



**INTERIM FINANCIAL STATEMENTS**  
PREMIERE STABLE GROWTH FUND

**JUNE 2011**

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## MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

TO THE UNITHOLDERS OF BLUMONT PREMIERE STABLE GROWTH 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  
August 25, 2011

## **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, 2011 and December 31, 2010

Unaudited

**PREMIERE STABLE GROWTH FUND**

	2011	2010
<b>ASSETS</b>		
Investments at fair value*		
Canadian equities	\$ 6,769,997	\$ 10,898,779
Cash	1,238,725	343,947
Accrued investment income	7,982	10,209
Due from broker	396,464	-
Subscriptions receivable	-	210,000
Total Assets	<u>8,413,168</u>	<u>11,462,935</u>
<b>LIABILITIES</b>		
Accounts payable:		
Fees and operating expenses	26,305	31,341
Performance fees payable	-	235,133
Payable for investment purchases	330,996	-
Total Liabilities	<u>357,301</u>	<u>266,474</u>
<b>NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>		
Series A	7,844,045	10,946,888
Series F	211,822	249,573
	<u>\$ 8,055,867</u>	<u>\$ 11,196,461</u>
<b>NUMBER OF UNITS OUTSTANDING (Note 4)</b>		
Series A	80,328	98,596
Series F	2,068	2,154
<b>NET ASSETS PER UNIT</b>		
Series A	\$ 97.65	\$ 111.03
Series F	\$ 102.43	\$ 115.86
*Investments, at cost	<u>\$ 6,558,384</u>	<u>\$ 7,665,235</u>

Approved by the Board of Directors of BluMont Capital Corporation

"Veronika Hirsch"

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Veronika Hirsch  
Director

"Stephen Johnson"

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Stephen Johnson  
Director

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

**STATEMENT OF OPERATIONS**  
**For the six months ended June 30,**  
**Unaudited**

**PREMIERE STABLE GROWTH FUND**

	2011	2010
<b>INVESTMENT INCOME</b>		
Dividends	\$ 35,989	\$ 59,275
Less: Foreign withholding taxes	<u>235</u>	<u>68</u>
	35,754	59,207
Interest	<u>2,288</u>	<u>-</u>
	<u>38,042</u>	<u>59,207</u>
<b>EXPENSES (Notes 6 and 7)</b>		
Management fees	142,730	131,528
General operating expenses	43,032	61,587
Audit fees	7,333	6,240
Legal fees	1,423	-
Trustees' fees	11,411	-
Securityholders' reporting costs	<u>-</u>	<u>132</u>
	205,929	199,487
Less: Expenses absorbed by the Manager	<u>5,529</u>	<u>13,252</u>
	<u>200,400</u>	<u>186,235</u>
<b>NET INVESTMENT LOSS</b>	<u>(162,358)</u>	<u>(127,028)</u>
<b>NET REALIZED GAIN ON INVESTMENT TRANSACTIONS</b>	1,981,808	1,501,070
<b>TRANSACTION COSTS (Notes 2(1) and 7)</b>	(45,621)	(34,125)
<b>NET CHANGE IN UNREALIZED DEPRECIATION OF INVESTMENTS</b>	(3,021,931)	(2,251,299)
<b>EXCHANGE LOSS ON FOREIGN CURRENCIES AND OTHER NET ASSETS</b>	<u>(11)</u>	<u>(54)</u>
<b>NET LOSS ON INVESTMENTS AND TRANSACTION COSTS</b>	<u>(1,085,755)</u>	<u>(784,408)</u>
<b>NET DECREASE IN NET ASSETS FROM OPERATIONS</b>		
Series A	(1,220,294)	(893,298)
Series F	<u>(27,819)</u>	<u>(18,138)</u>
	\$ (1,248,113)	\$ (911,436)
<b>NET DECREASE IN NET ASSETS FROM OPERATIONS PER UNIT (Note 2(VI))</b>		
Series A	\$ (12.97)	\$ (8.52)
Series F	<u>\$ (13.27)</u>	<u>\$ (8.40)</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**

**PREMIERE STABLE GROWTH FUND**

	2011	2010
<b>Net Assets, Beginning of Period</b>		
Series A	\$ 10,946,888	\$ 9,960,958
Series F	<u>249,573</u>	<u>206,606</u>
	<u>\$ 11,196,461</u>	<u>\$ 10,167,564</u>
<b>Net Decrease in Net Assets from Operations</b>		
Series A	(1,220,294)	(893,298)
Series F	<u>(27,819)</u>	<u>(18,138)</u>
	<u>(1,248,113)</u>	<u>(911,436)</u>
<b>From Capital Unit Transactions: (Note 4)</b>		
Consideration paid for redemption of units		
Series A	(1,882,549)	(283,852)
Series F	<u>(9,932)</u>	<u>(60)</u>
	<u>(1,892,481)</u>	<u>(283,912)</u>
<b>Net Assets, End of Period</b>		
Series A	7,844,045	8,783,808
Series F	<u>211,822</u>	<u>188,408</u>
	<u>\$ 8,055,867</u>	<u>\$ 8,972,216</u>

