

# **ABC Fundamental Value Fund**

Financial Statements  
**December 31, 2009**

March 29, 2010

PricewaterhouseCoopers LLP  
Chartered Accountants  
PO Box 82  
Royal Trust Tower, Suite 3000  
Toronto Dominion Centre  
Toronto, Ontario  
Canada M5K 1G8  
Telephone +1 416 863 1133  
Facsimile +1 416 365 8215

## Auditors' Report

### To the Unitholders of ABC Fundamental Value Fund

We have audited the statement of investment portfolio of **ABC Fundamental Value Fund** (the Fund) as at December 31, 2009, the statements of net assets as at December 31, 2009 and 2008 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Trustee and the Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants

# ABC Fundamental Value Fund

Statements of Net Assets

As at December 31

	2009	2008
	\$	\$
<b>Assets</b>		
<b>Investments</b> - at fair value (cost - \$635,031,225; 2008 - \$642,716,000)	530,528,198	388,229,301
<b>Cash</b>	2,646,170	7,661,238
<b>Due from unitholders</b>	638,246	1,562,788
<b>Due from brokers</b>	592,610	-
<b>Interest and dividends receivable</b>	705,213	1,834,402
	<u>535,110,437</u>	<u>399,287,729</u>
<b>Liabilities</b>		
<b>Distributions payable</b>	-	174,314
<b>Management fee payable</b>	942,127	703,823
<b>Due to unitholders</b>	5,294,094	10,178,822
<b>Accrued liabilities</b>	1,912	900
	<u>6,238,133</u>	<u>11,057,859</u>
<b>Net Assets</b>	<u>528,872,304</u>	<u>388,229,870</u>
<b>Unitholders' Equity</b>		
36,479,072 (2008 - 39,818,328) units issued and outstanding (note 7)	<u>528,872,304</u>	<u>388,229,870</u>
<b>Net assets per unit</b>	<u>14.50</u>	<u>9.75</u>

Approved on Behalf of the Trustee, RBC Dexia Investor Services Trust

\_\_\_\_\_  
Trustee

\_\_\_\_\_  
Trustee

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

# ABC Fundamental Value Fund

## Statements of Operations

For the years ended December 31

	2009	2008
	\$	\$
<b>Investment income</b>		
Dividends (net of foreign withholding taxes of \$594,541; 2008 - \$1,269,777)	7,725,995	11,207,838
Interest and other income	2,747,461	7,523,705
	<u>10,473,456</u>	<u>18,731,543</u>
<b>Expenses (note 5)</b>		
Management fee	9,138,269	13,581,155
Transaction costs (note 2)	1,247,931	729,056
Transaction and administration fees	35,617	62,355
Interest	17,353	67,853
	<u>10,439,170</u>	<u>14,440,419</u>
<b>Net investment income for the year</b>	34,286	4,291,124
<b>Net realized gain (loss) on sale of investments and foreign exchange (note 9)</b>	26,729,554	(79,453,545)
<b>Change in unrealized appreciation (depreciation) in value of investments</b>	149,983,672	(255,588,768)
<b>Change in unrealized gain (loss) on foreign currency translation</b>	15,217	(14,086)
<b>Increase (decrease) in net assets from operations</b>	<u>176,762,729</u>	<u>(330,765,275)</u>
<b>Increase (decrease) in net assets from operations per unit (note 2)*</b>	<u>4.66</u>	<u>(7.72)</u>

\*Based on weighted average units outstanding during the year.

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

# ABC Fundamental Value Fund

## Statements of Changes in Net Assets

For the years ended December 31

---

	2009	2008
	\$	\$
<b>Increase (decrease) in net assets from operations</b>	176,762,729	(330,765,275)
<b>Capital unit transactions</b>		
Proceeds on sale of units issued for cash	21,180,483	30,088,388
Distributions to unitholders:		
Net investment income	-	(4,083,457)
Reinvestments	-	3,565,584
Redemptions	(57,300,778)	(98,041,670)
	(36,120,295)	(68,471,155)
<b>Increase (decrease) in net assets during the year</b>	140,642,434	(399,236,430)
<b>Net assets - Beginning of year</b>	388,229,870	787,466,300
<b>Net assets - End of year</b>	528,872,304	388,229,870

