

Financial Statements

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**

June 30, 2010  
(unaudited)

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Statements of Net Assets**

	<b>As at June 30 2010 (Unaudited) \$</b>	<b>As at December 31 2009 (Audited) \$</b>
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<b>Assets</b>		
Investments, at fair value (note 2)	4,466,981	4,076,505
Cash and cash equivalents	6,962,691	11,717,098
Other receivable	1,136	7,994
Income taxes receivable (note 6)	349,800	349,800
Refundable income taxes (note 6)	668,197	668,197
	<b>12,448,805</b>	<b>16,819,594</b>
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<b>Liabilities</b>		
Management fees payable (note 4)	17,580	23,675
Performance fees payable (note 4)	36,018	946,520
Accounts payable and accrued liabilities	75,338	106,637
	<b>128,936</b>	<b>1,076,832</b>
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<b>Net assets, representing unitholders' equity</b>	<b>12,319,869</b>	<b>15,742,762</b>
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<b>Class A Shares outstanding</b> (note 5)	<b>768,395</b>	<b>980,617</b>
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<b>Net assets per Class A Share</b>	<b>\$16.03</b>	<b>\$16.05</b>

*See accompanying notes*

**On behalf of the Board**

*Clarence Chow*  
**Director**

*Sandy Lutyck*  
**Director**

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Statements of Operations**  
**For the six months ended June 30**  
**(Unaudited)**

	2010	2009
	\$	\$
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<b>Investment income</b>		
Interest	-	20,812
Dividends	<b>19,064</b>	84,103
	<b>19,064</b>	104,915
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<b>Expenses</b>		
Management fee (note 4)	<b>120,617</b>	123,761
Performance fees (note 3)	<b>36,018</b>	208,572
Service fees (note 4)	<b>28,910</b>	33,267
Securityholder reporting costs	<b>7,900</b>	11,518
Audit fee	<b>26,670</b>	39,385
Transaction costs (note 7)	<b>265,433</b>	172,888
Legal fees	<b>2,628</b>	8,619
Custody fees	<b>4,476</b>	8,708
Other administrative expenses	<b>53,175</b>	67,663
	<b>545,827</b>	674,381
<hr/>		
<b>Net investment loss</b>	<b>(526,763)</b>	(569,466)
<hr/>		
<b>Realized and unrealized gain (loss) on investments</b>		
Realized gain (loss) on sale of investments	<b>1,384,026</b>	(1,624,374)
Change in unrealized appreciation (depreciation) of investments	<b>(743,530)</b>	3,582,425
<b>Net gain on investments</b>	<b>640,496</b>	1,958,051
<hr/>		
<b>Increase in net assets from operations</b>	<b>113,733</b>	1,388,585
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<b>Increase in net assets from operations per Class A Share</b>	<b>0.14</b>	1.15
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*See accompanying notes*

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Statements of Changes in Net Assets**  
**For the six months ended June 30**  
**(Unaudited)**

	2010	2009
	\$	\$
<b>Increase in net assets from operations</b>	<b>113,733</b>	1,388,585
<b>Capital transactions</b> (note 5)		
Proceeds from issuance of Class A Shares	-	5,934,073
Paid on redemption of Class A Shares	<b>(3,536,626)</b>	(4,140,925)
	<b>(3,536,626)</b>	1,793,148
<b>Net increase (decrease) in net assets for the period</b>	<b>(3,422,893)</b>	3,181,733
<b>Net assets, beginning of period</b>	<b>15,742,762</b>	14,079,389
<b>Net assets, end of period</b>	<b>12,319,869</b>	17,261,122

*See accompanying notes*

**CGS Resources Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**

**Statement of Investments**

As at June 30, 2010

(Unaudited)

	Number of Shares	Average Cost \$	Fair Value \$
<b>Common Stock</b>			
Bellamont Exploration Ltd.	64,500	39,990	38,700
Bridge Resources Corp.	100,000	42,120	39,500
Emerge Oil & Gas Inc.	65,000	250,250	203,450
Husky Energy Inc.	20,000	534,746	504,800
Midway Energy Ltd.	50,000	168,245	148,500
Orleans Energy Ltd.	225,000	654,345	596,250
Palliser Oil & Gas Corp.	200,000	178,620	154,000
Rock Energy Inc.	54,900	233,650	275,049
Talisman Energy Inc.	40,000	723,500	644,000
Terra Energy Corp.	30,000	52,800	42,300
Timberrock Energy Corp Sub AGR (Common)	115,000	143,750	143,750
Tourmaline Oil Corp.*	45,249	647,500	814,482
Tourmaline Oil Corp. Sub AGR (Common)	47,900	862,200	862,200
		4,531,716	4,466,981
Transaction costs (note 2)		(13,638)	-
<b>Total Investments</b>		4,518,078	4,466,981

*See accompanying notes*

\*Fair value is determined by the use of estimation techniques as there is no quoted market value for this investment (see Note 2)

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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**1. ORGANIZATION OF THE FUND**

CGS Resource Fund Ltd. (formerly AGS Lawrence Resource Fund Ltd.) (the “Fund”) was incorporated under the laws of the Province of Ontario on July 20, 2006. The Fund is a mutual fund corporation with an investment objective to achieve long-term capital growth by investing primarily in equity securities of Canadian resource companies, particularly those engaged in oil and gas exploration and development and to a lesser extent, mining explorations. The Fund commenced operations on July 28, 2006. Lawrence Asset Management Inc. was the manager (“Manager”) and CGS Resource Management Ltd. was the consultant (“Consultant”) of the Fund until December 18, 2009, after which, CGS Asset Management Ltd. (“CGS”) was the manager of the Fund.

