



## INTERIM FINANCIAL STATEMENTS

BLUMONT HIRSCH PERFORMANCE FUND

# JUNE 2011



**BLUMONT**  
CAPITAL



## **CONTENTS**

Management's Statement on Financial Reporting	2
Notice to Unitholders	3
Statement of Net Assets	4
Statement of Operations	5
Statement of Changes in Net Assets	6
Statement of Investments and Other Net Assets	7
Summary of Investment Portfolio	11
Notes to the Financial Statements	12
Fund Information	22

## **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  
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**

**BLUMONT HIRSCH PERFORMANCE FUND**

	2011	2010
<b>ASSETS</b>		
Long positions at fair value*		
Canadian equities	\$ 51,192,701	\$ 59,947,396
Canadian bonds	931,821	-
U.S. equities	2,439,152	2,054,514
Global equities	465,278	1,409,058
	<u>55,028,952</u>	<u>63,410,968</u>
Cash and broker deposits	4,957,659	7,224,835
Accrued investment income	149,859	230,816
Accounts receivable:		
Subscriptions receivable	-	25,000
Receivable from investment sales	94,730	-
Total Assets	<u>60,231,200</u>	<u>70,891,619</u>
<b>LIABILITIES</b>		
Short positions at fair value**		
Canadian equities	393,089	613,033
U.S. equities	9,125	-
	<u>402,214</u>	<u>613,033</u>
Accounts payable:		
Fees and operating expenses	82,740	36,012
Performance fees payable	-	365,099
Dividends payable	452	34,546
Payable for investment purchases	136,846	-
Redemptions payable	-	188,951
Total Liabilities	<u>622,252</u>	<u>1,237,641</u>
<b>NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>	<u>\$ 59,608,948</u>	<u>\$ 69,653,978</u>
<b>NUMBER OF UNITS OUTSTANDING (Note 4)</b>	<u>2,367,499</u>	<u>2,646,274</u>
<b>NET ASSETS PER UNIT</b>	<u>\$ 25.18</u>	<u>\$ 26.32</u>
*Long positions, at cost	<u>\$ 45,866,015</u>	<u>\$ 44,426,252</u>
**Proceeds on short positions	<u>\$ (380,951)</u>	<u>\$ (508,377)</u>

Approved by the Board of Directors of BluMont Capital Corporation

“Veronika Hirsch”

“Stephen Johnson”

\_\_\_\_\_  
Veronika Hirsch  
Director

\_\_\_\_\_  
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**

**BLUMONT HIRSCH PERFORMANCE FUND**

	2011	2010
<b>INVESTMENT INCOME</b>		
Dividends	\$ 519,242	\$ 500,218
Less: Foreign withholding taxes	<u>1,580</u>	<u>1,895</u>
	517,662	498,323
Interest	<u>60,527</u>	<u>222</u>
	<u>578,189</u>	<u>498,545</u>
<b>EXPENSES (Notes 6 and 7)</b>		
Management fees	352,568	-
Performance fees	-	5,812
Dividends paid on investments sold short	2,898	5,292
General operating expenses	178,829	190,488
Audit fees	3,763	10,284
Legal fees	7,736	-
Trustees' fees	11,996	1,859
Securityholders' reporting costs	530	1,771
Interest	<u>225</u>	<u>12,293</u>
	558,545	227,799
Less: Expenses recovered by the Manager	<u>(15,039)</u>	<u>(33)</u>
	<u>573,584</u>	<u>227,832</u>
<b>NET INVESTMENT INCOME</b>	<u>4,605</u>	<u>270,713</u>
<b>NET REALIZED GAIN ON INVESTMENT TRANSACTIONS</b>	7,012,246	2,313,331
<b>TRANSACTION COSTS (Notes 2(1) and 7)</b>	(92,235)	(69,410)
<b>NET CHANGE IN UNREALIZED DEPRECIATION OF INVESTMENTS</b>	(9,738,386)	(2,362,094)
<b>EXCHANGE GAIN (LOSS) ON FOREIGN CURRENCIES AND OTHER NET ASSETS</b>	<u>(25,928)</u>	<u>24,711</u>
<b>NET LOSS ON INVESTMENTS AND TRANSACTION COSTS</b>	<u>(2,844,303)</u>	<u>(93,462)</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	\$ <u>(2,839,698)</u>	\$ <u>177,251</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT (Note 2(VI))</b>	\$ <u>(1.13)</u>	\$ <u>0.06</u>