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

## ABC Fundamental Value Fund

Statement of Investment Portfolio

As at December 31, 2009

Description	Number of shares/units	Cost \$	Fair value \$	Percent of net assets %
<b>Common Stocks</b>				
<b>Energy</b>				
Alange Energy Corp.	24,000,000	11,858,787	15,120,000	
Anderson Energy Ltd.	6,500,000	22,592,707	7,540,000	
Avenir Diversified Income Trust	128,800	1,442,017	628,544	
BlackPearl Resources Inc.	3,280,000	16,728,000	8,298,400	
Daylight Resources Trust	2,500,000	20,647,913	25,425,000	
Essential Energy Services Trust	3,100,000	18,596,548	3,317,000	
Ithaca Energy Inc.	10,000,000	18,743,018	14,700,000	
Midnight Oil Exploration Ltd.	4,500,000	16,397,630	4,500,000	
Pengrowth Energy Trust	1,250,000	12,838,124	12,650,000	
Pioneer Natural Resources Co.	150,000	8,834,600	7,574,852	
Precision Drilling Trust	1,465,718	27,947,192	11,139,457	
Stratic Energy Corp.	12,698,499	15,796,316	2,095,252	
<b>Total Energy</b>		<b>192,422,852</b>	<b>112,988,505</b>	<b>21.36</b>
<b>Materials</b>				
Argonaut Gold Inc.	3,500,000	10,500,000	11,375,000	
Argonaut Gold Inc., Warrants (30Nov12)	1,750,000	-	840,000	
Canam Group Inc., Class A	2,825,000	29,454,986	19,916,250	
Polaris Minerals Corp.	3,250,000	15,804,531	5,460,000	
Polaris Minerals Corp., Warrants (08Jan11)	375,000	-	60,000	
Whitemud Resources Inc.	169,000	1,334,281	72,670	
<b>Total Materials</b>		<b>57,093,798</b>	<b>37,723,920</b>	<b>7.13</b>
<b>Industrials</b>				
Aecon Group Inc.	1,250,000	13,263,495	18,712,500	
ATS Automation Tooling Systems Inc.	3,000,000	12,836,614	22,410,000	
Babcock & Brown Air Limited (ADR)	980,000	22,468,100	9,195,077	
Seaspan Corp.	1,000,000	25,670,931	9,665,786	
Westjet Airlines Ltd.	2,000,000	22,072,037	24,680,000	
<b>Total Industrials</b>		<b>96,311,177</b>	<b>84,663,363</b>	<b>16.01</b>
<b>Consumer Discretionary</b>				
Arbor Memorial Services, Class B	400,000	5,339,379	9,364,000	
Danier Leather Inc.	503,500	5,043,532	2,693,725	
Martinrea International Inc.	2,250,000	11,447,727	18,922,500	
<b>Total Consumer Discretionary</b>		<b>21,830,638</b>	<b>30,980,225</b>	<b>5.86</b>
<b>Consumer Staples</b>				
Andrew Peller Ltd.	1,095,000	4,496,601	8,541,000	
High Liner Foods Inc.	657,700	4,962,629	6,083,725	
<b>Total Consumer Staples</b>		<b>9,459,230</b>	<b>14,624,725</b>	<b>2.77</b>

