collapse of the oil price in 2008, Energy stocks were sold off. Commodity prices plummeted in general, but the Materials sector recaptured some of its earlier losses with a late year rally in gold stocks. The outlook for the markets is extremely uncertain. Although coordinated efforts by governments around the globe appears to have averted a possible collapse in the credit markets, what began as a credit crisis is now spreading to the real economy. The nature of further government stimulus efforts has yet to be decided, and whatever form that stimulus takes it will likely have a big impact on market conditions. The Fund outperformed the benchmark through the worst of the market turbulence in 2008, and the underlying sub-advisors in the Fund have adapted in order to position their portfolios conservatively in this difficult environment.

The BluMont Capital allocation was down 31.54% for the second half of the year, as losses on long positions offset gains from short positions. The short Financials exposure was one of the more profitable trades, as the deepening credit crisis led to dramatic declines in Financial stocks. Short positions against the broad North American stock indices and Energy stocks added value as well. However, losses on long exposure offset any gains from the short exposure. Exposure to the Energy sector had correctly been reduced, but exposure to the Materials sector remained significant throughout 2008. The exposure to the late year gold rally, through a large position in Detour Gold and other gold companies, was not enough to make up for losses on exposure to potash and industrial metals companies. As panic reigned in the markets through the worst of the crisis, superior stock selection became irrelevant. Many of the most stable and well run businesses were sold off indiscriminately by investors. As the crisis deepened, an increasing allocation to cash was successful in preserving capital. Given the uncertain outlook for markets, erring on the side of caution will be the focus. The cash position will remain elevated in order to stay liquid and preserve capital.

The Burlington Capital allocation was down 12.16% for the six month period ending December 31, 2008. Despite a disappointing year, the strength of Burlington's approach was clearly demonstrated as the portfolio significantly outperformed the North American equity markets and preserved capital throughout the crisis. The core of Burlington's strategy is pairs trading, which helps generate excess returns while limiting market exposure. Pairs trades in the Materials and Energy sectors were the main drags on performance. The use of broad sector exchange traded funds as short positions to offset long exposure to individual stocks did not perform as well as expected, and several of the pairs trades provided disappointing results. However, the appropriate adjustments were made and the paired long/short relationships began to perform as expected towards the end of the year. One positive following the market sell off in 2008, is an attractive and sustainable dividend yield on many quality companies. Burlington is exploiting these opportunities to generate income for the portfolio while the market remains range bound. Burlington continues to take a cautious stance in the portfolio, and will maintain a very low net market exposure until market conditions improve.

The Salida Capital allocation was down 49.48% for the second half of the year, underperforming the benchmark. Salida has pursued an aggressive strategy in the past several years that included leverage and heavy exposure to the Materials and Energy sectors. Salida had a strong conviction in Financials prior to the explosion of the credit crisis in the markets. This short exposure added value to the portfolio, but the large exposure to resource stocks overshadowed the successful short positions. Salida cut back its net exposure in anticipation of the imminent turmoil, but failed to gauge the severity of the market drawdown. Since suffering losses through the worst of the crisis, the portfolio has been rebalanced to focus on investment strategies and securities that have the opportunity to do well in a difficult and range bound market. The overwhelming bias is still towards resource companies in the portfolio, but the portfolio will be actively managed with a shorter investment horizon to generate returns in a potentially extended period of commodity price weakness.

As at December 31, 2008, the sub-advisor allocations in the Fund were: BluMont Hirsch Long/Short 43.76%, Burlington Capital Management 41.67%; and Salida Capital 13.95%.

### **Recent Developments**

There were no notable changes or developments in the Fund during the reporting period. The mix of sub-advisors and the Fund's mandate remain unchanged.

### **Related Party Transactions**

The Fund currently invests in the BluMont Hirsch Long/Short Fund, the BluMont Core Hedge Fund and the Salida Multi-Strategy Hedge Fund. No management fee is charged on the Canadian Opportunities Fund's holdings of the BluMont Hirsch Long/Short Fund and the BluMont Core Hedge Fund. No performance fee is applied to the BluMont Canadian Opportunities Fund's holdings of the BluMont Hirsch Long/Short Fund, the BluMont Core Hedge Fund and the Salida Multi-Strategy Hedge Fund by those Funds.

Effective April 11, 2007, the performance fee methodology was changed for the Canadian Opportunities Fund in order to bring the calculations more closely in line with industry practice. Performance fees for this Fund equal 20% of the net gain of each sub-advisor's separate investment account in the Fund with such fee being applied at either the Fund level or the underlying fund investment level, as the case may be. Each Fund is responsible, on a separate basis, 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 respective Fund.

The Manager may, on its own accord, pay for certain operating expenses of each of the Funds in order to maintain each 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 Statements of Operations. There were no soft dollar commissions for the Funds during the period.