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

**STATEMENT OF CHANGES IN NET ASSETS**  
**For the six months ended June 30,**  
**Unaudited**

**BLUMONT HIRSCH PERFORMANCE FUND**

	2011	2010
<b>Net Assets, Beginning of Period</b>	\$ <u>69,653,978</u>	\$ <u>77,443,878</u>
<b>Net Increase (Decrease) in Net Assets from Operations</b>	<u>(2,839,698)</u>	<u>177,251</u>
<b>From Capital Unit Transactions: (Note 4)</b>		
Proceeds from issue of units	182,007	272,104
Consideration paid for redemptions of units	<u>(7,387,339)</u>	<u>(14,603,495)</u>
	<u>(7,205,332)</u>	<u>(14,331,391)</u>
<b>Net Assets, End of Period</b>	\$ <u>59,608,948</u>	\$ <u>63,289,738</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 June 30, 2011

Unaudited

	Number of Shares	Long : Average cost Short: Proceeds	Fair Value	% of Total Net Assets
<b>LONG POSITIONS</b>				
<b>Canadian Equities</b>				
<b>Energy</b>				
ARC Resources Limited	26,800	\$ 628,453	\$ 669,196	
Bankers Petroleum Limited	65,700	357,068	452,016	
Baytex Energy Corporation	28,200	1,200,049	1,478,244	
Bellatrix Exploration Limited	125,300	536,577	568,862	
Cameco Corporation	16,800	484,375	426,048	
Canyon Services Group Inc.	72,700	978,140	967,637	
Celtic Exploration Limited	42,900	582,590	914,199	
Novus Energy Inc.	121,000	128,360	110,110	
Open Range Energy Corporation	88,200	419,615	421,596	
Pacific Rubiales Energy Corporation	58,200	625,247	1,503,306	
Painted Pony Petroleum Limited 'A'	38,400	401,541	427,776	
Progress Energy Resources Corporation	35,900	488,461	492,548	
Pure Energy Services Limited	107,500	655,513	822,375	
Rainy River Resources Limited	27,200	324,623	253,232	
Suncor Energy Inc.	24,000	1,057,934	904,320	
Surge Energy Inc.	48,400	339,336	468,996	
Tourmaline Oil Corporation	30,400	789,984	972,800	
Tuscany International Drilling Inc.	252,600	475,607	227,340	
		10,473,473	12,080,601	20.2

**Basic Materials**

Alderon Resource Corporation	55,800	182,373	165,727	
Allana Potash Corporation	192,800	196,831	293,056	
Augusta Resource Corporation	80,200	362,963	341,652	
Belo Sun Mining Corporation	334,500	433,961	347,880	
Calvista Gold Corporation	600,000	594,000	498,000	
Channel Resources Limited, Restricted <sup>2</sup>	619,200	210,528	123,840	
Channel Resources Limited, Warrants	309,600	-	-	
Continental Gold Limited	25,500	230,299	187,170	
Detour Gold Corporation	117,600	726,804	3,282,216	
Extract Resources Limited	54,200	488,851	428,180	
Geologix Explorations Incorporation	602,700	397,723	235,053	
Goldcorp Inc.	2,200	115,247	102,344	
Kirkland Lake Gold Inc.	11,200	157,810	169,456	
Labrador Iron Ore Royalty Corporation Stapled Units	91,800	2,065,765	3,552,660	
Leisure Canada Inc.	1,006,500	201,560	130,845	
Lundin Mining Corporation	51,000	385,719	376,890	
Midway Gold Corporation	106,000	194,673	197,160	
Neo Material Technologies Inc.	75,200	614,233	695,600	
Redcorp Ventures Limited, Warrants	1,261,800	-	-	
Sulliden Exploration Inc.	130,200	274,999	223,944	
Sunward Resources Limited	289,800	316,145	428,904	

