



Unaudited Semi-annual Financial Statements

**Northern Rivers Conservative Growth Fund**  
June 30, 2009

**NOTICE - NO AUDITOR REVIEW OF THESE  
INTERIM FINANCIAL STATEMENTS**

Northern Rivers Capital Management Inc., 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.

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

# Northern Rivers Conservative Growth Fund

Formed under the laws of Ontario

## STATEMENT OF NET ASSETS

As at June 30, 2009 (*unaudited*) and December 31, 2008 (*audited*)

|   | 2009             | 2008             |
|---|------------------|------------------|
|   | \$               | \$               |
| <b>ASSETS</b>                               |                  |                  |
| Investments, at fair value                  | 3,671,472        | 1,483,411        |
| Cash and short-term investments             | 1,061,975        | 753,618          |
| Accrued interest and dividends receivable   | 18,927           | 6,122            |
| Receivable for units issued                 | 100              | 10,500           |
| Receivable for portfolio securities sold    | —                | 2,652            |
| <b>Total assets</b>                         | <b>4,752,474</b> | <b>2,256,303</b> |
| <b>LIABILITIES</b>                          |                  |                  |
| Payable for portfolio securities purchased  | 81,768           | 75,638           |
| Management fees payable [note 5]            | 18,117           | 3,372            |
| Incentive fees payable [note 5]             | —                | —                |
| Payable for units redeemed                  | 8,055            | —                |
| Other accrued expenses [note 6]             | 11,307           | 7,316            |
| <b>Total liabilities</b>                    | <b>119,247</b>   | <b>86,326</b>    |
| <b>Total net assets</b>                     | <b>4,633,227</b> | <b>2,169,977</b> |
| <b>Total net assets per Series</b>          |                  |                  |
| Series A                                    | 1,349,993        | 662,558          |
| Series F                                    | 2,754,142        | 1,279,349        |
| Series P                                    | 529,092          | 228,070          |
| <b>Number of units outstanding [note 4]</b> |                  |                  |
| Series A units                              | 63,204           | 33,576           |
| Series F units                              | 128,561          | 64,979           |
| Series P units                              | 24,650           | 11,547           |
| <b>Net assets per unit</b>                  |                  |                  |
| Series A                                    | 21.36            | 19.73            |
| Series F                                    | 21.42            | 19.69            |
| Series P                                    | 21.46            | 19.75            |

See accompanying notes

On behalf of the Manager:



Director



Director

## Northern Rivers Conservative Growth Fund

### STATEMENT OF OPERATIONS

For the six month periods ended June 30 (unaudited)

|   | 2009           | 2008             |
|---|----------------|------------------|
|   | \$             | \$               |
| <b>REVENUE</b>  |                |                  |
| Interest and dividend income  | 42,322         | 77,149           |
| <b>EXPENSES</b> <i>[note 6]</i>   |                |                  |
| Management fees <i>[note 5]</i>   | 28,378         | 25,564           |
| Incentive fees <i>[note 5]</i>  | —              | —                |
| Audit fees  | 11,273         | 14,500           |
| Unitholder reporting  | 10,615         | 5,564            |
| Other   | 31,047         | 27,608           |
|   | 81,313         | 73,236           |
| Expenses absorbed by the Manager <i>[note 6]</i>                                | (41,687)       | (43,615)         |
|   | 39,626         | 29,621           |
| <b>Net investment gain</b>  | <b>2,696</b>   | <b>47,528</b>    |
| <b>Net realized and unrealized gain (loss) on investments</b>                   |                |                  |
| Net realized (loss) gain on sale of investments                                 | (246,904)      | 147,986          |
| Net realized gain (loss) on foreign currency                                    | 6,527          | (3,587)          |
| Transaction costs on purchase and sale of<br>investments <i>[notes 2 and 7]</i> | (10,235)       | (7,884)          |
| Increase (decrease) in unrealized appreciation of investments                   | 607,993        | (281,998)        |
| <b>Net realized and unrealized gain (loss) on investments</b>                   | <b>357,381</b> | <b>(145,483)</b> |
| <b>Increase (decrease) in net assets from operations</b>                        | <b>360,077</b> | <b>(97,955)</b>  |
| <b>Increase (decrease) in net assets from operations per Series</b>             |                |                  |
| Series A  | 101,549        | (6,064)          |
| Series F  | 218,369        | (80,036)         |
| Series P  | 40,159         | (11,855)         |
| <b>Increase (decrease) in net assets from operations per unit</b>               |                |                  |
| Series A  | 2.36           | (0.23)           |
| Series F  | 2.47           | (1.36)           |
| Series P  | 2.52           | (1.48)           |

