Financial statements of

# Ravensource Fund

June 30, 2011 and 2010

# Ravensource Fund

June 30, 2011 and 2010 (Unaudited)

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# MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements have been prepared by **Stornoway Portfolio Management Inc.** in its capacity as the Investment Manager of the Trust. The Trust's Investment Manager is responsible for the information and representations contained in these financial statements.

The Investment Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgements made by the Investment Manager. The significant accounting policies which the Investment Manager believes are appropriate for the Trust are described in Note 2 to the unaudited interim financial statements.

**On behalf of the Investment Manager**

Scott Reid

August 23rd, 2011
**Date**

# NOTICE TO UNITHOLDERS

**The Auditors of the Trust have not reviewed these financial statements.**

Computershare Trust Company of Canada, the Trustee of the Trust, appointed an independent auditor, who was confirmed by the unitholders, to audit the Trust's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Trust's interim financial statements, this must be disclosed in an accompanying notice.

# Ravensource Fund

Statement of operations
For the six month period ended June 30 (Unaudited)

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| **Investment income** | | |
| Interest | 332,375 | 166,303 |
| Dividends and income trust distributions | 148,895 | 100,183 |
| | 481,270 | 266,486 |
| **Expenses** | | |
| Incentive fee (Note 3b) | 90,627 | - |
| Management fees (Note 3a) | 56,950 | 43,092 |
| Administrative fees (Note 3c) | 30,666 | 23,234 |
| Trust administration and transfer agency fees | 14,474 | 13,000 |
| Audit fees | 13,285 | 12,696 |
| Listing fees | 10,662 | 10,000 |
| Other expenses | 10,635 | 12,440 |
| Accounting fees | 10,102 | 8,919 |
| Investor relations fees (Note 3d) | 7,378 | 6,300 |
| Legal fees | 4,463 | 5,556 |
| Interest on overdraft | 500 | 153 |
| Custodian fees | - | 233 |
| | 249,742 | 135,623 |
| Net investment income | 231,528 | 130,863 |
| Realized and unrealized gain (loss) on investments | | |
| Transaction costs | (4,759) | (24,287) |
| Net realized gain on investments, including foreign exchange adjustments | 1,015,066 | 1,181,631 |
| Net change in unrealized gain (loss) on investments | (605,240) | 373,652 |
| Net gain on investments | 405,067 | 1,530,996 |
| **Increase in net assets from operations** | 636,595 | 1,661,859 |
| **Average number of units outstanding during the period** | 1,492,478 | 1,424,016 |
| **Increase in net assets from operations per unit** | 0.43 | 1.17 |

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

# Ravensource Fund

## Statement of net assets

| | As at June 30, 2011 (Unaudited) | As at December 31, 2010 (Audited) |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Due from Broker | 4,625,790 | 555,297 |
| Investments at fair value (Cost: $13,736,097; 2010 - $13,161,602) | 14,391,021 | 14,415,135 |
| Interest and dividends receivable | 88,513 | 109,423 |
| | 19,105,324 | 15,079,855 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | 69,605 | 58,640 |
| Incentive, management and administrative fees payable | 97,851 | 137,261 |
| | 167,456 | 195,901 |
| **Net assets** | 18,937,868 | 14,883,954 |
| **Number of units outstanding (Note 5)** | 1,780,020 | 1,424,016 |
| **Net asset value per unit** | 10.64 | 10.45 |

Approved on behalf of the Trust

Scott Reid Investment Manager
Stornoway Portfolio Management Inc.

# Ravensource Fund

Statement of changes in net assets
For the six month period ended June 30 (Unaudited)

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| **Net assets, beginning of period** | 14,883,954 | 11,402,449 |
| Increase in net assets from operations | 636,595 | 1,661,859 |
| Unitholder transactions | | |
| Issuance of units (Note 5) | 3,577,521 | - |
| Distributions (Note 4d) | (160,202) | (128,161) |
| | 3,417,319 | (128,161) |
| Increase in net assets | 4,053,914 | 1,533,698 |
| **Net assets, end of period** | 18,937,868 | 12,936,147 |