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

## ABC Fundamental Value Fund

Statement of Investment Portfolio

As at December 31, 2009

Description	Number of shares/units	Cost \$	Fair value \$	Percent of net assets %
<b>Financials</b>				
American National Insurance Co.	125,000	14,063,096	15,646,622	
Blackstone Group LP	725,000	17,537,980	9,949,103	
Dundee Corp., Class A	2,000,000	22,206,280	24,040,000	
E-L Financial Corp. Ltd.	32,100	9,052,704	14,445,321	
Equitable Group Inc.	1,100,000	22,828,860	23,210,000	
Genworth MI Canada Inc.	900,000	17,084,455	24,255,000	
Huntingdon Real Estate Investment Trust	3,150,000	5,903,145	1,527,750	
Kansas City Life Insurance Co.	385,000	21,851,574	12,007,537	
Morguard Corp.	708,600	15,598,678	23,036,586	
Onex Corp.	1,100,000	27,372,500	25,872,000	
Presidential Life Corp.	860,256	20,183,414	8,251,921	
		193,682,686	182,241,840	34.46
<b>Information Technology</b>				
COM DEV International Ltd.	4,500,000	13,391,024	15,390,000	
		13,391,024	15,390,000	2.91
<b>Funds</b>				
Short-Term Investments Co Global Series -US Dollar Liquidity	1,277,073	1,390,218	1,338,820	
UBS Cash In Action Fund	505,768	50,576,800	50,576,800	
<b>Total Funds</b>		51,967,018	51,915,620	9.82
<b>Total Investment</b>		636,158,423	530,528,198	100.32
<b>Transaction Costs (Note 2)</b>		(1,127,198)	-	-
<b>Other Net Assets</b>			(1,655,894)	(0.32)
<b>Total Net Assets</b>		635,031,225	528,872,304	100.00

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

# ABC Fundamental Value Fund

Notes to Financial Statements

December 31, 2009 and 2008

---

## 1 Organization

The ABC Fundamental Value Fund (the Fund) was established under the laws of the Province of Ontario by a trust deed dated March 20, 1989 between I. A. Michael Investment Counsel Ltd. (the Manager) and RBC Dexia Investor Services Trust (the Trustee).

The investment objective of the Fund is to invest in fundamentally undervalued small, medium and large capitalization Canadian value equities.

The Fund commenced operations on March 20, 1989. These financial statements have been prepared as at and for the year ended December 31, 2009.

## 2 Summary of significant accounting policies

These 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, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Fund:

### Adoption of new accounting standards

Effective on January 1, 2009, the Fund adopted the recent amendments to CICA 3862, Financial Instruments – Disclosures. Disclosures about fair value of Financial Instruments, requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Fund's financial instruments are recorded at fair value or at amounts that approximates fair value in the financial statements.

Amendments to CICA 3862, Financial Instruments – Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows.

Level 1	Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.
Level 2	Inputs other than quoted prices that is observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
Level 3	Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

# ABC Fundamental Value Fund

## Notes to Financial Statements

December 31, 2009 and 2008

---

In January 2009, the CICA issued Emerging Issues Committee (EIC) Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC – 173). EIC – 173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC – 173 is applicable to the Fund’s annual financial statements for its fiscal year ended December 31, 2009. The adoption of EIC – 173 did not result in a significant impact on the Fund’s financial statements.

### Valuation of investments

The valuation methods adopted pursuant to Section 3855, which are discussed below, differ from methods used by the Fund in striking its net asset value (NAV) used in the processing of unitholder transactions during the year. The NAV continues to be computed following the Fund’s previous valuation policies for actively traded securities, which are that the listed securities are valued at the last reported sales price on the principal exchange on which the security trades.

For financial statement purposes, the fair value of the Fund’s investments is determined as follows:

- a) Investments are recorded at fair value, established by the closing bid price for long positions and the closing asking price for short positions on the recognized stock exchange on which they are principally traded. Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques using observable market inputs on such basis and in such manner as may be approved by the Manager, in accordance with Section 3855 methodologies.
- b) Securities not listed on any exchange are valued in the same manner as above, based on any available public quotation in common use or at a price estimated to be the fair value thereof, on such basis and in such manner as may be approved by the Manager, in accordance with Section 3855 methodologies.
- c) (Mutual fund) Investments are designated as held for trading and recorded at fair value, which is determined by the net assets per unit of each underlying fund as reported by the underlying fund Manager. Fair value is determined by the Manager on the basis of the most recently reported information for the underlying fund.

Refer to Note 8 for a comparison of the net assets per unit, used for financial reporting purposes, and the net asset value (NAV) per unit.

### Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. In accordance with Section 3855, transaction costs are expensed and are included in “Transaction costs” in the Statement of Operations. The embedded transaction costs in the cost of investment portfolio as at December 31, 2009 are disclosed in the Statement of Investment Portfolio.