*See accompanying notes*

Northern Rivers Conservative Growth Fund

STATEMENT OF CHANGES IN NET ASSETS

For the six month period ended June 30, 2009 (unaudited)

|   | 2009             |                  |                | Total            |
|---|------------------|------------------|----------------|------------------|
|   | Series A         | Series F         | Series P       |                  |
|   | \$               | \$               | \$             | \$               |
| <b>Increase in net assets from operations</b> | <b>101,549</b>   | <b>218,369</b>   | <b>40,159</b>  | <b>360,077</b>   |
| <b>Distributions to unitholders</b>           |                  |                  |                |                  |
| Distributions paid or payable                 | —                | —                | —              | —                |
| <b>Capital unit transactions</b>              |                  |                  |                |                  |
| Proceeds from units issued                    | 707,828          | 1,295,671        | 260,863        | 2,264,362        |
| Reinvestment of distributions                 | —                | —                | —              | —                |
| Cost of units redeemed                        | (121,944)        | (39,246)         | —              | (161,190)        |
|   | 585,884          | 1,256,425        | 260,863        | 2,103,172        |
| <b>Increase in net assets for the period</b>  | <b>687,433</b>   | <b>1,474,794</b> | <b>301,022</b> | <b>2,463,249</b> |
| Net assets, beginning of period               | 662,560          | 1,279,348        | 228,070        | 2,169,978        |
| <b>Net assets, end of period</b>              | <b>1,349,993</b> | <b>2,754,142</b> | <b>529,092</b> | <b>4,633,227</b> |

See accompanying notes

For the six month period ended June 30, 2008 (unaudited)

|   | 2008           |                  |                 | Total            |
|---|----------------|------------------|-----------------|------------------|
|   | Series A       | Series F         | Series P        |                  |
|   | \$             | \$               | \$              | \$               |
| <b>Decrease in net assets from operations</b>           | <b>(6,064)</b> | <b>(80,036)</b>  | <b>(11,855)</b> | <b>(97,955)</b>  |
| <b>Distributions to unitholders</b>                     |                |                  |                 |                  |
| Distributions paid or payable                           | —              | —                | —               | —                |
| <b>Capital unit transactions</b>                        |                |                  |                 |                  |
| Proceeds from units issued                              | 698,932        | 131,532          | 4,700           | 835,164          |
| Reinvestment of distributions                           | —              | —                | —               | —                |
| Cost of units redeemed                                  | (24,650)       | —                | —               | (24,650)         |
|   | 674,282        | 131,532          | 4,700           | 810,514          |
| <b>Increase (decrease) in net assets for the period</b> | <b>668,218</b> | <b>51,496</b>    | <b>(7,155)</b>  | <b>712,559</b>   |
| Net assets, beginning of period                         | 328,873        | 1,754,654        | 249,615         | 2,333,142        |
| <b>Net assets, end of period</b>                        | <b>997,091</b> | <b>1,806,150</b> | <b>242,460</b>  | <b>3,045,701</b> |

Northern Rivers Conservative Growth Fund

SCHEDULE OF INVESTMENTS

As at June 30, 2009 (unaudited)