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

**PREMIERE STABLE GROWTH FUND**  
**STATEMENT OF INVESTMENTS AND OTHER NET ASSETS**  
As at June 30, 2011  
Unaudited

	Number of Shares		Average Cost		Fair Value	% of Total Net Assets
<b>Equities</b>						
<b>Energy</b>						
Bellatrix Exploration Limited	45,700	\$	168,582	\$	207,477	
BlackPearl Resources Inc.	38,600		314,675		262,480	
Calfrac Well Services Limited	7,600		255,228		240,692	
Canyon Services Group Inc.	22,000		131,877		292,820	
Essential Energy Services Trust	150,052		292,198		316,610	
Geodrill Limited	90,000		316,083		211,500	
Open Range Energy Corporation	47,900		244,404		228,962	
Petroamerica Oil Corporation	576,900		190,100		89,420	
Petroamerica Oil Corporation, Warrants	140,650		-		6,329	
Petrodorado Energy Limited	25,000		16,250		7,125	
Porto Energy Corporation	40,000		40,000		31,200	
Spartan Oil Corporation	2,400		5,400		6,288	
Total Energy Services Inc.	14,800		123,760		212,380	
			2,098,557		2,113,283	26.2
<b>Basic Materials</b>						
Alacer Gold Corporation	25,400		180,440		203,962	
Avion Gold Corporation	34,300		64,776		66,542	
Canfor Corporation	1,600		17,240		16,832	
Cline Mining Corporation	400		962		912	
Copper Mountain Mining Corporation	37,200		288,547		277,140	
First Majestic Silver Corporation	15,200		163,546		270,104	
Kiska Metals Corporation, Warrants	7,000		-		1,120	
Neo Material Technologies Inc.	23,400		93,063		216,450	
Sabina Gold & Silver Corporation	36,000		267,499		212,400	
Tembec Inc.	46,300		224,704		198,627	
West Fraser Timber Company Limited	5,500		235,745		286,055	
			1,536,522		1,750,144	21.7
<b>Industrials</b>						
5N Plus Inc.	35,400		327,155		318,246	
Bombardier Inc. 'B'	39,300		279,818		271,956	
DIRTT Environmental Solutions <sup>2</sup>	31,428		100,000		78,570	
Domtar Corporation	2,600		177,135		236,002	
Horizon North Logistics Inc.	68,300		312,166		303,935	
Swisher Hygiene Inc.	54,900		342,817		292,617	
			1,539,091		1,501,326	18.6

	Number of Shares	Average Cost	Fair Value	% of Total Net Assets
<b>Financials</b>				
Extencicare Real Estate Investment Trust	15,300	\$ 185,270	\$ 158,661	
GMP Capital Inc.	17,300	270,851	220,229	
Intact Financial Corporation	3,600	191,243	198,300	
RioCan Real Estate Investment Trust	5,000	130,541	129,300	
Sprott Inc.	23,000	207,198	169,970	
		985,103	876,460	10.9

#### Information Technology

Wi-LAN Inc.	40,400	253,462	313,504	
Zarlink Semiconductor Inc.	92,000	159,094	215,280	
		412,556	528,784	6.6
<b>Total Positions Including Transaction Costs</b>		<b>6,571,829</b>	<b>6,769,997</b>	<b>84.0</b>
Transaction Costs		(13,445)	-	-
<b>Total Positions Before Transaction Costs</b>		<b>6,558,384</b>	<b>6,769,997</b>	<b>84.0</b>
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>\$ 6,558,384</b>	<b>6,769,997</b>	<b>84.0</b>
Other Assets, Net of Liabilities <sup>1</sup>			1,285,870	16.0
<b>TOTAL NET ASSETS REPRESENTING UNITHOLDERS<sup>2</sup></b>			<b>\$ 8,055,867</b>	<b>100.0</b>

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

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

#### SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2011 and December 31, 2010

Unaudited

SECTOR MIX	% of Total Net Assets	
	2011	2010
<b>Long Positions</b>		
Energy	26.2	27.3
Basic Materials	21.7	38.1
Industrials	18.6	12.2
Consumer Discretionary	-	5.5
Financials	10.9	2.0
Information Technology	6.6	12.2
Other Assets, Net of Liabilities	16.0	2.7

GEOGRAPHIC MIX	% of Total Net Assets	
	2011	2010
<b>Long Positions</b>		
Canada	84.0	97.3
Other Assets, Net of Liabilities	16.0	2.7

ASSET MIX	% of Total Net Assets	
	2011	2010
<b>Long Positions</b>		
Canadian Equities	84.0	97.3
Other Assets, Net of Liabilities	16.0	2.7

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

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**UNAUDITED**

### **1. THE FUND**

Premiere Stable Growth Fund (the "Fund") is an unincorporated open-ended mutual fund trust created under the laws of the Province of Ontario pursuant to a Declaration of Trust dated as of April 2, 2007, as may be amended or amended and restated from time to time.