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

# Ravensource Fund

Statement of investment portfolio
As at June 30, 2011 (Unaudited)

| Number of shares/units | Investments, owned | Average cost | Fair value | Fair value as % of net assets |
|---|---|---|---|---|
| | | $ | $ | |
| **Canadian equities** | | | | |
| 17,099 | Aecon Group Inc. | **128,247** | **137,988** | **0.73%** |
| 80,000 | Canwel Holdings Corp. | **304,000** | **244,000** | **1.29%** |
| 168,100 | Chinook Energy Inc. | **371,779** | **284,088** | **1.50%** |
| 98,500 | Cinram Intl. Income Fund | **556,796** | **34,475** | **0.18%** |
| 30,000 | Clairvest Group Inc. | **373,341** | **448,500** | **2.37%** |
| 1,086,000 | Coalcorp Mining Inc. | **120,344** | **146,610** | **0.77%** |
| 150,000 | Compass Petroleum Ltd | **217,500** | **237,000** | **1.25%** |
| 200,000 | Connacher Oil & Gas Ltd | **234,000** | **208,000** | **1.10%** |
| 40,000 | Fiera Sceptre Inc. | **173,300** | **290,000** | **1.53%** |
| 140,375 | Glacier Media Inc. | **368,989** | **321,459** | **1.70%** |
| 21,100 | GVIC Comm - Class B | **17,091** | **9,917** | **0.05%** |
| 22,500 | GVIC Comm - Class C | **18,045** | **10,237** | **0.05%** |
| 27,900 | Indigo Books & Music Inc. | **141,639** | **357,120** | **1.89%** |
| 23,600 | Investis U.S. Inc. | **77,880** | **77,880** | **0.41%** |
| 334,619 | Jannock Properties Ltd | **15,392** | **-** | **0.00%** |
| 15,000 | Jovian Capital Corp. | **124,850** | **115,050** | **0.61%** |
| 88,600 | March Networks | **366,772** | **478,440** | **2.53%** |
| 7,400 | McGraw-Hill Ryerson Ltd. | **286,832** | **325,600** | **1.72%** |
| 250,000 | Pier 1 Network Enterprise | **275,969** | **412,500** | **2.18%** |
| 248,033 | PlazaCorp Retail Properties Ltd. | **297,640** | **1,093,826** | **5.78%** |
| 50,000 | Sonde Resources Corp. | **173,000** | **149,000** | **0.79%** |
| 283,100 | Supremex Inc. | **644,896** | **594,510** | **3.14%** |
| 125,000 | Ten Peaks Coffee Co Inc. | **372,598** | **337,500** | **1.78%** |
| 15,000 | Trilogy Energy Corp. | **140,043** | **355,800** | **1.88%** |
| 140,000 | Tuscany International Drilling Inc. | **225,414** | **126,000** | **0.67%** |
| 231,800 | Village Farms Income Fund | **540,544** | **287,432** | **1.52%** |
| 500,000 | Westaim Corp. | **250,000** | **250,000** | **1.32%** |
| 45,400 | Winpak Ltd | **295,252** | **551,610** | **2.91%** |
| | | **7,112,153** | **7,884,542** | **41.63%** |
| **U.S. equities** | | | | |
| 13,157 | Quad Graphics | **617,895** | **492,521** | **2.60%** |
| 1,323,256 | SeaCo Ltd | **668,430** | **791,130** | **4.18%** |
| | | **1,286,325** | **1,283,651** | **6.78%** |

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

# Ravensource Fund

Statement of investment portfolio (continued)
As at June 30, 2011 (Unaudited)