| Number<br>of Shares                        |  | Average<br>Cost<br>\$ | Fair<br>Value<br>\$ |
|--|--|-----------------------|---------------------|
| <b>Canadian Equities</b>                   |  |                       |                     |
| 2,400                                      | Absolute Software Corp.  | 9,819                 | 13,560              |
| 25,925                                     | Acasti Pharma Inc., Class 'A' **                                 | 152                   | 259                 |
| 25,925                                     | Acasti Pharma Inc., Series '2', Warrants, 2010/11/17 **          | -                     | -                   |
| 65,000                                     | Active Control Technology Inc.                                   | 5,200                 | 10,400              |
| 28,000                                     | Advanced Explorations Inc., Warrants, 2009/10/16                 | -                     | -                   |
| 99,000                                     | Aeromechanical Services Ltd.                                     | 75,000                | 22,770              |
| 32,500                                     | AeroMechanical Services Ltd., Warrants, 2010/03/13               | -                     | -                   |
| 2,900                                      | Alaris Royalty Corp.   | 34,800                | 17,690              |
| 15,000                                     | Algonquin Power Income Fund                                      | 36,026                | 51,150              |
| 16,600                                     | BCE Inc.   | 402,642               | 398,400             |
| 4,800                                      | Biovail Corp.  | 62,558                | 74,976              |
| 8,500                                      | Canadian Spirit Resources Warrants                               | -                     | 19                  |
| 1,300                                      | Capital Power Corp.  | 29,900                | 29,016              |
| 13,000                                     | Descartes Systems Group Inc. (The)                               | 56,785                | 57,850              |
| 10,000                                     | Digifonica International Inc., Warrants, 2010/02/07              | -                     | -                   |
| 11,100                                     | Fort Chicago Energy Partners L.P.                                | 78,407                | 93,906              |
| 74,500                                     | Gastem Inc.  | 35,082                | 27,938              |
| 17,000                                     | Gastem Inc., Warrants, 2009/12/14                                | -                     | -                   |
| 20,000                                     | Grey Island Systems International Inc.                           | 6,024                 | 5,400               |
| 31,000                                     | Highpine Oil & Gas Ltd.  | 132,229               | 135,160             |
| 52,000                                     | Horizon North Logistics Inc.                                     | 118,886               | 54,600              |
| 30,000                                     | Iberian Minerals Corp.   | 14,100                | 13,200              |
| 2,400                                      | Indigo Books & Music Inc.  | 28,662                | 31,224              |
| 3,300                                      | Intact Financial Corp.   | 105,961               | 111,903             |
| 5,000                                      | Jazz Air Income Fund   | 19,863                | 16,400              |
| 11,000                                     | Just Energy Income Fund  | 122,115               | 124,080             |
| 2,700                                      | Keyera Facilities Income Fund                                    | 45,053                | 53,568              |
| 1,700                                      | Killam Properties Inc.   | 9,860                 | 10,183              |
| 18,000                                     | MKS Inc.   | 18,468                | 28,800              |
| 106,300                                    | Neptune Technologies & Bioresources Inc.                         | 214,283               | 212,600             |
| 2,700                                      | Niko Resources Ltd.  | 195,565               | 216,000             |
| 9,000                                      | NOVA Chemicals Corp.   | 60,480                | 61,920              |
| 500  | Petro Andina Resources Inc., Class 'A'                           | 4,312                 | 4,500               |
| 18,300                                     | ProMetic Life Sciences Inc.                                      | 6,792                 | 2,379               |
| 240,000                                    | Red Maple Energy Inc. **   | 62,200                | 10,800              |
| 6,200                                      | Rogers Communications Inc., Class 'B'                            | 186,551               | 185,194             |
| 24,000                                     | Sandstorm Resources Inc.   | 9,600                 | 10,800              |
| 12,000                                     | Sandstorm Resources Inc., Warrants, 2014/04/23                   | -                     | 2,520               |
| 27,500                                     | Shanghai Songrui Forestry Products Inc. **                       | 27,500                | 27,500              |
| 13,750                                     | Shanghai Songrui Forestry Products Inc., Warrants, 2010/06/07 ** | -                     | -                   |
| 20,000                                     | SSP Offshore Inc.  | 11,695                | 2,700               |
| 4,900                                      | SXC Health Solutions Corp.                                       | 93,651                | 144,599             |
| 700  | TMX Group Inc.   | 22,442                | 23,660              |
| 11,300                                     | TransCanada Corp.  | 357,603               | 353,012             |
| 222,950                                    | VendTek Systems Inc.   | 140,432               | 111,475             |
| 143,800                                    | Webtech Wireless Inc.  | 227,420               | 225,766             |
| 5,500                                      | Western Wind Energy Corp., Warrants, 2010/06/20                  | -                     | -                   |
| 400  | WestJet Airlines Ltd.  | 7,160                 | 4,092               |
| 5,400                                      | Yellow Pages Income Fund   | 30,114                | 28,836              |
| <b>Total of Canadian Equities - 64.98%</b> |  | <b>3,105,392</b>      | <b>3,010,805</b>    |

