



AUDITED FINANCIAL STATEMENTS
BLUMONT HIRSCH PERFORMANCE FUND

DECEMBER 2010



BLUMONT
CAPITAL

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MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

TO THE UNITHOLDERS AND TRUSTEE OF BLUMONT HIRSCH PERFORMANCE FUND (THE "FUND")

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
March 25, 2011

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS AND TRUSTEE OF BLUMONT HIRSCH PERFORMANCE FUND (THE "FUND")

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments and other net assets as at December 31, 2010, the statement of net assets as at December 31, 2010 and December 31, 2009 and the statements of operations and changes in net assets for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and December 31, 2009 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 27, 2011

STATEMENT OF NET ASSETS
As at December 31,

BLUMONT HIRSCH PERFORMANCE FUND

	2010	2009
ASSETS		
Long positions at fair value*		
Canadian equities	\$ 59,947,396	\$ 67,161,272
U.S. equities	2,054,514	7,045,065
Global equities	<u>1,409,058</u>	<u>597,672</u>
	63,410,968	74,804,009
Cash and broker deposits	7,224,835	2,736,996
Accrued investment income	230,816	160,397
Accounts receivable:		
Subscriptions receivable	25,000	-
Receivable from investment sales	<u>-</u>	<u>547,504</u>
Total Assets	<u>70,891,619</u>	<u>78,248,906</u>
LIABILITIES		
Short positions at fair value**		
Canadian equities	<u>613,033</u>	<u>222,740</u>
	613,033	222,740
Accounts payable:		
Fees and operating expenses	36,012	40,683
Performance fees payable	365,099	-
Dividends payable	34,546	33,570
Payable for investment purchases	-	221,799
Redemptions payable	<u>188,951</u>	<u>286,236</u>
Total Liabilities	<u>1,237,641</u>	<u>805,028</u>
NET ASSETS REPRESENTING UNITHOLDERS' EQUITY	<u>\$ 69,653,978</u>	<u>\$ 77,443,878</u>
NUMBER OF UNITS OUTSTANDING (Note 4)	<u>2,646,274</u>	<u>3,594,566</u>
NET ASSETS PER UNIT	<u>\$ 26.32</u>	<u>\$ 21.54</u>
*Long positions, at cost	<u>\$ 44,426,252</u>	<u>\$ 66,652,809</u>
**Proceeds on short positions	<u>\$ (508,377)</u>	<u>\$ (193,890)</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 HIRSCH PERFORMANCE FUND

	2010	2009
INVESTMENT INCOME		
Dividends	\$ 1,087,977	\$ 1,157,321
Less: Foreign withholding taxes	<u>3,416</u>	<u>7,080</u>
	1,084,561	1,150,241
Interest, net of interest expense	<u>20,304</u>	<u>210,564</u>
	<u>1,104,865</u>	<u>1,360,805</u>
EXPENSES (Notes 6 and 7)		
Performance fees	370,910	-
Dividends paid on investments sold short	12,474	53,492
General operating expenses	393,271	541,579
Audit fees	22,784	21,565
Legal fees	469	-
Trustees' fees	5,214	6,264
Securityholders' reporting costs	3,195	4,029
Interest	<u>-</u>	<u>4,530</u>
	808,317	631,459
Less: Expenses absorbed (recovered) by the Manager	<u>(14,932)</u>	<u>113,561</u>
	<u>823,249</u>	<u>517,898</u>
NET INVESTMENT INCOME	<u>281,616</u>	<u>842,907</u>
NET REALIZED GAIN (LOSS) ON INVESTMENT TRANSACTIONS	2,910,215	(16,904,534)
TRANSACTION COSTS (Notes 2(1) and 7)	(128,422)	(142,948)
NET CHANGE IN UNREALIZED APPRECIATION OF INVESTMENTS	10,757,710	34,995,242
EXCHANGE GAIN (LOSS) ON FOREIGN CURRENCIES AND OTHER NET ASSETS	<u>(215,634)</u>	<u>112,217</u>
NET GAIN ON INVESTMENTS AND TRANSACTION COSTS	<u>13,323,867</u>	<u>18,059,977</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ <u>13,605,483</u>	\$ <u>18,902,884</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT (Note 2(VI))	\$ <u>4.51</u>	\$ <u>4.45</u>