| Number of shares/units | Investments, owned | Average cost | Fair value | Fair value as % of net assets |
|---|---|---|---|---|
| | | $ | $ | |
| **Fixed income** | | | | |
| | Crystallex International Corp. | | | |
| 1,250,000 | 9.375% due Dec 30, 2011 | **638,304** | **747,333** | **3.95%** |
| | Delphi Holdings Corp. | | | |
| 1,000,000 | 6.55% due June 15, 2006 ** | **732,498** | **22,902** | **0.12%** |
| | First Metals Inc. | | | |
| 84,504 | 5% due August 2011 ** | **47,152** | **-** | **0.00%** |
| | First Uranium Corp. | | | |
| 1,000,000 | 4.25% due Jun 30, 2012 | **753,250** | **764,000** | **4.03%** |
| | Holloway Lodging REIT | | | |
| 886,000 | 6.5% due Jun 30, 2012 | **549,293** | **646,780** | **3.42%** |
| | MEGA Brands Inc. | | | |
| 200,000 | 10% due Mar 31, 2015 | **168,000** | **208,060** | **1.10%** |
| | Tuckamore Capital Management Inc. | | | |
| 1,281,000 | 8% due Mar 23, 2016 | **1,088,850** | **1,024,800** | **5.41%** |
| | Tuckamore Capital Management Inc. | | | |
| 126,288 | 3.624% due Mar 23, 2014 | **126,288** | **59,987** | **0.32%** |
| | Specialty Foods Group | | | |
| 1,400,000 | 8% due Dec 2011 | **1,199,834** | **1,687,525** | **8.91%** |
| | | **5,303,469** | **5,161,387** | **27.25%** |
| **Warrants** | | | | |
| | First Metals Inc. | | | |
| 60,000 | Expiry - July 2012 | **300** | **-** | **0.00%** |
| 160,000 | MEGA Brands Inc. | **32,000** | **28,800** | **0.15%** |
| 14,623 | Solutia Inc. | **-** | **29,753** | **0.16%** |
| 82,500 | Tuscany International Drilling Inc. | **1,852** | **2,888** | **0.02%** |
| | | **34,152** | **61,441** | **0.32%** |
| Net investments owned | | **13,736,099** | **14,391,021** | **75.99%** |
| Brokerage commission | | **(17,283)** | **-** | **0.00%** |
| Total Portfolio of Investments | | **13,718,816** | **14,391,021** | **75.99%** |
| Cash | | **4,625,790** | **4,625,790** | **24.43%** |
| Other net assets (liabilities) | | **(78,943)** | **(78,943)** | **-0.42%** |
| **Net assets** | | **18,265,663** | **18,937,868** | **100.00%** |

** Defaulted Bonds

## 1. Trust organization and nature of operations

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust, dated April 28, 1997 as amended January 15, 2001 and as further amended and restated as of August 22, 2003 and as of July 1, 2008 (the "Declaration of Trust"). The Trust's units are listed on the Toronto Stock Exchange ("RAV.UN").

Computershare Trust Company of Canada (the "Trustee") acts as trustee for the Trust. At a special meeting of the Trust's unitholders, Stornoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager ("Investment Manager") of the Trust, effective July 1, 2008.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest and reinvest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 227,888 (2010 – 141,328) units representing 12.8% (2010 – 9.93%) of the outstanding units as at June 30, 2011.

The capital of the Trust is represented by the net asset value of the Trust, and comprises mainly of investments. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. The Trust will invest its property primarily in North American high yield and distressed debt securities, and in small capitalization equity securities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors including liquidity risk, market risks, investment in options, and leverage from borrowed funds.

## 2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The following is a summary of the significant accounting policies followed by the Trust:

*a) Valuation of investments*

The Trust's investments are presented at fair value determined as follows:

ii) Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation date. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities and interest rates.

iii) Securities not listed upon a recognized public stock exchange are valued using valuation techniques which take into account market factors, valuation of similar securities and interest rates.

iii) Short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments are valued at bid quotations from recognized investment dealers.

*b) Investment transactions and income recognition*

Purchases and sales of securities are recorded on a trade date basis. Interest income is recognized on an accrual basis; however no accrual is made on defaulted bonds. Dividend income (including distributions from income funds) is recognized at the ex-dividend date. Net realized gains (losses) on the sale of investments include net realized gains or losses from foreign currency changes and are based on weighted average cost.

**2. Summary of significant accounting policies (continued)**

*c) Income tax*

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Fund to distribute all of its net income and sufficient net realized capital gains so that the Fund will not be subject to income taxes.

*d) Foreign currency translation*

Investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the exchange rates at the period end date. Purchases and sales of investments and income derived from investments are translated at the exchange rate prevailing on the respective dates of such transactions. The Trust does not separately report the effects of changes in foreign exchange rates from changes in market prices on investments held. Such changes are included in net realized gain or net change in unrealized appreciation on investments.