Northern Rivers Conservative Growth Fund

SCHEDULE OF INVESTMENTS cont'd

As at June 30, 2009 (unaudited)

| Number<br>of Shares  |   | Average<br>Cost<br>\$                    | Fair<br>Value<br>\$                           |
|--|---|--|---|
| <b>International Equities</b>                                      |   |  |   |
| 1,100  | Altria Group Inc.                                 | 43,541                                   | 20,925  |
| 3,100  | Coca-Cola Co. (The)                               | 164,952                                  | 172,665                                       |
| 8,500  | Hecla Mining Co., Warrants, 2014/08/10 *          | 6,768                                    | 7,983   |
| 3,000  | Intel Corp.                                       | 56,245                                   | 57,557  |
| 6,000  | Northstar Healthcare Inc.                         | 21,097                                   | 3,720   |
| 7,900  | Philip Morris International Inc.                  | 363,983                                  | 400,107                                       |
| <b>Total of International equities - 14.31%</b>                    |   | <b>656,586</b>                           | <b>662,957</b>                                |
| <b>Options</b>   |   |  |   |
| Number of<br>Options   | Holdings/Expiry Date/Strike Price                 | Underlying Interest on<br>Equity Options | Average Cost<br>(\$)<br>Current Value<br>(\$) |
| <b>Written Call Options</b>  |   |  |   |
| (30)   | Intel Corp<br>July 2009, \$17.00 USD              | (3,000)                                  | (588)<br>(1,150)                              |
| (57)   | Transcanada Corp<br>July 2009, \$32.00 CAD        | (5,700)                                  | (1,368)<br>(1,140)                            |
| <b>Total Options - (0.05%)</b>                                     |   |  | <b>(1,956)<br/>(2,290)</b>                    |
| <b>Total of investments before short-term investments - 79.24%</b> |   | <b>3,760,022</b>                         | <b>3,671,472</b>                              |
| <b>Short-term investments</b>                                      |   |  |   |
| 1,060,289  | CIBC Mellon Trust Demand Deposit<br>Variable Rate |  | 1,060,289<br>1,060,289                        |
| <b>Short-term investments - Cdn \$ - 22.88%</b>                    |   | <b>1,060,289</b>                         | <b>1,060,289</b>                              |
| 1,452  | BNY Mellon Deposit Trust Reserve<br>Variable Rate |  | 1,622<br>1,686                                |
| <b>Short-term investments - U.S. \$ - 0.04%</b>                    |   | <b>1,622</b>                             | <b>1,686</b>                                  |
| <b>Total of short-term investments - 22.92%</b>                    |   | <b>1,061,911</b>                         | <b>1,061,975</b>                              |
| Less: Transaction cost included in average cost                    |   | (7,685)                                  |   |
| <b>Total of investments - 102.16%</b>                              |   | <b>4,814,248</b>                         | <b>4,733,447</b>                              |
| <b>Liabilities less other assets - (2.16%)</b>                     |   |  | <b>(100,220)</b>                              |
| <b>Total net assets - 100.00%</b>                                  |   |  | <b>4,633,227</b>                              |

\* Restricted hold period

\*\* Private

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

### 1. THE FUND

Northern Rivers Conservative Growth Fund [the "Fund"] was established as an open-ended unit trust under the laws of Ontario and is governed by a Declaration of Trust dated August 27, 2007.

Northern Rivers Capital Management Inc. [the "Manager"] is the manager, Trustee and promoter of the Fund.

The Fund is authorized to issue an unlimited number of units and in an unlimited number of series. Series A units are offered to investors through registered brokers and dealers, with either a front-end or back-end load option. Series F units are offered to investors either directly through the Manager, or through fee-based brokers or financial planners and others who pay an annual fee to their dealer or financial advisor instead of transactional sales charges. Series P units are offered to investors through "discount" brokers.

On April 30, 2009, Northern Rivers Evolution Fund (listed under "Merging Fund" in the following table) merged into the Northern Rivers Conservative Growth Fund (listed under "Continuing Fund" in the following table). Pursuant to the merger, the Continuing Fund acquired all of the assets and assumed all of the liabilities of the Merging Fund in exchange for units in the Continuing Fund. Unitholders of the Merging Fund exchanged their units for units of the same series of the Continuing Fund based on an exchange ratio. The purchase method was used to account for the merger and the Continuing Fund was identified as the acquiring fund for accounting purposes. The financial statements of the Continuing Fund include the results of operations of the Merging Fund from the date of merger.

