

ABC American Value Fund

Financial Statements
December 31, 2010 and 2009

March 30, 2011

Independent Auditor's Report

**To the Unitholders of
ABC American Value Fund (the Fund)**

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We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at December 31, 2010, the statements of net assets as at December 31, 2010 and 2009 and the statements of operations and changes in net assets for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and 2009 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 American Value Fund

Statements of Net Assets

As at December 31

| | 2010 | 2009 |
|---|------------|------------|
| | \$ | \$ |
| Assets | | |
| Investments - at fair value (cost - \$ 68,354,409; 2009 - \$84,772,120) | 73,632,380 | 67,727,896 |
| Cash | 22,216 | 38,289 |
| Interest and dividends receivable | 81,758 | 70,382 |
| Due from brokers | - | 88,406 |
| Due from unitholders | 170,300 | - |
| | <hr/> | <hr/> |
| | 73,906,654 | 67,924,973 |
| Liabilities | | |
| Management fee payable | 138,506 | 119,922 |
| Due to unitholders | 129,683 | 1,241,430 |
| Accrued liabilities | 255 | 534 |
| | <hr/> | <hr/> |
| | 268,444 | 1,361,886 |
| Net Assets | <hr/> | <hr/> |
| | 73,638,210 | 66,563,087 |
| Unitholders' Equity | | |
| 9,852,982 (2009 - 10,891,030) units issued and outstanding (note 7) | <hr/> | <hr/> |
| | 73,638,210 | 66,563,087 |
| Net assets per unit | <hr/> | <hr/> |
| | 7.47 | 6.11 |

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 American Value Fund

Statements of Operations

For the years ended December 31

| | 2010 | 2009 |
|--|-------------|------------|
| | \$ | \$ |
| Investment income | | |
| Dividends (net of foreign withholding taxes of \$81,270; 2009 - \$105,078) | 823,224 | 885,498 |
| Interest | 117,452 | 298,026 |
| | <hr/> | <hr/> |
| | 940,676 | 1,183,524 |
| | <hr/> | <hr/> |
| Expenses (note 5) | | |
| Management fees | 1,479,244 | 1,185,705 |
| Transaction costs | 137,097 | 238,980 |
| Interest | 1,531 | 3,455 |
| | <hr/> | <hr/> |
| | 1,617,872 | 1,428,140 |
| | <hr/> | <hr/> |
| Net investment income (loss) for the year | (677,196) | (244,616) |
| Net realized gain (loss) on sale of investments and foreign exchange (note 9) | (8,094,853) | 3,463,101 |
| Change in unrealized gain (loss) on foreign currency translation | - | (8,744) |
| Change in unrealized appreciation (depreciation) in value of investments | 22,322,195 | 17,907,264 |
| | <hr/> | <hr/> |
| Increase (decrease) in net assets from operations | 13,550,146 | 21,117,005 |
| | <hr/> | <hr/> |
| Increase (decrease) in net assets from operations per unit (note 2)* | 1.30 | 1.83 |
| | <hr/> | <hr/> |

*Based on weighted average units outstanding during the year.

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

ABC American Value Fund

Statements of Changes in Net Assets

For the years ended December 31

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Increase (decrease) in net assets from operations | 13,550,146 | 21,117,005 |
| Capital unit transactions | | |
| Proceeds on sale of units issued for cash | 1,213,609 | 986,644 |
| Redemptions | (7,688,632) | (8,879,030) |
| | (6,475,023) | (7,892,386) |
| Increase (decrease) in net assets during the year | 7,075,123 | 13,224,619 |
| Net assets - Beginning of year | 66,563,087 | 53,338,468 |
| Net assets - End of year | 73,638,210 | 66,563,087 |