# ABC Fundamental Value Fund

Notes to Financial Statements

December 31, 2009 and 2008

---

## Investment transactions

Investment transactions are accounted for on the trade date (the date the order to buy or sell is executed).

## Basis for recognizing income

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Realized gains and losses on the sale of investments and unrealized appreciation or depreciation in the value of investments are calculated with reference to the average cost of the related investments. Distributions received from investment trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts treated as a return of capital reduce the average cost of the underlying investment trust. Distributions received from mutual funds are recognized in the same form in which they are received from the underlying funds.

## Unit valuation

Fund units are issued and redeemed on a continuing basis at the NAV per unit. NAV per unit is determined on the last day of the month and on any other day selected by the Trustee (the valuation date), at the close of trading on a day that the Toronto Stock Exchange is open for trading, and remains in effect until the time at which the next determination of the NAV per unit is made. The unit valuation is made by dividing the total value of the Fund's net assets by the total number of units outstanding in the Fund.

## Foreign currency exchange

Currency conversions are made at the appropriate daily US dollar noon rate as quoted by the Bank of Canada. Revenue and expenses and investment transactions in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange prevailing on the dates of such transactions. Investments in securities at fair value, other assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end.

## Forward and spot foreign currency contracts

The Fund may enter into forward and spot foreign currency contracts to protect certain securities and related receivables and payables against fluctuations in future foreign exchange rates. A forward foreign currency contract is an agreement to buy or sell a currency of a different country on a specified future date at a specified rate. Risks associated with such contracts include the movement in the value of foreign currencies relative to the Canadian dollar and the ability of the counterparty to perform.

The fair value of the forward foreign currency contracts will fluctuate with changes in currency exchange rates. Forward foreign currency contracts are valued based on procedures established by and under the general supervision of the Fund's Trustee and the change in fair value is recorded by the Fund as unrealized appreciation or depreciation of foreign currency translation. As at December 31, 2009, the Fund had no open forward foreign currency contracts (2008 - nil).

# ABC Fundamental Value Fund

Notes to Financial Statements

December 31, 2009 and 2008

---

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

Increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding for the year.

## **3 Fair Value**

The Fund's financial instruments may include equity instruments, short-term investments (collectively referred to as investments), currency forward contracts, cash, interest and dividends receivable, due to and from unitholders, receivables for securities sold, payables for securities purchased, distributions payable and accrued liabilities. Investments and currency forward contracts are valued at fair value using the policies described in Note 2. All other financial instruments are carried at amortized cost. The fair value of financial instruments other than investments and currency forward contracts closely approximates their carrying values, given their short-term maturities.

## **4 Income taxes**

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to taxes on its income, including net realized capital gains, for the fiscal year, which is not paid or payable to its unitholders as at the end of the fiscal year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains realized will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized.

The Fund has \$50,901,037 (2008 - \$79,686,631) of capital losses available to offset capital gains in future years.

## **5 Expenses**

The Fund is charged a monthly management fee by the Manager. The monthly fee is calculated at the rate of one-twelfth of 2% of the NAV of the Fund on the monthly valuation date plus GST. This fee covers all expenses of the Fund, except brokerage and portfolio transaction charges, taxes and interest incurred by the Fund.

The Manager pays all expenses relating to the management, operation and administration of the Fund, including bookkeeping charges; accounting, legal and audit fees; registry and transfer agency services; printing expenses and filing fees; all services required in connection with the provision of information to unitholders; and custodial charges. The Fund pays for brokerage fees; other fees and disbursements relating to the implementation of transactions for the portfolios of the Fund; any taxes payable by the Fund or to which the Fund may be subject; and any interest expense incurred by the Fund.

No performance fees were paid in 2009 and 2008.

# ABC Fundamental Value Fund

Notes to Financial Statements

December 31, 2009 and 2008

---

## 6 Soft dollar commissions

The soft dollar commissions, if any, paid to brokers in connection with investment portfolio transactions for the year ended December 31, 2009 (2008 - \$nil) are negligible. Soft dollar commissions relate to amounts paid in exchange for research or other services.