	Number of Shares	Long : Average cost Short: Proceeds	Fair Value	% of Total Net Assets
<b>Basic Materials - Cont'd</b>				
Trelawney Mining and Exploration Inc.	143,800	\$ 545,102	\$ 632,720	
Vena Resources Inc.	517,400	256,849	119,002	
Volta Resources Inc.	394,200	552,357	638,604	
Wildcat Silver Corporation	200,600	478,296	322,966	
Xinergy Limited	52,100	251,669	226,114	
Yellowhead Mining Inc.	118,800	212,922	117,612	
		10,447,679	13,837,594	23.3
<b>Industrials</b>				
CAE Inc.	6,000	72,331	77,880	
Canadian National Railway Company	12,200	866,388	939,278	
Chemtrade Logistics Income Fund	21,600	303,151	311,040	
		1,241,870	1,328,198	2.2
<b>Consumer Discretionary</b>				
Astral Media Inc. 'A'	18,000	537,924	669,780	
Dollarama Inc.	34,600	766,488	1,126,922	
Edleun Group Inc.	1,906,000	953,000	2,096,600	
Gildan Activewear Inc.	22,600	561,750	765,010	
Magna International Inc.	20,900	833,595	1,087,845	
The Forzani Group Limited 'A'	15,200	399,736	400,368	
Torstar Corporation 'B'	57,100	767,536	685,200	
		4,820,029	6,831,725	11.5
<b>Consumer Staples</b>				
George Weston Limited	7,900	549,025	549,919	
Loblaw Companies Limited	11,000	449,491	427,350	
Metro Inc. 'A'	21,800	699,491	1,045,964	
Shoppers Drug Mart Corporation	8,200	330,291	325,294	
		2,028,298	2,348,527	3.9
<b>Health Care</b>				
Nymox Pharmaceutical Corporation	17,610	123,301	141,122	
Valeant Pharmaceuticals International Inc.	21,400	882,450	1,071,926	
		1,005,751	1,213,048	2.0
<b>Financials</b>				
Brookfield Asset Management Inc. 'A'	40,400	1,088,142	1,290,780	
CI Financial Corporation	64,800	1,163,148	1,479,384	
Gluskin Sheff + Associates Inc.	29,800	438,535	560,240	
Leisure Canada Inc., Rights	1,006,500	-	5,033	
MI Developments Inc	19,900	580,688	583,392	
National Bank of Canada	26,000	1,845,938	2,030,860	
Onex Corporation	400	14,884	14,856	
TMX Group Inc.	34,600	1,346,102	1,503,370	
		6,477,437	7,467,915	12.5

	Number of Shares	Long : Average cost Short: Proceeds	Fair Value	% of Total Net Assets
<b>Information Technology</b>				
Constellation Software Inc.	3,700	\$ 259,504	\$ 261,220	
Cortex Business Solutions Inc.	76,200	35,232	26,670	
Open Text Corporation	10,600	450,126	651,794	
SXC Health Solutions Corporation	9,200	187,264	519,156	
Wi-LAN Inc.	142,900	930,118	1,108,904	
		1,862,244	2,567,744	4.3
<b>Telecommunication Services</b>				
BCE Inc.	88,000	2,211,101	3,328,160	5.6
<b>Utilities</b>				
Algonquin Power and Utilities Corporation	26,800	144,216	153,028	0.3
<b>Index Equivalents</b>				
iShares S&P/TSX Completion Index Fund	1,600	35,974	36,161	0.0
<b>Total Canadian Equities - Long</b>		<b>40,748,072</b>	<b>51,192,701</b>	<b>85.8</b>
<b>Canadian Bonds</b>				
Arcan Resources Limited 6.25%, Feb 28, 2016	550,000	550,000	544,500	
Neo Material Technologies 5.00%, Dec 31, 2017	400,000	388,361	387,321	
Redcorp Ventures Limited 15.5%, July 11, 2012	1,305,802	1,109,932	-	
Redcorp Ventures Limited 0.00%, Dec 30, 2031	1,800	-	-	
<b>Total Canadian Bonds - Long</b>		<b>2,048,293</b>	<b>931,821</b>	<b>1.6</b>
<b>U.S. Equities</b>				
<b>Energy</b>				
Petrohunter Energy Corporation	300,000	331,965	5,207	0.0
<b>Basic Materials</b>				
Allied Nevada Gold Corporation	21,400	578,515	723,748	1.2
<b>Industrials</b>				
Tyco International Limited	2,500	121,535	119,049	0.2
<b>Financials</b>				
KKR & Company LP	14,500	246,242	228,343	0.4
<b>Information Technology</b>				
International Business Machines Corporation	4,200	609,402	694,296	1.1