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

ABC American Value Fund

Statement of Investment Portfolio

As at December 31, 2010

| Description | Number of shares/units | Cost \$ | Fair value \$ | Percent of net assets % |
|--|---------------------------|-------------------|-------------------|----------------------------------|
| Common Stocks | | | | |
| Energy | | | | |
| Enseco Energy Services Corp. | 7,250,000 | 1,450,000 | 1,522,500 | |
| Enseco Energy Services Corp., Warrants (12Feb11) | 3,625,000 | - | 72,486 | |
| Flint Energy Services Ltd. | 225,000 | 2,751,410 | 4,083,750 | |
| Legacy Oil + Gas Inc. | 225,000 | 2,655,000 | 3,498,750 | |
| Maxim Power Corp. | 750,000 | 2,029,654 | 2,055,000 | |
| Sea Dragon Energy Inc. | 7,000,000 | 2,800,000 | 2,345,000 | |
| Western Energy Services Corp. | 12,500,000 | 2,500,000 | 4,375,000 | |
| Total Energy | | 14,186,064 | 17,952,486 | 24.38 |
| Materials | | | | |
| Argonaut Gold Inc. | 600,000 | 1,800,000 | 2,772,000 | |
| Argonaut Gold Inc., Warrants (29Dec12) | 300,000 | - | 390,000 | |
| Canam Group Inc. | 600,000 | 4,252,944 | 4,355,999 | |
| Energold Drilling Corp. | 1,000,000 | 1,957,765 | 4,079,999 | |
| Geodrill Ltd. | 1,500,000 | 3,000,000 | 3,600,000 | |
| Total Materials | | 11,010,709 | 15,197,998 | 20.64 |
| Industrials | | | | |
| Aecon Group Inc. | 300,000 | 3,549,316 | 3,066,000 | |
| ATS Automation Tooling Systems Inc. | 550,000 | 2,423,575 | 3,701,500 | |
| Fly Leasing Ltd., ADR | 137,500 | 3,158,898 | 1,863,592 | |
| Seaspan Corp. | 120,000 | 3,320,654 | 1,477,360 | |
| Vector Aerospace Corp. | 400,000 | 2,514,113 | 3,748,000 | |
| Total Industrials | | 14,966,556 | 13,856,452 | 18.82 |
| Consumer Discretionary | | | | |
| Flexsteel Industries | 240,360 | 4,077,581 | 4,222,583 | |
| Total Consumer Discretionary | | 4,077,581 | 4,222,583 | 5.73 |
| Financials | | | | |
| American National Insurance Co. | 18,720 | 2,046,735 | 1,592,630 | |
| Blackstone Group LP | 125,000 | 3,077,022 | 1,757,519 | |
| Equitable Group Inc. | 125,000 | 2,533,000 | 3,123,750 | |
| Genworth MI Canada Inc. | 125,000 | 2,569,658 | 3,448,750 | |
| Kansas City Life Insurance Co. | 52,904 | 3,029,855 | 1,735,798 | |
| Tricon Capital Group Inc. | 500,000 | 2,950,750 | 2,420,000 | |
| Westaim Corp. | 3,000,000 | 1,500,000 | 1,650,000 | |
| Total Financials | | 17,707,020 | 15,728,447 | 21.36 |
| Information Technology | | | | |
| March Networks Corp. | 500,000 | 1,916,229 | 2,050,000 | |
| Total Information Technology | | 1,916,229 | 2,050,000 | 2.78 |

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

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Statement of Investment Portfolio

As at December 31, 2010

| Description | Number of shares/units | Cost \$ | Fair value \$ | Percent of net assets % |
|--|---------------------------|------------|------------------|----------------------------------|
| Mutual Funds | | | | |
| Short-Term Investments Co Global Series -US Dollar Liquidity | 350,269 | 361,763 | 348,045 | |
| UBS Cash In Action Fund | 42,764 | 4,276,369 | 4,276,369 | |
| Total Mutual Funds | | 4,638,132 | 4,624,414 | 6.28 |
| Total Investments | | 68,502,291 | 73,632,380 | 99.99 |
| Transaction Costs (Note 2) | | (147,882) | - | - |
| Other Net Assets | | | 5,830 | 0.01 |
| Total Net Assets | | 68,354,409 | 73,638,210 | 100.00 |

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

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Notes to Financial Statements

December 31, 2010 and 2009

1 Organization

The ABC American Value Fund (the Fund) was established under the laws of the Province of Ontario by a trust deed dated May 3, 1996 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 American, special situation and foreign U.S. stock exchange-listed common shares.