## 7 Unitholders' Equity

The Fund has no restrictions or specific capital requirements on the subscription and redemptions of units. In accordance with the objectives and the risk management policies outlined in the Financial Risk Management notes (Note 10), the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being managed by investing the majority of assets in investments that can be readily disposed.

The Fund is authorized to issue an unlimited number of units, which are sold and redeemable at the then current net asset value per share at the option of the unitholder. Unitholders have the right to require the Fund to repurchase their shares at the then current net asset value.

The following is a summary of the changes in the Fund's outstanding units during the year:

	2009	2008
Balance - Beginning of year	39,818,328	44,521,956
Issued for cash	1,990,242	2,049,502
Distributions reinvested	(217)	376,932
Redeemed for cash	(5,329,281)	(7,130,062)
	<hr/>	<hr/>
Balance - End of year	36,479,072	39,818,328

## 8 Comparison of net assets per unit and net asset value per unit

The primary reason for the difference between the net asset value and the net assets per unit is described in Note 2.

	2009	2008
Net assets per unit	\$ 14.50	\$ 9.75
Net asset value per unit	14.60	9.86

# ABC Fundamental Value Fund

Notes to Financial Statements

December 31, 2009 and 2008

---

## 9 Net realized gain (loss) on sale of investments and foreign exchange

	2009	2008
	\$	\$
Proceeds on sale of investments	499,908,422	456,238,456
Less: Cost of investments sold		
Investments owned - Beginning of year	642,716,000	795,126,882
Return of capital - Prior year adjustment	631,036	834,716
Investments purchased	464,291,258	384,406,539
Investments owned - End of year	(635,031,225)	(642,716,000)
Cost of investments sold	472,607,069	537,652,137
Realized gain (loss) on investments	27,301,353	(81,413,681)
Foreign exchange gain (loss)	(571,799)	1,960,136
Net realized gain (loss) on foreign investments and foreign exchange	26,729,554	(79,453,545)

## 10 Financial risk management

The Fund's financial instruments consist of cash, investments, short-term receivables and payables. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include market risk (including interest rate risk, other price risk and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk). The investments of the Fund ("securities held for trading") are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through diversification of the investment portfolio. The Investment Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges. Other price risk arising from underlying funds is considered negligible as the majority of the underlying funds' assets and liabilities are short-term in nature and therefore not subject to significant market fluctuations.

At December 31, 2009, the overall market exposures were as follows:

# ABC Fundamental Value Fund

## Notes to Financial Statements

December 31, 2009 and 2008

	At December 31, 2009		At December 31, 2008	
	Fair Value	% Net Assets	Fair Value	% Net Assets
Securities held for trading	\$ 530,528,198	100.31%	\$ 388,229,301	100.00%

If the S&P 500 equity index at December 31, 2009 had increased by 5%, with all other variables held constant, this would have increased net assets by approximately \$26,526,410 (2008 - \$19,411,000). Conversely, if the S&P 500 equity index had decreased by 5% this would have decreased net assets by approximately \$26,526,410 (2008 - \$19,411,000).

### Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing level of market interest rates. As at December 31, 2009, interest rate risk was negligible as the Fund had no significant exposure to long-term interest-bearing investments.

### Currency risk

The Fund holds financial assets and liabilities denominated in currencies other than the Canadian dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The Fund may enter into forward contracts to manage this risk.

As December 31, 2009, had the exchange rate between the Canadian dollar and the foreign currencies the fund is exposed to increased or decreased by 5%, with all other variables held constant, the increase or decrease respectively in net assets would approximately amount to values as disclosed in the table below.