	Number of Shares	Long : Average cost Short: Proceeds	Fair Value	% of Total Net Assets
<b>Index Equivalents</b>				
SPDR Dow Jones Industrial Average ETF Trust	5,600	\$ 679,057	\$ 668,509	1.2
<b>Total U.S. Equities - Long</b>		<b>2,566,716</b>	<b>2,439,152</b>	<b>4.1</b>
<b>Global Equities</b>				
<b>Australia</b>				
Intrepid Mines Limited	34,600	67,444	50,170	0.1
<b>United Kingdom</b>				
Verde Potash PLC	62,800	489,279	415,108	0.7
<b>Total Global Equities - Long</b>		<b>556,723</b>	<b>465,278</b>	<b>0.8</b>
<b>Total Long Positions Including Transaction Costs</b>		<b>45,919,804</b>	<b>55,028,952</b>	<b>92.3</b>
Transaction Costs		(53,789)	-	-
<b>Total Long Positions Before Transaction Costs</b>		<b>45,866,015</b>	<b>55,028,952</b>	<b>92.3</b>
<b>SHORT POSITIONS</b>				
<b>Canadian Equities</b>				
<b>Energy</b>				
Petrobakken Energy Limited A	(400)	(5,581)	(5,296)	
Westfire Energy Limited	(1,800)	(12,023)	(12,330)	
		(17,604)	(17,626)	(0.0)
<b>Basic Materials</b>				
Denison Mines Corporation	(4,800)	(9,732)	(8,928)	
Rubicon Minerals Corporation	(2,200)	(8,492)	(7,568)	
Tanzanian Royalty Exploration Corporation	(6,400)	(40,640)	(41,472)	
Teck Resources Limited 'B'	(2,400)	(104,255)	(117,648)	
		(163,119)	(175,616)	(0.3)
<b>Industrials</b>				
Bombardier Inc. 'B'	(1,100)	(7,216)	(7,645)	
Canadian Pacific Railway Limited	(2,600)	(151,005)	(156,442)	
		(158,221)	(164,087)	(0.3)
<b>Financials</b>				
Power Financial Corporation	(1,200)	(34,390)	(35,760)	(0.1)
<b>Total Canadian Equities - Short</b>		<b>(373,334)</b>	<b>(393,089)</b>	<b>(0.7)</b>

	Number of Shares	Long : Average cost Short: Proceeds	Fair Value	% of Total Net Assets
<b>U.S. Equities</b>				
<b>Information Technology</b>				
Spreadtrum Communications Inc. ADR	(600)	\$ (7,238)	\$ (9,125)	(0.0)
<b>Total U.S. Equities - Short</b>		<b>(7,238)</b>	<b>(9,125)</b>	<b>(0.0)</b>
<b>Total Short Positions Including Transaction Costs</b>		<b>(380,572)</b>	<b>(402,214)</b>	<b>(0.7)</b>
Transaction Costs		(379)	-	-
<b>Total Short Positions Before Transaction Costs</b>		<b>(380,951)</b>	<b>(402,214)</b>	<b>(0.7)</b>
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>\$ 45,485,064</b>	<b>54,626,738</b>	<b>91.6</b>
Other Assets, Net of Liabilities <sup>1</sup>			4,982,210	8.4
<b>TOTAL NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>			<b>\$ 59,608,948</b>	<b>100.0</b>

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

<sup>2</sup>Restricted securities.

**BLUMONT HIRSCH PERFORMANCE FUND**  
**SUMMARY OF INVESTMENT PORTFOLIO**  
As at June 30, 2011 and December 31, 2010  
Unaudited

SECTOR MIX	% of Total Net Assets		GEOGRAPHIC MIX	% of Total Net Assets	
	2011	2010		2011	2010
<b>Long Positions</b>			<b>Long Positions</b>		
Energy	20.2	20.4	Canada	87.4	86.0
Basic Materials	25.3	34.4	U.S.	4.1	3.0
Industrials	2.2	2.0	Australia	0.1	2.0
Consumer Discretionary	11.5	9.3	United Kingdom	0.7	-
Consumer Staples	3.9	5.0	Other Assets, Net of Liabilities	8.4	9.8
Health Care	2.0	-			
Financials	12.9	10.8	<b>Short Positions</b>		
Information Technology	5.5	3.7	Canada	(0.7)	(0.8)
Telecommunication Services	5.6	4.5	U.S.	0.0	-
Utilities	0.3	0.9			
Index Equivalents	1.2	-	<b>ASSET MIX</b>	<b>% of Total Net Assets</b>	
Canadian Bonds	1.6	-		<b>2011</b>	<b>2010</b>
Other Assets, Net of Liabilities	8.4	9.8	<b>Long Positions</b>		
			Canadian Equities	85.8	86.0
<b>Short Positions</b>			Canadian Bonds	1.6	0.0
Basic Materials	(0.3)	(0.3)	U.S. Equities	4.1	3.0
Industrials	(0.3)	-	Global Equities	0.8	2.0
Consumer Staples	-	(0.2)	Other Assets, Net of Liabilities	8.4	9.8
Financials	(0.1)	(0.3)			
			<b>Short Positions</b>		
			Canadian Equities	(0.7)	(0.8)
			U.S. Equities	0.0	-

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

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**UNAUDITED**

### **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 June 30 between the Fund's net assets for financial reporting ("Net Assets") and the Fund's net assets for purposes other than financial reporting, such as 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.