The Fund commenced operations on May 6, 1996. These financial statements have been prepared as at and for the years ended December 31, 2010 and 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 periods. The actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Fund:

Fair Value Disclosure

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. |

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

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financial liabilities, including derivative instruments. EIC – 173 is applicable to the Fund’s annual financial statements for its fiscal years ended December 31, 2010 and 2009. The adoption of EIC – 173 did not result in a significant impact on the Fund’s financial statements.

Valuation of investments

Investments are categorized as held for trading in accordance with Section 3855. 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) Investments in mutual funds are 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 Statements of Operations. The embedded transaction costs in the cost of investment portfolio as at December 31, 2010 are disclosed in the Statement of Investment Portfolio.

Investment transactions

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

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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 date of such transactions. Investments in securities at fair value and 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 translations. As at December 31, 2010, the Fund had no open forward foreign currency contracts (2009 - nil).

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.

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December 31, 2010 and 2009

3 Fair Value

The Fund's financial instruments may include equity instruments, short-term investments (collectively referred to as investments), currency forward contracts, interest and dividends receivable, due to and from unitholders, receivables for securities sold, payables for securities purchased, distributions payable, management fee 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 are 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 \$19,679,013 (2009 - \$10,823,376) of capital losses available to offset capital gains in future years and \$557,211 (2009 - \$32,409) of non-capital loss carry-forwards can be carried forward for 20 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 HST. 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.

6 Soft dollar commissions

The soft dollar commissions, if any, paid to brokers in connection with investment portfolio transactions for the years ended December 31, 2010 and 2009 were negligible. Soft dollar commissions relate to amounts paid in exchange for research or other services.

ABC American Value Fund

Notes to Financial Statements

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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 note (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 unit at the option of the unitholder. Unitholders have the right to require the Fund to repurchase their units at the then current net asset value.

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

| | 2010 | 2009 |
|-----------------------------|-------------|-------------|
| Balance - Beginning of year | 10,891,030 | 12,549,422 |
| Issued for cash | 188,097 | 222,910 |
| Redeemed for cash | (1,226,145) | (1,881,302) |
| | <hr/> | <hr/> |
| Balance - End of year | 9,852,982 | 10,891,030 |

The president of the Fund, Irwin A. Michael is the single largest individual unitholder of the Fund.

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.

| | 2010 | 2009 |
|--------------------------|---------|---------|
| Net assets per unit | \$ 7.47 | \$ 6.11 |
| Net asset value per unit | 7.52 | 6.17 |

ABC American Value Fund

Notes to Financial Statements

December 31, 2010 and 2009

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

| | 2010 | 2009 |
|--|--------------|--------------|
| | \$ | \$ |
| Proceeds on sale of investments | 59,927,290 | 84,641,521 |
| Less: Cost of investments sold | | |
| Investments owned - Beginning of year | 84,772,120 | 85,839,382 |
| Investments purchased | 51,602,438 | 79,678,381 |
| Investments owned - End of year | (68,354,409) | (84,772,120) |
| Cost of investments sold | 68,020,149 | 80,745,643 |
| Realized gain (loss) on sale of investments | (8,092,859) | 3,895,878 |
| Foreign exchange gain (loss) | (1,994) | (432,777) |
| Net realized gain (loss) on sale of investments and foreign exchange | (8,094,853) | 3,463,101 |

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 other price risk, interest rate 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 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.