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

STATEMENT OF CHANGES IN NET ASSETS
Year ended December 31,

BLUMONT HIRSCH PERFORMANCE FUND

	2010	2009
Net Assets, Beginning of Period	\$ <u>77,443,878</u>	\$ <u>86,249,585</u>
Net Increase in Net Assets from Operations	<u>13,605,483</u>	<u>18,902,884</u>
From Capital Unit Transactions: (Note 4)		
Proceeds from issue of units	712,212	2,904,197
Consideration paid for redemptions of units	(22,107,595)	(30,610,015)
Reinvestment of distributions	<u>-</u>	<u>941,168</u>
	(21,395,383)	(26,764,650)
From Distributions to Unitholders:		
From net investment income	-	(943,941)
Net Assets, End of Year	\$ <u>69,653,978</u>	\$ <u>77,443,878</u>

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

BLUMONT HIRSCH PERFORMANCE FUND
STATEMENT OF INVESTMENTS AND OTHER NET ASSETS
As at December 31, 2010

	Number of Shares	Long: Avg cost Short: Proceeds	Fair Value	% of Net Assets
LONG POSITIONS				
Canadian Equities				
Energy				
ARC Energy Trust	26,500	\$ 615,154	\$ 673,365	
Angle Energy Inc.	42,700	333,027	352,275	
Arcan Resources Limited	99,500	460,278	564,165	
Bankers Petroleum Limited	103,000	507,231	782,800	
Baytex Energy Trust	22,200	893,512	1,034,298	
Bellatrix Exploration Limited	81,100	294,425	389,280	
Cameco Corporation	20,100	583,237	809,025	
Celtic Exploration Limited	35,400	411,935	626,934	
Crew Energy Inc.	62,900	517,222	1,200,132	
Legacy Oil + Gas Inc.	53,600	653,406	831,872	
Pacific Rubiales Energy Corporation	58,200	625,247	1,962,504	
Petrominerales Limited	19,400	558,127	640,006	
Pure Energy Services Limited	64,700	369,409	373,966	
Rainy River Resources Limited	6,100	79,927	76,982	
Spartan Exploration Limited	91,100	193,857	448,212	
Surge Energy Inc.	46,200	320,878	335,412	
Trican Well Service Limited	29,800	434,805	599,278	
		7,851,677	11,700,506	16.8

Basic Materials

Agrium Inc.	19,000	1,255,342	1,738,500	
Alderon Resource Corporation	22,400	60,724	68,992	
Allana Potash Corporation	141,000	102,904	101,520	
Centamin Egypt Limited	1,152,000	1,003,051	3,168,000	
Colossus Minerals Inc.	61,000	427,428	538,020	
Continental Gold Limited	6,700	65,075	66,196	
Detour Gold Corporation	170,200	1,028,628	4,954,523	
Eastern Platinum Limited	321,000	489,580	568,170	
Extract Resources Limited	50,400	454,135	481,320	
Fronteer Gold Inc.	12,500	130,763	145,125	
HudBay Minerals Inc.	52,600	798,964	944,696	
Labrador Iron Mines Holdings Limited	21,500	137,937	249,185	
Labrador Iron Ore Royalty Trust	45,900	2,065,765	3,086,775	
Leisure Canada Inc.	1,006,500	201,560	150,975	
Leisure Canada Inc. Warrants	500,000	-	-	
Minefinders Corporation Limited	2,000	22,200	21,840	
Osisko Mining Corporation	150,800	1,099,603	2,183,585	
Potash Corporation of Saskatchewan Inc.	3,100	460,808	478,361	
Quetzal Energy Limited	1,800,000	400,500	252,000	
Redcorp Ventures Limited Warrants	1,261,800	-	-	
Silvercorp Metals Incorporation	30,000	384,487	381,457	
Sulliden Exploration Inc.	126,800	267,850	280,228	