BluMont Capital Corporation ("BluMont Capital") is the manager (the "Manager") and the 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 in the financial statements 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, 2011 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 recorded 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 is recorded on the ex-dividend date. Interest income 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 that the Toronto Stock Exchange is open for business or such other trading day or days as the Manager may determine.

The Net Asset Value per unit per Series of the Fund is determined by dividing the total fair value of the Fund's Net Asset Value attributable to that Series by the number of units outstanding of that Series.

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 per Series amount is determined by dividing the Net Increase (Decrease) in Net Assets from Operations by the weighted average number of units outstanding in each Series during the year.

**3. FINANCIAL 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 maximize absolute returns on investments through security selection and asset allocation while using hedging activities in an attempt to manage market risk. To achieve its investment objective the Fund may employ the following investment strategies: 1) implement a rigorous, disciplined, risk-controlled quantitative fundamental research approach to identify compelling long and short investments; 2) invest the majority of assets in equities or equity equivalents of Canadian issuers and, to a lesser extent, U.S. issuers; 3) undertake a "bottom-up" approach that focuses on company or industry specific issues and a "top down" approach that focuses on overall market outlook; 4) use an earnings based approach that seeks to select issuers with improving fundamentals, superior earnings growth potential, unexpected earnings surprises, analysts revisions, cash flow growth and high relative strength in comparison to market and industry relative levels; 5) focus on issuers that the investment advisor believes are experiencing deteriorating business and industry conditions, have leveraged and/or cash poor balance sheets and are facing capital expenditure requirements in excess of internal cash generation abilities; 6) establish short positions with the expectation of generating a profit rather than as an offset or hedge against a long position; and 7) when market conditions warrant it, invest in debt obligations and rely on money market instruments for the preservation of capital and the maintenance of liquidity.

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 aims to manage 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 of June 30, 2011 and December 31, 2010, the Fund had no investments in debt instruments and 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. The 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 equities and other securities 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 June 30, 2011, the Fund invested approximately 1% of its portfolio in companies whose securities cannot be readily disposed of through market facilities or for which public quotations in common use were not widely available (December 31, 2010 – 1.0%).

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 June 30, 2011 and December 31, 2010, 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:

**June 30, 2011**

	<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	-	-	-	6,769,997
Other receivables	404,446	-	-	-
Cash	1,238,725	-	-	-
<b>Total</b>	<b>1,643,171</b>	<b>-</b>	<b>-</b>	<b>6,769,997</b>
<b>Liabilities</b>				
Other liabilities	(357,301)	-	-	-
<b>Total</b>	<b>(357,301)</b>	<b>-</b>	<b>-</b>	<b>(357,301)</b>

**December 31, 2010**

	Less than 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	Non-Interest Bearing (\$)
<b>Financial Assets</b>				
Equities - Long	-	-	-	10,898,779
Other receivables	220,209	-	-	-
Cash	343,947	-	-	-
<b>Total</b>	<b>564,156</b>	<b>-</b>	<b>-</b>	<b>10,898,779</b>
<b>Liabilities</b>				
Other liabilities	(266,474)	-	-	-
<b>Total</b>	<b>(266,474)</b>	<b>-</b>	<b>-</b>	<b>-</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, 2011 and December 31, 2010, 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 aims to moderate 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 as outlined above. The Fund will not maintain a position that is more than 15% of its portfolio (at the time of investment) and will ensure that no single industry sector weighting accounts for more than 40% of its portfolio (at the time of investment). To the extent that the Fund uses leverage, it will leverage to a maximum of 200% (at the time of investment), in the aggregate, of the Fund's Net Asset Value.

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 in respect to securities that trade on recognized stock exchanges, for up to 75% (at the time of investment) of the Fund's Net Asset Value, so long as the margined short positions meet minimum margin requirements of the applicable regulatory authorities.

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

The fund did not have short positions during the year.

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, 2011 and December 31, 2010, 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 49 data points (December 31, 2010 – 43 data points) based on the monthly net returns of the Fund.

Benchmark	Impact on Net Assets	
	June 30, 2011	December 31, 2010
S&P/TSX Total Return Index	\$412,401	\$573,266

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.