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Notes to Financial Statements

December 31, 2010 and 2009

At December 31, 2010 and 2009 the overall market exposures were as follows:

| | 2010 | | 2009 | |
|-----------------------------|---------------|--------------|---------------|--------------|
| | Fair Value | % Net Assets | Fair Value | % Net Assets |
| Securities held for trading | \$ 73,632,380 | 99.99% | \$ 67,727,896 | 101.75% |

If the S&P 500 equity index at December 31, 2010 and 2009 had increased by 5%, with all other variables held constant, this would have increased net assets by approximately \$3,681,619 (2009 - \$3,386,000). Conversely, if the S&P 500 equity index had decreased by 5% this would have decreased net assets by approximately \$3,681,619 (2009 - \$3,386,000).

Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing, as well as those of its underlying funds. 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, 2010 and 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, 2010 and 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 as of December 31, 2010

| | Total Exposure (\$) | Percent of Net Assets | 5% Increase | 5% Decrease |
|-----------|---------------------|-----------------------|-------------|-------------|
| US Dollar | 13,012,751 | 17.67% | 0.88% | (0.88%) |

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Exchange rate sensitivity - Foreign Currency Net Assets as of December 31, 2009

| | <u>Total Exposure (\$)</u> | <u>Percent of Net Assets</u> | <u>5% Increase</u> | <u>5% Decrease</u> |
|-----------|----------------------------|----------------------------------|------------------------|------------------------|
| US Dollar | 18,590,343 | 27.93% | 1.40% | (1.40%) |

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 \$650,638 (2009 - \$929,517). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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 level. As at December 31 2010 and 2009, there was no exposure to indirect currency risk.

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, 2010 and 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 6.28 % (2009 - 9.98%) 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.

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The liabilities of the Fund become due within the next three months.

11 Comparative figures

Certain 2009 comparative figures have been reclassified to conform with the financial statements presentation adopted per the current year.

12 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, 2010 and 2009:

| | Financial Assets at fair value as at December 31, 2010 | | | |
|-----------------|--|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities - Long | \$ 68,545,480 | \$ - | \$ - | \$ 68,545,480 |
| Mutual Funds | - | 4,624,414 | - | 4,624,414 |
| Warrants | 390,000 | 72,486 | - | 462,486 |
| | <u>\$ 68,935,480</u> | <u>\$ 4,696,900</u> | <u>\$ -</u> | <u>\$ 73,632,380</u> |

There were no transfers between level 1 and level 2 during the year 2010.

The following is a reconciliation of Level 3 fair value measurements from December 31, 2009 to December 31, 2010:

| | Fair value measurements using level 3 inputs |
|--|--|
| | Warrants |
| Balance at December 31, 2009 | \$ 144,000 |
| Net purchases and sales | - |
| Net transfers in (out) | (390,000) |
| Gains (Losses) | - |
| Realized | - |
| Unrealized | 246,000 |
| Balance at December 31, 2010 | <u>\$ -</u> |
| Total change in unrealized appreciation during the period for assets held at December 31, 2010 | <u>\$ -</u> |

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| | Financial Assets at fair value as at December 31, 2009 | | | |
|-----------------|--|---------------------|-------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities - Long | \$ 58,993,626 | \$ 1,950,000 | \$ - | \$ 60,943,626 |
| Mutual Funds | - | 6,640,270 | - | 6,640,270 |
| Warrants | - | - | \$ 144,000 | 144,000 |
| | <u>\$ 58,993,626</u> | <u>\$ 8,590,270</u> | <u>\$ 144,000</u> | <u>\$ 67,727,896</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 |
| Balance at December 31, 2008 | \$ - |
| Net purchases and sales | - |
| Net transfers in (out) | - |
| Gains (Losses) | |
| Realized | - |
| Unrealized | 144,000 |
| Balance at December 31, 2009 | <u>\$ 144,000</u> |
| Total change in unrealized appreciation during the period for assets held at December 31, 2009 | <u>\$ 144,000</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.

13 Changeover to international financial reporting standards

In January 2011, the Accounting Standards Board (AcSB) of the CICA approved a further one year deferral of adoption of IFRS for investment companies, which include investment funds. Investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2013.

14 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.