	Number of Shares	Long: Avg cost Short: Proceeds	Fair Value	% of Net Assets
Basic Materials - Cont'd				
Sunward Resources Limited	431,200	\$ 470,400	\$ 728,728	
Trelawney Mining and Exploration Inc.	46,800	117,326	135,720	
Ventana Gold Corporation	84,200	524,746	1,113,124	
Volta Resources Inc.	394,200	552,357	942,138	
Western Copper Corporation	30,000	70,500	79,800	
Western Copper Corporation Warrants	15,000	3,000	8,250	
Yamana Gold Inc.	37,200	479,421	473,928	
		13,075,054	23,341,156	33.5
Industrials				
Air Canada 'B'	114,000	442,605	393,300	
CAE Inc.	19,300	185,480	220,792	
Canadian Pacific Railway Limited	6,800	451,519	439,280	
Domtar Corporation	4,600	361,392	348,082	
		1,440,996	1,401,454	2.0
Consumer Discretionary				
Astral Media Inc. 'A'	18,000	537,924	755,100	
Dollarama Inc.	38,000	816,714	1,093,640	
Edleun Group Inc.	1,906,000	953,000	2,496,860	
Gildan Activewear Inc.	21,100	512,485	597,341	
Magna International Inc.	29,000	1,134,108	1,505,390	
Torstar Corporation 'B'	4,600	55,861	55,890	
		4,010,092	6,504,221	9.3
Consumer Staples				
Alimentation Couche-Tard Inc. 'B'	4,200	109,049	113,568	
George Weston Limited	4,800	278,862	402,960	
Metro Inc. 'A'	65,800	2,111,306	2,974,160	
		2,499,217	3,490,688	5.0
Financials				
Brookfield Asset Management Inc. 'A'	26,400	628,242	875,160	
CI Financial Corporation	64,800	1,163,148	1,456,704	
Canadian Imperial Bank of Commerce	20,300	1,543,939	1,587,663	
Gluskin Sheff + Associates Inc.	74,600	1,097,808	1,541,982	
National Bank of Canada	20,400	1,419,807	1,394,952	
Power Corporation of Canada	11,500	324,982	317,515	
TMX Group Inc.	10,000	324,730	369,400	
		6,502,656	7,543,376	10.8

	Number of Shares	Long: Avg cost Short: Proceeds	Fair Value	% of Net Assets
Information Technology				
Open Text Corporation	10,000	\$ 416,038	\$ 456,100	
Research In Motion Limited	23,500	1,798,941	1,364,645	
SXC Health Solutions Corporation	9,200	187,264	391,920	
		2,402,243	2,212,665	3.2
Telecommunication Services				
BCE Inc.	88,000	2,211,101	3,109,040	4.5
Utilities				
Fortis Inc.	19,000	495,244	644,290	0.9
Total Canadian Equities - Long		40,488,280	59,947,396	86.0
Canadian Bonds				
Redcorp Ventures Limited 15.5% July 11 2012	1,324,819	1,126,096	-	
Redcorp Ventures Limited 0.00% Dec 30, 2031	1,800	-	-	
Total Canadian Bonds - Long		1,126,096	-	-
U.S. Equities				
Energy				
Gran Tierra Energy, Inc.	168,000	588,000	1,344,000	
Petrohunter Energy Corporation	300,000	331,965	5,965	
Petrohunter Energy Corporation Warrants	300,000	-	-	
		919,965	1,349,965	2.0
Basic Materials				
Allied Nevada Gold Corporation	14,100	324,095	368,997	0.5
Information Technology				
International Business Machines Corporation	2,300	306,453	335,552	0.5
Total U.S. Equities - Long		1,550,513	2,054,514	3.0
Global Equities				
Australia				
CGA Mining Limited	91,200	260,227	281,808	
Paladin Energy Limited	225,000	1,046,039	1,127,250	
Total Global Equities - Long		1,306,266	1,409,058	2.0
Total Long Positions Including Transaction Costs		44,471,155	63,410,968	91.0
Transaction Costs		(44,903)	-	-
Total Long Positions Before Transaction Costs		44,426,252	63,410,968	91.0

	Number of Shares	Long: Avg cost Short: Proceeds	Fair Value	% of Net Assets
SHORT POSITIONS				
Canadian Equities				
Basic Materials				
Centerra Gold Inc.	(11,800)	\$ (154,589)	\$ (234,938)	(0.3)
Consumer Staples				
Saputo Inc.	(3,200)	(118,522)	(126,656)	
Viterra Inc.	(2,000)	(18,791)	(18,600)	
		(137,313)	(145,256)	(0.2)
Financials				
Power Financial Corporation	(4,500)	(128,832)	(138,375)	
iShares S&P/TSX Capped Financials Index Fund	(4,100)	(87,042)	(94,464)	
		(215,874)	(232,839)	(0.3)
Total Canadian Equities - Short		(507,776)	(613,033)	(0.8)
Total Short Positions Including Transaction Costs		(507,776)	(613,033)	(0.8)
Transaction Costs		(601)	-	-
Total Short Positions Before Transaction Costs		(508,377)	(613,033)	(0.8)
TOTAL INVESTMENT PORTFOLIO		\$ 43,917,875	62,797,935	90.2
Other Assets Net of Liabilities ¹			6,856,043	9.8
TOTAL NET ASSETS REPRESENTING UNITHOLDERS' EQUITY			\$ 69,653,978	100.0

¹This amount is comprised of cash and broker deposits plus accrued investment income and subscriptions receivable less accounts payable.