*e) Transaction costs*

Transaction costs are expensed and are included in the Statements of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of an investment, which include fees and commission paid to agents, advisors, brokers, and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

*f) Use of estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets (primarily with respect to less liquid investments) and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**3. Related party transactions**

*a) Management fees*

The management fee payable to the Investment Manager is based on the Trust's average weekly net assets at the end of each week and payable on the last business day of each calendar month as follows:

| Average weekly net assets | Management fee |
|---|---|
| Up to and including $250 million | 0.65% of Net Asset Value plus HST |
| Between $250 million and $500 million | 0.60% of Net Asset Value plus HST |
| $500 million and more | 0.55% of Net Asset Value plus HST |

*b) Incentive fee*

An incentive fee will be payable to the Investment Manager in any period, equal to 20% of the amount by which the net asset value per unit at the end of the period, adjusted for contributions, distributions, and redemptions during the period, exceeds the net asset value per unit at the beginning of the period by more than 5%, plus any shortfall from prior period. This fee is accrued monthly but calculated and paid annually. Incentive fee payable for 2011 amounted to $90,627. No fees were payable for 2010.

*c) Administrative fees*

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets at the end of each week and payable on the last business day of each calendar month as follows:

**3. Related party transactions (continued)**

c) *Administrative fees (continued)*

| Average weekly net assets | Administrative fee |
|---|---|
| Up to and including $250 million | 0.35% of Net Asset Value plus HST |
| Between $250 million and $500 million | 0.30% of Net Asset Value plus HST |
| $500 million and more | 0.25% of Net Asset Value plus HST |

d) *Investor relations fees*

The Investment Manager is paid a monthly investor relations fee of $1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fee for 2011 amounted to $7,378 (2010: $6,300).

e) *Other related party transactions*

A member of the Trust's investment committee is a unitholder in the Trust. At June 30, 2011, such member held 724,390 (2010 – 565,394) units approximately representing 40.70% (2010 – 39.70%) of the units of the Trust. All transactions were executed on the Toronto Stock Exchange or on exercise of rights (see Note 5) on an arm's length basis. The units held by the Investment Manager and its affiliates in the trust are disclosed in Note 1.

**4. Unitholders' entitlements**

The Unitholders' entitlements with respect to the net assets and distribution of income are generally as follows:

a) *Entitlement in respect of net assets*

A pro-rata share of the net assets of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

b) *Tax designations and elections*

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

c) *Redemption of units*

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable Annual Redemption Date, being the valuation date following August 31 in any period, subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding at net asset value as of the Annual Redemption Date.

d) *Distributions*

The Trust intends to make semi-annual distributions to unitholders of record as of the last Valuation Date of each of June and December in each calendar period, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that period, net of any tax losses brought forward from prior periods.

During the period, the Trust made a distribution on June 30, 2011 of $0.09 (June 30, 2010 – $0.09) per unit for a total amount of $160,202 (June 30, 2010 – $128,161).

The Trust has cumulative net capital losses of $20,334,498 as of December 31, 2010 (December 31, 2009 - $21,464,051) for income tax purposes that may be carried forward and applied to reduce future net capital gains. The Trust has non-capital losses of $nil (2009 - $297,659) for income tax purposes that may be carried forward up to 20 years to offset future net income and realized capital gains.

## 5. Units of the Trust

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net asset value per unit calculated on the redemption date.

On May 31, 2011, the Trust issued 356,004 units, being 25% of the units outstanding immediately prior to the issuance, pursuant to a fully subscribed rights offering to unitholders of record as at April 29, 2011. The units were issued at a price of $10.33, being 94.4% of the net asset value per unit on April 14, 2011. The dilutive impact from the issuance of units at a discount to net asset value plus associated expenses amounted to approximately 15 cents per unit. In accordance with applicable accounting standards, the expenses associated with the issuance have been accounted for as a direct reduction in net assets and are not reflected in the Statement of Operations as these expenses are not part of the ordinary course operations of the Trust. The terms of the rights offering are set forth in the Rights Offering Circular, dated April 21, 2011, which is available at www.sedar.com.

| | **2011** | 2010 |
|---|---|---|
| Units, Beginning of period | **1,424,016** | 1,424,016 |
| Sale of units | **356,004** | - |
| Units, End of period | **1,780,020** | 1,424,016 |

## 6. Expenses

The Investment Manager has the power to incur and make payment out of the Trust property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

## 7. Indemnification of the Investment Manager

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Managers' wilful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the periods ended June 30, 2011 and 2010.