The exchange ratio (representing the number of unit(s) issued by the Continuing Fund in exchange for each outstanding unit of the Merging Fund), the total number of units issued by the Continuing Fund and the value of the Net Asset Value (as defined below) acquired are summarized as follows:

| <b>Merging Fund</b>                   | <b>Exchange Ratio</b> | <b>Continuing Fund</b>                          | <b>Number of Units issued</b> | <b>Net Asset Value Acquired (\$)</b> |
|---------------------------------------|-----------------------|---|-------------------------------|--------------------------------------|
| <b>Northern Rivers Evolution Fund</b> |                       | <b>Northern Rivers Conservative Growth Fund</b> |                               | 1,867,132                            |
| Series A                              | 1.1177                | Series A  | 29,653                        |                                      |
| Series F                              | 1.1082                | Series F  | 51,259                        |                                      |
| Series P                              | 1.1166                | Series P  | 13,103                        |                                      |

The unaudited financial statements for the Fund are prepared as at June 30, 2009 and December 31, 2008 and for the six month periods ended June 30, 2009 and 2008.

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements, prepared in accordance with Canadian generally accepted accounting principles ["GAAP"], include estimates and assumptions by management that affect the reported amounts of assets (including the fair valuation of private companies), liabilities, income, expenses and realized and unrealized gains and losses during the reporting period. Actual results may differ from these estimates. The following is a summary of significant accounting policies followed by the Fund.

#### Investment valuation

The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ["Section 3855"], requires the fair value of financial instruments traded in active markets to be measured based on a security's bid price. The Canadian Securities Administrators allows investment funds to calculate the daily net asset value for the purpose of processing unitholder transactions ["Net Asset Value"] using fair value measures as defined in National Instrument 81-106 ["NI 81-106"]. The net asset value calculated in accordance with Section 3855 is referred to as "Net Assets" from hereon forward.

Investments are categorized as held for trading in accordance with Section 3855. Investments traded on a public stock exchange are valued at their bid prices on the valuation date. Securities with no available bid prices are valued at the last traded price. The value of any investment that is listed or traded on more than one stock exchange or that is actively traded on the over-the-counter market while being listed or traded on any stock exchange may be the market quotation which most accurately reflects the fair market value of the investment in question, as determined by the Manager. The value of investments which are traded on a public stock exchange, for which restrictions on marketability exist, will be valued at the Manager's estimate of fair market value which will not exceed the quoted market value. Investments which are not publicly traded or other assets for which no public market exists will be valued using valuation techniques as determined by the Manager. Short-term investments that consist only of over night demand deposits are deemed to be held-for-trading and carried at fair value.

In accordance with NI 81-106, the Net Asset Value per unit compared to the Net Assets per unit, are required in the notes to the financial statements and presented in the following table:

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

Comparison of Net Assets per unit and Net Asset Value per unit

|          | As at June 30, 2009      |                               | As at December 31, 2008  |                               |
|----------|--------------------------|-------------------------------|--------------------------|-------------------------------|
|          | Net Assets Per Unit (\$) | Net Asset Value Per Unit (\$) | Net Assets Per Unit (\$) | Net Asset Value Per Unit (\$) |
| Series A | 21.36                    | 21.51                         | 19.73                    | 20.00                         |
| Series F | 21.42                    | 21.57                         | 19.69                    | 19.96                         |
| Series P | 21.46                    | 21.61                         | 19.75                    | 20.02                         |

The investments in the Fund valued based on valuation techniques as at June 30, 2009 and December 31, 2008 as a percentage of the total investments of the Fund, are shown in the table below:

|   | As at June 30, 2009 | As at December 31, 2008 |
|---|---------------------|-------------------------|
| Investments valued based on valuation techniques as a percentage of total investments | 0.98%               | 2.90%                   |

The net excess (shortfall) of the market value of investments over (under) the total average cost or amortized cost of the investments is included in unitholders' equity as unrealized appreciation/(depreciation) on investments.

### Financial Instruments Disclosure and Presentation

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation". These standards increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. Adoption of the new standards did not impact the daily price of the Fund's securities for subscription and redemption purposes, nor for the calculation of Net Assets. The detailed risks of investing in the Fund are disclosed in the Fund's Simplified Prospectus. Refer to note 3 for discussion of management of financial risks.