### Management Fees

The Manager receives a monthly management fee (the "Management Fee"), calculated as a percentage of the Fund's net asset value as of the close of business on each business day. The management fee rate applicable to the Fund is 2.5% per annum and for the year-ended December 31, 2008, equaled \$110,767. For the year-ended December 31, 2007, management fees equaled \$291,487. The management fee is paid in consideration of investment management and administration services. No breakdown of such services was specified in the management agreement. From this Management Fee, the Manager pays fees to the investment advisor (BluMont Capital, in its capacity as such) who provides portfolio management services to the Fund. A portion of the Management Fee paid by the Fund is for trailer fees paid to dealers whose client's hold units of the Fund. The trailer fees are a percentage of the net asset value of the Fund, calculated monthly. The table below outlines the Fund's annual Management Fees and the trailer fees.

ANNUAL RATE (%)	Front-End Sales Charge	Deferred Sales Charge	Reduced Deferred Sales Charge
Management Fees	2.50	2.50	2.50
Trailer Fees (rate as % of Management Fees)	30.56%	0.02%	7.37%

Selling Concessions: Front-End 0-3%; Deferred Sales Charge 0-5%; Reduced Deferred Sales Charge 0-2%

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The Manager incurs operating expenses on behalf of the Fund and charges these expenses to the Fund. For the year ended December 31, 2007, the Manager has, in its discretion, agreed to absorb \$220,030 (compared to \$341,794 for the year-ended December 31, 2007) of operating expenses associated with the Fund.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance since it became a reporting issuer. This information is derived from the Fund's audited financial statements, and is represented net of expenses which have been charged to the Fund.

### THE FUND'S NET ASSET VALUE ("NAV") PER UNIT

For the years ended December 31, 2008, 2007 & 2006

	2008	2007	2006
Net asset value, beginning of period <sup>1,7</sup>	\$ <u>168.98</u>	\$ <u>160.05</u>	\$ <u>163.21</u>
Increase from operations			
Total revenue	0.06	(2.30)	1.27
Total expenses	(1.01)	(4.57)	(2.72)
Realized gains for the year	0.96	19.45	12.36
Unrealized gains (losses) for the year	<u>(57.49)</u>	<u>(2.08)</u>	<u>(14.01)</u>
Total increase from operations <sup>1</sup>	<u>(57.48)</u>	<u>10.50</u>	<u>(3.10)</u>
Distributions			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains <sup>2</sup>	-	-	-
Return of capital	<u>-</u>	<u>-</u>	<u>-</u>
Total annual distributions	<u>-</u>	<u>-</u>	<u>-</u>
Net asset value, end of period <sup>1</sup>	\$ <u>110.15</u>	\$ <u>168.98</u>	\$ <u>160.10</u>

### RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>

For the years ended December 31, 2008, 2007 & 2006

	2008	2007	2006
Net assets (000s)	\$ 20,597	\$ 45,730	\$ 81,540
Number of units outstanding	186,996	270,609	509,318
Management expense ratio <sup>3</sup>	0.68%	2.78%	1.64%
Management expense ratio before waivers or absorptions <sup>4</sup>	1.30%	3.44%	2.07%
Portfolio turnover rate <sup>5</sup>	0.00%	85.03%	84.85%
Trading expense ratio <sup>6</sup>	0.00%	0.09%	0.31%

1. Net asset value is based on the actual number of units outstanding at the relevant time. The increase from operations is based on the weighted average number of units outstanding over the financial year. This table is not intended to be a reconciliation of beginning to ending net asset value per unit.
2. Distributions were reinvested in additional units of the Fund.
3. Management expense ratio is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year. The management expense ratio is calculated in accordance with Part 15 of National Instrument 81-106 and therefore includes performance fees, which were previously reported separately as dollar amounts.

4. The Manager has absorbed certain expenses or waived certain fees otherwise payable by the Fund. The amount of expenses absorbed or waived is determined annually at the discretion of the Manager and the Manager can terminate the absorption or waiver at any time.
5. The Fund's portfolio turnover rate can indicate how actively the investment advisor manages the portfolio of investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of its securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
7. The relief granted to investment funds by Canadian securities regulatory authorities from complying on an interim basis with CICA Handbook Section 3855 ("Section 3855") results in a difference between the Trading NAV and the GAAP NAV due to the differences in valuation techniques of certain investments. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) or ask prices (for investments sold short) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining Trading NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry. The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly, the net asset value at the beginning of the current period has been adjusted.