## 8. Financial instruments risk management

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk, and other price risk). The value of investments within the Trust portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

*a) 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 the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the credit worthiness of the issuer, and accordingly, represents the majority of the credit risk exposure of the Trust.

**8. Financial instruments risk management (continued)**

a) *Credit risk (continued)*

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at June 30, 2011, the Trust's credit exposure is primarily to high yield bonds which are unrated (99.6% of the total debt portfolio of $5.1 million) (2010 – 85.3% of the total debt portfolio of $2.8 million) and the remaining debt portfolio comprising of defaulted bonds.

b) *Liquidity risk*

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

The Trust's exposure to liquidity risk primarily relates to annual redemption of units. Other than the high yield and defaulted bonds, the Trust primarily invests in equity securities that are traded in active markets and can be readily disposed of. In addition, the Trust retains sufficient cash to maintain liquidity.

c) *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 Trust invests in interest-bearing financial instruments. The Trust 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 no sensitivity to interest rate fluctuations on any cash balances.

As the Trust has significant exposure to high yield and defaulted bonds with no exposure to government bonds, its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. However, high yield bonds do have a degree of interest rate risk which is illustrated in the table below.

As at June 30, 2011, the Trust's exposure to debt instruments by maturity and the impact on its net asset value if the yield curve is shifted in parallel by increase of 25 basis points, holding all other variables constant ("sensitivity"), is as follows:

| Maturity date | 2011 CAD $ * | 2010 CAD $ * |
|---|---|---|
| < 1 year | **3,845,638** | **-** |
| 1-3 years | **59,987** | **2,127,829** |
| 3-5 years | **1,232,860** | **244,052** |
| Sensitivity to 25bps yield change will increase or decrease net assets by | **$ 14,720** | **$ 188,164** |

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

**8. Financial instruments risk management (continued)**

*d) 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 Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies. Other currencies to which the Trust had exposure as at June 30, 2011, are as follows:

| | CAD $ | % of NAV |
|---|---|---|
| United States dollar | 3,645,262 | 19.25 |

June 30, 2010

| | CAD $ | % of NAV |
|---|---|---|
| United States dollar | 2,975,621 | 23.05 |

As at June 30, 2011, if the Canadian dollar had strengthened or weakened by 1 percent in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately 0.19% ($36,453) (2010 – 0.23% ($29,756)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

*e) Other price risk*

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk, credit risk or currency risk). All investments represent a risk of loss of capital. The Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

As at June 30, 2011, 48.74% (2010 – 68.04%) of the Trust's net assets were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the period end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately 4.87% ($922,964) (2010 – 6.80% ($880,173)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

**9. Fair value measurements**

The following table presents the Trust's financial instruments that have been measured at fair value, on a recurring basis, as at June 30, 2011.

| June 30, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Due from brokers | 4,625,790 | - | - | 4,625,790 |
| Investments | | | | |
| Bonds | 3,473,862 | - | 1,687,525 | 5,161,387 |
| Equities | 9,090,313 | - | 77,880 | 9,168,193 |
| Warrants | 61,441 | - | - | 61,441 |
| | 12,625,616 | - | 1,765,405 | 14,391,021 |
| Total | 17,251,406 | - | 1,765,405 | 19,016,811 |

The following table presents the Trust's financial instruments that have been measured at fair value, on a recurring basis, as at December 31, 2010.

| December 31, 2010 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Due from brokers | 555,297 | - | - | 555,297 |
| Investments | | | | |
| Bonds | 2,449,372 | - | 1,392,440 | 3,841,812 |
| Equities | 10,488,753 | - | - | 10,488,753 |
| Warrants | 84,570 | - | - | 84,570 |
| | 13,022,695 | - | 1,392,440 | 14,415,135 |
| Total | 13,577,992 | - | 1,392,440 | 14,970,432 |

**10. Future accounting standards**

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Boards, on or by January 1, 2011. However, the AcSB has announced that the effective date for investment funds to adopt IFRS is deferred to January 1, 2013. The Trust will adopt the International Financial Reporting Standards in accordance with AcSB's plan. The impact of the adoption of these standards is not known at this time.

**11. Capital disclosures**

The Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions as detailed in the offering document. Information about the capital is described In the Statement of changes in net assets and the Trust does not have externally imposed capital requirements.