### Capital Disclosures

The CICA Handbook Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Refer to note 4 for a discussion of the Fund's capital and how it is managed.

## **NOTES TO FINANCIAL STATEMENTS Cont'd**

June 30, 2009 (unaudited)

### **Investment transactions, income and expenses**

Investment transactions are accounted for as of the trade date. Interest income and expenses are accrued daily and dividend income is recognized on the ex-dividend date. Realized gains and losses from investment transactions are calculated with reference to the average cost of the related investments, which exclude brokerage commissions and other trading expenses. Expenses are accrued on a daily basis, and are accrued separately to each series, while income, gains and losses are allocated to each series based on the respective Net Asset Values.

### **Transaction costs**

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund are included in "Transaction costs on the purchase and sale of investments" in the statement of operations for the current period.

### **Foreign currency translation**

The market value of investments and other assets and liabilities denominated in a foreign currency is translated into Canadian dollars at the rate of exchange prevailing on each valuation date. Foreign exchange gains and losses on the sale of foreign currencies are included in "Net realized gain (loss) on foreign currency translation". Unrealized foreign exchange gains and losses on investments held are included in "Increase (decrease) in unrealized appreciation of investments".

The Fund's investment portfolios may consist of securities that are traded in foreign markets. The proceeds on the sale of such securities will be realized in the respective currency. Unhedged foreign currency positions are subject to gains and losses due to fluctuations in the respective exchange rates.

Foreign currency purchases and sales of investments and foreign currency dividend and interest income and expenses are translated into the reporting currency at the rate of exchange prevailing on the respective date of the transaction.

### **Other assets and liabilities**

Other financial assets and financial liabilities recorded at cost are short-term in nature and therefore their carrying value approximates fair value.

### **Increase (decrease) in net assets from investment operations per unit**

The increase (decrease) in net assets from operations per unit reported in the statement of operations is calculated as the increase (decrease) in net assets from operations divided by the average number of units outstanding during the period.

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

### 3. MANAGEMENT OF FINANCIAL RISKS

The Fund may be exposed to a variety of financial risks (market risk, credit risk and liquidity risk). The Fund's exposure to financial risks is concentrated in its investment holdings, including derivative instruments. The Schedule of Investments group securities by asset type, geographic region and/or market segment.

The Fund's risk management practices include the monitoring of compliance to investment guidelines. The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing a professional and experienced portfolio advisor who regularly monitors the Fund's positions and market events, diversifies investment portfolios within the constraints of the investment guidelines and periodically may use derivatives to hedge certain risk exposures.

#### **Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to honour its financial obligations that it has entered into with the Fund.

The fair value of debt securities and derivatives includes consideration of the credit worthiness of the issuer. The carrying amount of debt securities and derivatives, if any, as presented in the Fund's Schedule of Investments, represents the Fund's maximum credit risk exposure as at June 30, 2009. As at June 30, 2009, the Fund had no significant investments in debt instruments (other than overnight demand deposits).

#### **Liquidity risk**

Liquidity risk is defined as the risk that the Fund may not be able to settle or meet its obligation on time or at a reasonable price.

The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The units of the Fund are issued and redeemed on demand at the then current 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. In accordance with securities regulations, the Fund must maintain at least 90% of assets in liquid investments (i.e. investments that are traded in an active market and can be readily disposed). In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity.

The Fund may, from time to time, invest in securities that are not traded in an active market and may be illiquid. Such investments are identified as private and restricted securities in the Schedule of Investments.

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

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.

### **Interest rate risk**

Interest rate risk refers to the effect on the market value of the Fund's assets and liabilities due to fluctuations in interest rates. The Fund is exposed to the risk that the value of interest-bearing financial instruments (such as bonds and money market 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, 2009, the majority of the Fund's financial assets and liabilities are non-interest bearing or invested at short term market rates, accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

### **Market risk**

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market conditions (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. All securities outlined in the Fund's Schedule of Investments present a risk of loss of capital.