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**

	Less than 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	Beyond 5 years (\$)	Non- Interest Bearing (\$)
<b>Financial Assets</b>					
Equities - Long	-	-	-	-	54,097,131
Bonds	-	-	544,500	387,321	-
Other receivables	244,589	-	-	-	-
Cash and cash equivalents	4,957,659	-	-	-	-
<b>Total</b>	<b>5,202,248</b>	<b>-</b>	<b>544,500</b>	<b>387,321</b>	<b>54,097,131</b>
<b>Liabilities</b>					
Equities - Short	-	-	-	-	(402,214)
Other liabilities	(220,038)	-	-	-	-
<b>Total</b>	<b>(220,038)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(402,214)</b>

**December 31, 2010**

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

166 data points (2010 – 160 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	\$2,071,080	\$2,415,486

The historical correlation may not be representative of the future correlation, and accordingly the impact on Net Assets could be materially different.

**(V) Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. The Fund may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

Currencies to which the Fund had exposure as at June 30, 2011 and December 31, 2010, are as follows:

Currencies	As at June 30, 2011		As at December 31, 2010	
	Financial Instruments (\$)	Percentage of Net Assets (%)	Financial Instruments (\$)	Percentage of Net Assets (%)
United States Dollar	2,340,955	3.93	925,015	1.33

The amounts in the above table are based on the fair value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets and financial liabilities that are denominated in foreign currencies do not expose the Fund to significant currency risk.

As at June 30, 2011, 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 \$117,048 (December 31, 2010 - \$46,000).

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 June 30, 2011 and December 31, 2010.

**June 30, 2011**

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Assets</b>				
Equity securities	53,973,291	123,840	-	54,097,131
Bonds	-	931,821	-	931,821
<b>Total assets</b>	<b>53,973,291</b>	<b>1,055,661</b>	<b>-</b>	<b>55,028,952</b>
<b>Liabilities</b>				
Equity securities sold short	(402,214)	-	-	(402,214)
<b>Total liabilities</b>	<b>(402,214)</b>	<b>-</b>	<b>-</b>	<b>(402,214)</b>

**December 31, 2010**

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

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Manager does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment-grade corporate bonds and restricted securities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

There were no movements between levels during the 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:

	2011	2010
Balance at January 1	2,646,274	3,594,566
Units issued for cash	7,001	12,397
Units redeemed	<u>(285,776)</u>	<u>(667,192)</u>
Units issued and outstanding at June 30	<u>2,367,499</u>	<u>2,939,771</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

On January 1, 2011, the Fund began charging a management fee. The Management Fee paid by the Fund to the Manager is up to 1% per annum of the Net Asset Value of the Fund, calculated daily and payable monthly.

The Fund pays to the Manager a performance fee (the "Performance Fee") based on an amount equal to 20% of the Fund's net gain for each period (including net unrealized capital gains, if any), subject to reduction for prior period losses that have not previously been offset against net gains. The Performance Fee will be accrued weekly and paid on a semi-annual basis.

Notwithstanding the foregoing, no Performance Fee will be payable with respect to any period unless the Net Asset Value at the end of such period exceeds the Net Asset Value at the end of the preceding period by a minimum of 5% per annum.

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 period ended June 30, 2011 were \$92,235 (2010 - \$69,410).

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
June 30, 2011	\$25.27	\$(0.09)	\$25.18
December 31, 2010	\$26.38	\$(0.06)	\$26.32

## 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 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 Funds' current accounting policies and those it expects to apply under IFRS, as well as impacts to any accounting policy and implementation decisions, internal controls, information systems and training. Based on management's review of the differences between Canadian GAAP and IFRS, it is not expected that there would be an impact to the Fund's net asset value or net assets per unit. Management has presently determined that the impact of IFRS to the financial statements would be limited to additional note disclosures and modifications to presentation including unitholder interests. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

## **FUND INFORMATION**

### **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**

BMO Nesbitt Burns  
1 First Canadian Place, 50<sup>th</sup> Floor  
Toronto, ON M5X 1H3

### **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**  
C A P I T A L

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)

VANCOUVER | CALGARY | TORONTO | MONTRÉAL