### Exchange rate sensitivity - Foreign Currency Net Assets

#### December 31, 2009

	Total Exposure (\$)	Percent of Net Assets	5% Increase	5% Decrease
US Dollar	73,679,842	13.93%	0.70%	(0.70%)

#### December 31, 2008

	Total Exposure (\$)	Percent of Net Assets	5% Increase	5% Decrease
US Dollar	113,026,491	29.11%	1.46%	(1.46%)
Australian Dollar	1,587,985	41.00%	0.02%	(0.02%)

The Fund was exposed to indirect currency risk to the extent the underlying funds invest in financial instruments denominated in foreign currencies. Exposure to currency risk is managed at the underlying fund

# ABC Fundamental Value Fund

Notes to Financial Statements

December 31, 2009 and 2008

---

level. Approximately nil% (2008 – 6.40%) of the Fund's net assets were exposed to currency risk. If the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other factors remaining constant, net assets would have increased or decreased by approximately \$nil (2008 - \$1,243,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## **Credit risk**

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. Financial instruments that potentially subject the Fund to a concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, and long-term investments. The Fund limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality government and financial institutions. To maximize the credit quality of its investments, the Fund's managers perform ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information.

As at December 31, 2009, the Fund's direct exposure to credit risk was negligible as the Fund had no significant exposure to debt or derivative instruments. The Fund was exposed to indirect credit risk to the extent the underlying funds invest in such instruments. Approximately 9.56% (2008 – 7.00%) of the Fund's net assets were exposed to credit risk. This risk is managed at the underlying fund level.

## **Liquidity risk**

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Fund invests primarily in securities that are traded in active markets and can be readily disposed. The Fund may, from time to time, invest in derivative contracts traded over the counter or in unlisted securities, which are not traded in an organized market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. No such investments were held at the balance sheet date. In addition, the Fund retains sufficient cash and cash equivalents to maintain liquidity. The underlying funds invest the majority of their assets in investments that are traded in an active market and can be readily disposed. Liquidity risk is considered negligible.

## **11 Comparative figures**

Certain 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted per the current year.

## **12 Exemption from regulatory filing**

In accordance with Section 2.11(c) of National Instrument 81-106 (NI 81-106), I. A. Michael Investment Counsel Ltd., as administrator to the Fund, has provided notice to the securities regulatory authority that it is relying on the exemption granted by Section 2.11 of NI 81-106, whereby I. A. Michael Investment Counsel Ltd. will not be filing the annual financial statements for the Fund with the securities regulatory authority.

# ABC Fundamental Value Fund

Notes to Financial Statements

December 31, 2009 and 2008

## 13 Fair Value Disclosure

The Fund's assets recorded at fair value have been categorised based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See Note 2 for a discussion of the Fund's policies regarding this hierarchy. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as of December 31, 2009.

Financial Assets at fair value as at December 31, 2009				
	Level 1	Level 2	Level 3	Total
Equities - Long	467,736,398	11,375,000	-	479,111,398
Warrants	-	-	840,000	840,000
Mutual Funds	-	50,576,800	-	50,576,800
	<u>467,736,398</u>	<u>61,951,800</u>	<u>840,000</u>	<u>530,528,198</u>

There were no transfers between level 1 and level 2 during the year 2009.

The following is a reconciliation of Level 3 fair value measurements from December 31, 2008 to December 31, 2009:

Fair value measurements using level 3 inputs		Warrants
<b>Balance at December 31, 2008</b>		-
Net purchases and sales		-
Net transfers in (out)		-
Gains (Losses)		-
Realized		-
Unrealized		840,000
<b>Balance at December 31, 2009</b>	<u>-</u>	<u>840,000</u>

The Fund applies judgment in determining unobservable inputs to calculate the fair value of Level 3 financial instruments. Included in the Fund's Level 3 financial instruments are warrants. The unobservable inputs used in the valuation of these financial instruments primarily include key variables such as volatility inputs.

## 14 Changeover to international financial reporting standards

At December 31, 2009 the Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (CICA) for changeover to International Financial Reporting Standards (IFRS), which will include identifying differences between the Fund's current accounting policies and those it expects to adopt under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the NAV of the Fund. The key elements of the plan include disclosures of the qualitative impact in the 2009 annual financial statement, the disclosures of the qualitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. The manager has presently determined that there will likely be no impact to net asset value

# **ABC Fundamental Value Fund**

Notes to Financial Statements

**December 31, 2009 and 2008**

---

per unit from the changeover to IFRS but will continue to assess based on changes to existing IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosures in the financial statements of the Fund.