The portfolio manager of the Fund moderates his risk through a careful selection and diversification of securities and other financial instruments within the limits of the Fund's investment objectives and strategy. The maximum risk resulting from financial instruments is determined by the market value of the financial instruments. The Fund's overall market positions are monitored on a daily basis by the portfolio manager. Financial instruments held by the Fund are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices on the respective stock exchanges for these securities had increased by 5% as at June 30, 2009, with all other factors remaining constant, net assets of the Fund could possibly have increased approximately by \$179,015 (approximately 3.9% of total net assets). Similarly, if equity prices on the respective stock exchanges for these securities had decreased by 5% as at June 30, 2009, with all other factors remaining constant, net assets of the Fund could possibly have decreased approximately by \$181,419 (approximately 3.9% of total net assets). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

### 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.

The table below indicates the currencies to which the Fund had significant direct exposure as at June 30, 2009, on its monetary and non-monetary assets and liabilities as well as the underlying principle amount of forward currency contracts, if any:

|             | <b>Financial instruments*</b><br><b>(\$)</b> | <b>Foreign exchange contracts</b><br><b>(\$)</b> | <b>Total</b><br><b>(\$)</b> | <b>Percent of total Net Assets (%)</b> |
|-------------|--|--|-----------------------------|--|
| U.S. Dollar | 657,603                                      | —  | 657,603                     | 14.19                                  |

\*Amounts include monetary and non-monetary items.

The amounts in the above table are based on the market value of the Fund's financial instruments (including cash and cash equivalents) as well as the underlying principal amounts of forward exchange contracts, if any. Other financial assets (including dividends and interest receivables and receivables for investments sold) and financial liabilities (including payables for investments purchased) that are denominated in foreign currencies do not expose the Fund to significant currency risk.

As at June 30, 2009, had the Canadian dollar strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets could possibly have decreased or increased, respectively, by approximately \$32,880 (approximately 0.71% of total net assets). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### 4. UNITHOLDERS' EQUITY

Units issued and outstanding represent the capital of the Fund. They are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's Net Asset Value per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The Statements of Changes in Net Assets identify changes in the Fund's capital during the period. In accordance with its investment objectives and strategies, and the risk management practices outlined in note 3, the Fund endeavors to invest the subscriptions received

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

|  | Units Outstanding at Beginning of Period |        | Units Issued, including Reinvested Distributions |        | Units Redeemed |       | Units Outstanding at End of Period |        |
|--|--|--------|--|--------|----------------|-------|------------------------------------|--------|
|  | 2009                                     | 2008   | 2009   | 2008   | 2009           | 2008  | 2009                               | 2008   |
| <b>Six month periods ended June 30 (unaudited)</b> |  |        |  |        |                |       |                                    |        |
| Series A   | 33,576                                   | 10,364 | 35,622   | 23,597 | (5,994)        | (836) | 63,204                             | 33,125 |
| Series F   | 64,979                                   | 56,009 | 65,425   | 4,450  | (1,843)        | —     | 128,561                            | 60,459 |
| Series P   | 11,547                                   | 7,922  | 13,103   | 158    | —              | —     | 24,650                             | 8,080  |

### 5. MANAGEMENT OF THE FUND

The Fund pays annual management fees for general management and administrative services at a rate of 2.5% per annum to the Manager in respect of the Series A units, 1.5% per annum in respect of the Series F units and 1.75% per annum in respect to Series P units. The fee is calculated and accrued daily and payable monthly.

The Fund pays an incentive fee to the Manager equal to a percentage of the average net asset value of the applicable series of the Fund. Such percentage will be equal to 20% of the difference by which the return in the Net Asset Value per unit of the applicable series of the Fund from January 1 to December 31 exceeds the greater of 0% or the percentage return of the S&P/TSX Composite Total Return Index for the same period. If the performance of a series of the Fund in any year is less than the performance of the applicable index described above (the "Deficiency"), then no incentive fee will be payable in any subsequent year until the performance of the applicable series of the Fund, on a cumulative basis calculated from the first of such subsequent years has exceeded the amount of the Deficiency.