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

BLUMONT HIRSCH PERFORMANCE FUND
SUMMARY OF INVESTMENT PORTFOLIO
As at December 31,

SECTOR MIX	% of Total Net Assets	
	2010	2009
Long Positions		
Energy	20.4	20.5
Basic Materials	34.4	38.6
Industrials	2.0	2.6
Consumer Discretionary	9.3	1.4
Consumer Staples	5.0	8.1
Health Care	-	0.7
Financials	10.8	11.2
Information Technology	3.7	8.3
Telecommunication Services	4.5	4.4
Utilities	0.9	0.7
Corporate Bonds	0.0	0.0
Other assets net of liabilities	9.8	3.7
Short Positions		
Basic Materials	(0.3)	-
Consumer Staples	(0.2)	-
Financials	(0.3)	(0.1)
Industrials	-	(0.1)

GEOGRAPHIC MIX	% of Total Net Assets	
	2010	2009
Long Positions		
Canada	86.0	86.7
U.S.	3.0	9.1
Australia	2.0	0.0
United Kingdom	-	0.7
Other assets net of liabilities	9.8	3.7
Short Positions		
Canada	(0.8)	(0.2)
ASSET MIX		
Long Positions		
Canadian Equities	86.0	86.7
Canadian Bonds	0.0	0.0
U.S. Equities	3.0	9.1
Global Equities	2.0	0.7
Other assets net of liabilities	9.8	3.7
Short Positions		
Canadian Equities	(0.8)	(0.2)

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. THE FUND

BluMont Hirsch Performance 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 September 11, 1997. The Fund began operations on September 11, 1997.

BluMont Capital Corporation is the manager (the “Manager”) and trustee (the “Trustee”) of the Fund and is responsible for the day-to-day business of the Fund, including management of the Fund’s investment portfolio on the advice of the Fund’s investment advisor.

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 December 31, 2010 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 purchases 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 year. 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. 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 total fair 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 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 year.

3. FINANCIAL INSTRUMENT RISK MANAGEMENT

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 level of risk depends on the Fund's investment objectives and the type of securities it invests in.

The investment objective of the Fund is to strive to deliver consistently positive returns by investing primarily in securities issued by Canadian issuers and mitigating the overall risk of the portfolio by varying market exposure and through the use of option strategies.

To achieve its investment objective, the Fund may employ the following strategies: 1) invest its assets primarily in equities or equity equivalents (such as warrants, rights, options or convertible securities) of Canadian issuers with superior growth prospects; 2) invest in a diversified portfolio, chosen from those industries that the investment advisor believes offer the best opportunity for superior near-term returns at each stage of the economic and market cycle; 3) invest in issuers that have a proven and respected management team, well-defined growth strategies, a distinct competitive advantage and/or are leaders in their respective industries; 4) search for event driven trading opportunities; 5) invest in issuers encompassing a range of capitalizations including a number of smaller and less liquid issuers which the investment advisor believes to have the potential for significant price appreciation; 6) use option strategies to mitigate risk and enhance returns of the underlying equity positions; 7) establish short positions, up to an aggregate of 15% of the Fund's Net Assets (at the time of investment), in issuers suffering declining business prospects combined with weak balance sheets; and 8) when market conditions warrant, invest in debt obligations and rely on money market instruments for the preservation of capital and the maintenance of liquidity.

The investment advisor will invest most of the portfolio in equities and other securities that are traded on a recognized stock exchange. The investment advisor may also invest in small to mid-cap unlisted stocks which the investment advisor believes has potential for exceptional price appreciation; and listed securities that may be considered more risky than traditional investments. To the extent that the Fund uses leverage, it will leverage to a maximum of 50% (at the time of investment), in the aggregate, of the Fund's Net Asset Value.

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.

(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 illiquid securities in the Fund's Statement of Investments and Other Net Assets. As at December 31, 2010, the Fund did not hold any such securities (December 31, 2009 – 2.8%).