As of June 30, 2011 and December 31, 2010, the Fund did not hold financial instruments denominated in foreign currency, and therefore was not subject to currency risk.

**(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 as at:

**June 30, 2011**

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Assets</b>				
Equity securities - long	6,691,427	-	78,570	<b>6,769,997</b>

**December 31, 2010**

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Assets</b>				
Equity securities - long	10,788,781	-	109,998	<b>10,898,779</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.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Manager has used its best judgment to derive the fair value.

The level 3 equity amount consists of a single private equity position. The Manager considers original transaction price, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments and adjusts the prices as deemed necessary.

A sensitivity analysis was performed to compare the value of the security to the change in the Hedge Fund Research Private Issue (the “Index”) since the time of purchase. If the security’s value changed by the same amount as the Index, the impact on Net Assets of the Fund would be a gain of \$8,730 (December 31, 2010 : gain of \$1,200).

The following table presents the movement in level 3 instruments for the period ended June 30, 2011 and for the year ended December 31, 2010 by class of financial instrument.

	June 30, 2011	December 31, 2010
<b>Opening balance</b>	109,998	109,998
Net purchases and sales	-	-
Net transfers in (out)	-	-
Realized	-	-
Unrealized	(31,428)	-
<b>Closing balance</b>	78,570	109,998

Net change in unrealized depreciation for level 3 financial instruments held as of June 30, 2011 and December 31, 2010 was \$(31,428) and \$nil respectively.

There were no movements between levels during the year.

#### 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. 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. Series F Units of the Fund 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. 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:

##### June 30, 2011

	Units Outstanding at Beginning of Period	Units issued for cash	Units redeemed	Units Outstanding at End of Period
Series A	98,596	-	(18,268)	80,328
Series F	2,154	-	(86)	2,068

##### June 30, 2010

	Units Outstanding at Beginning of Period	Units issued for cash	Units redeemed	Units Outstanding at End of Period
Series A	106,615	-	(2,987)	103,628
Series F	2,159	-	(1)	2,158

#### 5. INCOME TAXES

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 not recognized the benefit of the following capital or non-capital losses as noted below.

Non-Capital Loss* (expiry 2029)	Capital Loss**
127,465	2,582,230

\* 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, in return for investment management and administrative services, the Manager receives a monthly management fee from the Fund. The management fee paid by the Fund is at an annual rate of 2.50% per annum of the Net Asset Value of the Fund for Series A Units and 1.50% per annum of the Net Asset Value of the Fund 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 Fund's net gain for each period (including unrealized capital gains, if any), subject to reduction for prior period losses that have not previously been offset against net gains.

The Manager may, on its own accord, pay for certain operating expenses of the Fund in order to maintain 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. For the period ended June 30, 2011, the Manager absorbed \$5,529 of the Fund's expenses (December 31, 2010 – \$29,284).

## 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 period ended June 30, 2011 was \$45,621 (2010 - \$34,125).

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

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

	Per Unit (\$)					
	June 30, 2011			December 31, 2010		
	Net Asset Value	Bid/Ask Adjustment	Net Assets	Net Asset Value	Bid/Ask Adjustment	Net Assets
Series A	\$97.99	\$(0.34)	\$97.65	\$111.36	\$(0.33)	\$111.03
Series F	\$102.81	\$(0.38)	\$102.43	\$116.22	\$(0.36)	\$115.86

## 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 in the Fund for the periods ended June 30, 2011 and December 31, 2010.

## **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 Fund’s 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**

### **MANAGER AND PRINCIPAL DISTRIBUTOR**

BluMont Capital Corporation  
70 University Avenue  
Suite 1200, P.O. Box 16  
Toronto, ON M5J 2M4  
Telephone: (416) 216-3566  
Fax: (416) 360-1102  
Toll Free: 1 (866) 473-7376

### **REGISTRAR**

Citigroup Fund Services Canada, Inc.  
2920 Matheson Blvd. East  
Mississauga, ON L4W 5J4

### **PRIME BROKER**

CIBC World Markets  
BCE Place  
161 Bay Street, 5<sup>th</sup> Floor  
Toronto, ON M5J 2S8

### **AUDITORS**

PricewaterhouseCoopers LLP  
Suite 3000 Box 82  
Royal Trust Tower TD Centre  
Toronto, ON M5K 1G8

### **LEGAL COUNSEL**

Goodmans LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 3400  
Toronto, ON M5H 2S7



**BLUMONT**  
CAPITAL

70 University Avenue, Suite 1200 P.O. Box 16 Toronto, ON M5J 2M4 | Tel: 416.216.3566 | 1.866.473.7376 | Fax: 416.360.1102 | [blumontcapital.com](http://blumontcapital.com)

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