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

Management fees and incentive fees paid by the Fund during the six month period ended June 30 and payable by the Fund as at June 30, 2009 and December 31, 2008 are shown in the table below:

|          | Management fees paid during the six month period ended: |             | Incentive fees paid during the six month period ended: |             | Management fees payable as at: |             | Incentive fees payable as at: |             |
|----------|---|-------------|--|-------------|--------------------------------|-------------|-------------------------------|-------------|
|          | (\$)  |             | (\$)   |             | (\$)                           |             | (\$)                          |             |
|          | Jun 30 2009   | Jun 30 2009 | Jun 30 2009  | Jun 30 2008 | Jun 30 2009                    | Dec 31 2008 | Jun 30 2009                   | Dec 31 2008 |
| Series A | 11,364  | 9,910       | —  | —           | 7,209                          | 1,387       | —                             | —           |
| Series F | 14,050  | 13,496      | —  | —           | 8,978                          | 1,642       | —                             | —           |
| Series P | 2,964   | 2,158       | —  | —           | 1,930                          | 343         | —                             | —           |

### 6. EXPENSES

Operating expenses incurred by the Fund may include, but are not limited to, brokerage commissions and fees; taxes, including GST, income and foreign withholding taxes; regulatory fees (including the portion of the regulatory fees paid by the Manager that is attributable to the Fund); the fees paid to members of an independent review committee; registrar and transfer agency fees; bookkeeping, accounting, audit, valuation and legal fees and expenses; interest, operating and administrative costs; safekeeping and custodial fees; investor servicing costs and costs of Unitholder reports, financial statements, prospectuses and other reports; and any new fee that may be introduced by a securities regulator or other governmental authority in the future that is calculated based on the assets or other criteria of the Fund.

The Manager, at its discretion, may waive or absorb a portion of operating expenses otherwise payable by the Fund. These waivers or absorptions may be terminated at any time by the Manager, and at the Manager's discretion, may be continued indefinitely.

Operating costs payable by the Fund to the Manager as at June 30 2009 were \$11,307 [December 31, 2008 - \$7,316], and total expenses absorbed by the Manager on behalf of the Fund during the six month period ended June 30, 2009 were \$41,687 [2008 - \$43,615].

## NOTES TO FINANCIAL STATEMENTS Cont'd

June 30, 2009 (unaudited)

### 7. BROKERAGE COMMISSIONS ON SECURITIES TRANSACTIONS

Brokerage commissions paid by the Fund during the six month period ended June 30, 2009 were \$10,235 [2008 - \$7,884].

The Manager may receive goods and services other than order execution from brokers in exchange for the commissions paid by the Fund to execute securities transactions ["soft dollars"]. There were no third-party services that were paid for by brokers during the periods ended June 30, 2009 and 2008. The value of certain proprietary services provided by brokers is not considered to be reasonably estimable.

### 8. INCOME TAX STATUS

The Fund qualifies as a unit trust under the Income Tax Act (Canada). All or substantially all of the net income for tax purposes and sufficient capital gains realized in any year are distributed to unitholders such that no income tax is payable by the Fund.

As at the Fund's most recent tax year ended December 31, 2008, the available tax losses were as noted:

| Capital losses<br>(\$) | Non-capital<br>losses<br>(\$) | Non-capital losses that expire in: |              |                                |
|------------------------|-------------------------------|------------------------------------|--------------|--------------------------------|
|                        |                               | 2009<br>(\$)                       | 2010<br>(\$) | 2011 and<br>thereafter<br>(\$) |
| 84,772                 | 102,723                       | —                                  | —            | 102,723                        |

### 9. RELATED PARTY TRANSACTIONS

Likrilyn Capital Corporation, the majority shareholder of the Manager, has invested capital in the Fund as at June 30, 2009 of \$665,862 [December 31, 2008 - \$271,306].

### 10. SUBSEQUENT EVENTS

Series O units were established on August 21, 2009 but have not commenced operations. Series O units are offered to investors either directly through the Manager, or through fee-based brokers or financial planners and others who pay an annual fee to their dealer or financial advisor instead of transactional sales charges. No management fees are charged to the Fund in respect of the Series O units as each investor or dealer negotiates a separate fee with the Manager.

## **NOTES TO FINANCIAL STATEMENTS Cont'd**

June 30, 2009 (unaudited)

### **11. FUTURE ACCOUNTING CHANGES**

The Fund will be required to adopt the Canadian equivalents to International Financial Reporting Standards ("IFRS") beginning in its fiscal 2011 year.

In order to meet the requirement to changeover to IFRS, the Manager is following an orderly transition plan. The key elements of the plan will include disclosure of the qualitative impact in the 2009 annual financial statements, the disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager does not expect that the Net Assets or Net Asset Value per unit will be impacted by the changeover to IFRS. Currently, the Manager expects that the impact of IFRS on the Fund's financial statements will result in additional disclosures and potentially different presentation of unitholder interests and certain other items.



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