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. As at December 31, 2010, and December 31, 2009, the Fund did not invest in derivatives.

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

December 31, 2010

	Less than 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	Non-Interest Bearing (\$)
Financial Assets				
Equities - Long	-	-	-	63,410,968
Other receivables	255,816	-	-	-
Cash and cash equivalents	7,224,835	-	-	-
Total	7,480,651	-	-	63,410,968
Liabilities				
Equities - Short	-	-	-	(613,033)
Other liabilities	(624,608)	-	-	-
Total	(624,608)	-	-	(613,033)

December 31, 2009

	Less than 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	Non-Interest Bearing (\$)
Financial Assets				
Equities - Long	-	-	-	74,804,009
Other receivables	707,901	-	-	-
Cash and cash equivalents	2,736,996	-	-	-
Total	3,444,897	-	-	74,804,009
Liabilities				
Equities - Short	-	-	-	(222,740)
Other liabilities	(582,288)	-	-	-
Total	(582,288)	-	-	(227,740)

(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, 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 fair 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 fair 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 and geographic 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, 2010 and December 31, 2009, with all other variables held constant, is presented in the following table. Regression analysis has been utilized to estimate the historical correlation. The analysis uses 160 data points (2009 – 148 data points) based on the monthly net returns of the Fund.

Benchmark	Impact on Net Assets	
	December 31 2010	December 31, 2009
S&P/TSX Total Return Index	\$2,415,486	\$2,646,000

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

Currencies	As at December 31, 2010		As at December 31, 2009	
	Financial Instruments (\$)	Percentage of Net Assets (%)	Financial Instruments (\$)	Percentage of Net Assets (%)
Australian Dollar	-	-	67,137	0.09
United States Dollar	925,015	1.33	7,464,584	9.64

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, 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 \$46,000 (December 31, 2009 - \$377,000).

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

(VI) Fair Value Estimation

The Fund classifies 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, 2010 and December 31, 2009.

December 31, 2010

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Assets				
Equity securities	63,410,968	-	-	63,410,968
Total assets	63,410,968	-	-	63,410,968
Liabilities				
Equity securities sold short	(613,033)	-	-	(613,033)
Total liabilities	(613,033)	-	-	(613,033)

December 31, 2009

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Assets				
Equity securities	73,819,009	985,000	-	74,804,009
Total assets	73,819,009	985,000	-	74,804,009
Liabilities				
Equity securities sold short	(222,740)	-	-	(222,740)
Total liabilities	(222,740)	-	-	(222,740)

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 period.

4. UNIT TRANSACTIONS

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. Unitholders are entitled to distributions when declared. Distributions on units of the Fund are reinvested in additional units. 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:

	2010	2009
Balance at January 1	3,594,566	5,018,683
Units issued for cash	30,748	153,840
Units issued on reinvestment of distributions	-	43,383
Units redeemed	<u>(979,040)</u>	<u>(1,621,340)</u>
Units issued and outstanding at December 31	<u>2,646,274</u>	<u>3,594,566</u>

5. INCOME TAXES

As at December 31, 2010, 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 1 of the Act. Accordingly no provision for income taxes has been made in these financial statements.

As of December 31, 2010, the Fund had capital or non-capital losses as noted below.

Non-Capital Loss*	Capital Loss**
nil	\$20,455,646

* 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

The Fund does not charge a management fee to unitholders.

The Fund 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.

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.

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 total brokerage commissions paid by the Fund with respect to security transactions for the year ended December 31, 2010 were \$128,422 (2009 - \$142,948).

There were no soft dollar commissions for the Fund during the period.

8. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS

	Per Unit (\$)		
	Net Asset Value	Bid/Ask Adjustment	Net Assets
December 31, 2010	\$26.38	\$(0.06)	\$26.32
December 31, 2009	\$21.65	\$(0.11)	\$21.54

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. There was no leverage employed by the Fund for the years ended December 31, 2010 and December 31, 2009.

10. FUTURE ACCOUNTING CHANGE

In February 2008, the Canadian Accounting Standards Board ("CASB") 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. However, the CASB has deferred the mandatory transition date to January 1, 2013 for investment funds in light of delays with the International Accounting Standards Board's project on investment companies. Therefore, for the Fund, IFRS will apply to semi-annual and annual financial statements for fiscal years beginning on or after January 1, 2013. 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.

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