The impact of the adoption of Section 3855 on the net asset value per share of the Fund is as follows:

<b>As at December 31, 2008</b>	<b>Per Unit (\$)</b>
Net asset value (Trading NAV)	110.15
Section 3855 adjustment	0.00
Net asset value (GAAP NAV)	110.15

8. Ratios and supplemental data, where applicable, are computed using the trading net asset value of the Fund.

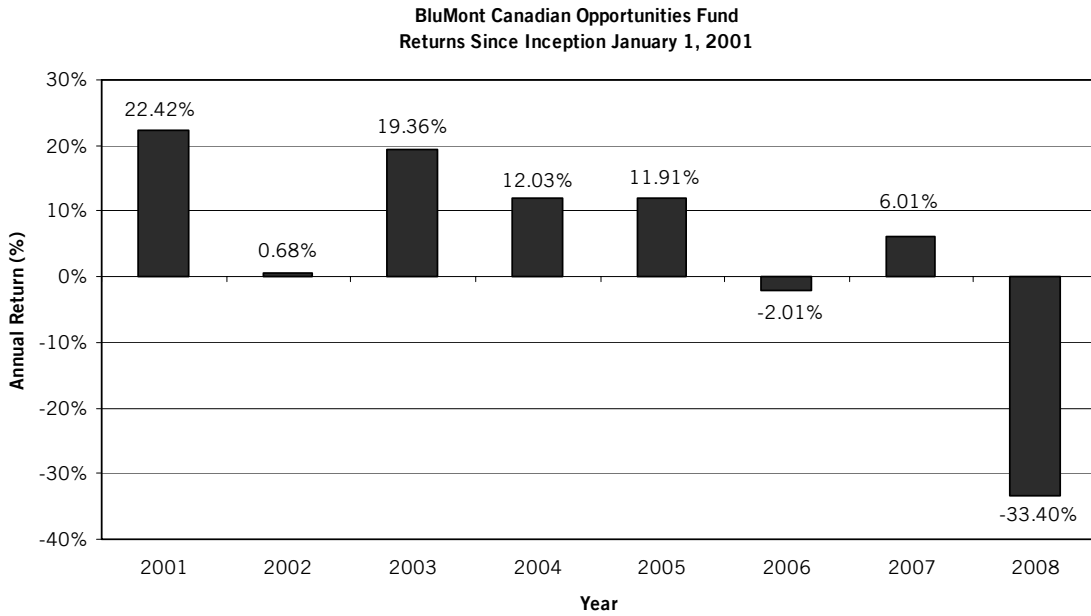
## Past Performance

The performance information shown below assumes that all distributions, if any, made by the Fund in the periods shown were reinvested in additional units of the Fund. If you hold the Fund outside a registered plan, you will be taxed on distributions. Distributions of income the Fund earns and capital gains it realizes are taxable in the year received whether received in cash or reinvested in additional units. No adjustment for potential tax consequences to an investor has been made to the performance information.

The indicated rates of return are historical annual compounded total returns including changes in unit value and do not take into account sale, redemption, distribution or other optional charges, that, if applicable, would have reduced returns or performance. The Fund is not guaranteed. Its value changes frequently and how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

## Year-By-Year Returns

The bar chart below illustrates the Fund's annual performance for each of the years shown, and indicates how the Fund's performance has changed from year to year. It shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of the financial year.



### Annual Compound Returns (Compound Performance)

The following table shows the annual compound total returns of the Fund, and for the S&P/TSX Total Return Index (a price weighted index of 300 of the largest, most widely-held stocks traded on the Toronto Stock Exchange) for the periods shown ended December 31, 2008. The Relative Performance returns show the performance of the Fund as compared to the benchmark S&P/TSX Total Return Index.

	1-Yr	3-Yr	5-Yr	Since Inception	Total Return
BluMont Canadian Opportunities Fund	-33.40%	-11.55%	-2.80%	3.09%	27.62%
S&P/TSX Total Return Index	-33.00%	-4.80%	4.16%	2.19%	18.95%

### Summary of Investment Portfolio as at December 31, 2008

The summary of investment portfolio below includes information regarding the Fund as a whole. This summary may change due to ongoing portfolio transactions of the Fund and a quarterly update is available by contacting BluMont Capital at 866.473.7376, visiting BluMont Capital's website at [www.blumontcapital.com](http://www.blumontcapital.com) or SEDAR's website at [www.sedar.com](http://www.sedar.com).

#### Top 25 Holdings

Issuer	Country	Style	% of Net Assets
BluMont Hirsch Long/Short Fund	Canada	Long/Short Equity	43.76%
BluMont Core Hedge Fund	Canada	Pairs Trading	41.67%
Salida Capital Multi-Strategy Fund	Canada	Multi Strategy	13.95%
<b>Total</b>			<b>99.38%</b>
<b>Total Transactional Net Asset Value (000)</b>			<b><u>\$20,597</u></b>

The investments and percentages may have changed by the time an investor may have purchased units of this fund due to ongoing portfolio transactions of the investment Fund.

### Fund Manager Weightings as at December 31, 2008