Effective February 10, 2010, the name of the Fund was changed from AGS Lawrence Resource Fund Ltd. to CGS Resource Fund Ltd.

Effective February 12, 2010, the Fund offered for sale Class A Series A shares and Class A Series F shares (“collectively, the “Class A Shares”). All outstanding Class A Series 1 shares were converted to Class A Series A shares at that date. The fees associated with the Class A shares are as follows:

	<b>Class A Series A shares</b>	<b>Class A Series F shares</b>
Management fee	2%	1.6%
Service fee	0.40%	nil%

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies used by the Fund:

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and cash invested in a money market fund.

**Valuation of investments**

Securities listed on a recognized public stock exchange are valued at their bid price on the valuation date. Investments in securities having no quoted market value are valued at estimated fair value as determined by the Manager. Estimated fair value is determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly manner over a reasonable period of time. The Manager uses estimation techniques to determine fair value, which may include arm’s length transactions, discounted cash flows, multiples of earnings or production and comparison with other securities that are substantially the same.

Certain investments are fair valued based on assumptions that may not be supported by observable market inputs. The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments as a portfolio.

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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Any difference between the fair value and the cost of the investments is recorded as unrealized appreciation or depreciation.

**Investment transactions and income recognition**

All investment transactions are accounted for on the trade date. Realized gains and losses from the investment transactions and unrealized appreciation or depreciation of investments are calculated on an average cost basis.

Income from investment transactions is recognized on an accrual basis. Interest income is accrued as earned and dividend income is recognized on the ex-dividend date.

**Financial instruments**

Cash and cash equivalents are carried at cost, which approximates fair value. The Fund's other financial assets, which may include accrued interest, dividends receivable, amounts due from brokers and subscriptions receivable, are designated as loans and receivables, and carried at cost or amortized cost. The Fund's other financial liabilities which may include operating expenses payable, amounts due to brokers, and subscriptions payable, are designated as such, and are carried at cost or amortized cost. Cost or amortized cost for these financial assets and liabilities approximates fair value.

**Income taxes**

The liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The most significant temporary difference is that between the reported market value of the investment portfolio of the Fund and its adjusted cost base ("ACB") for income tax purposes. To the extent that the market value of the portfolio exceeds its ACB, a future tax liability arises. Since capital gains taxes payable by the Fund are refundable under the relevant provisions of the Act, the future tax liability is fully offset by these future refundable taxes. Conversely, when the ACB exceeds the portfolio's market value, a future tax asset is generated. In such cases, a full valuation allowance is taken to offset this asset given the uncertainty that such future taxes will ultimately be realized.

**Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically by management and, as adjustments become necessary, they are reported in the statement of operations in the period in which they become known.

**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

**CGS Resource Fund Ltd.**  
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**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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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, establish 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.

**Credit risk and the fair value of financial assets and liabilities**

In January 2009, the Emerging Issues Committee (EIC) issued a new abstract, EIC-173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC concluded that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative financial instruments. There has been no impact on the financial statements from the adoption of this accounting policy.

**Capital disclosures**

The Fund had adopted the CICA Handbook Section 1535: Capital Disclosures ("Section 1535"). Section 1535 specifies the disclosure of the information about a legal entity's capital and how it is managed. The Manager has policies and procedures in place to manage the capital of the Fund in accordance with the Fund's investment objectives, strategies, and restrictions as detailed in the prospectus. Refer to note 4 for disclosure of the Fund's capital and how it is managed.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

**International Financial Reporting Standards**

The Canadian Accounting Standards Board ("AcSB") recently deferred the plan to adopt the International Financial Reporting Standards ("IFRS") in 2012. All publicly accountable enterprises will be required to implement IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2012. CGS Asset Management Ltd. is developing a changeover plan to meet the timetable published by the AcSB for changeover to IFRS. The key elements of the changeover plan include assessment of significant IFRS and Canadian GAAP differences, analysis and conclusion on accounting policy choices, identification of additional disclosure requirements under IFRS, and preparation of the 2012 financial statements in accordance with IFRS comparatives. The impact of IFRS will be mainly in the areas of additional notes disclosures in the financial statements. This present determination is subject to change if new standards or new interpretations of existing standards are issued that impact the Fund's NAV per unit.

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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**4. EXPENSES OF THE FUND**

**Management fees**

The Fund paid the Manager and the Consultant, in total, an annual management fee equal to 2% of the average weekly net asset value of the Fund up to December 31, 2009, after which the Fund will pay CGS an annual management fee of 2% of the average weekly net asset value of the Fund. Management fees are accrued weekly and are paid monthly in arrears at 1/12th of the annual rate based on the average weekly net asset value of the Fund.

A trailer commission, at the discretion of the Manager, will be payable to each dealer whose clients hold shares. The trailer commission will accrue weekly and be paid at the end of each calendar quarter and will be equal to 0.40% annually of the net asset value of the shares held by the clients of the dealer.

**Operating expenses**

The Fund pays all of its own operating expenses, including expenses relating to the carrying on of its business, including legal and accounting fees, interest, custodial fees, taxes and administrative costs relating to the issue and redemption of shares of the Fund and other shareholder administration services, as well as the cost of financial and other reports, and of complying with all applicable laws, regulations and policies and other expenses.

**Performance fees**

If the Fund generates a return on investment equal to or greater than 6% in any period, then an annual performance fee shall be payable to the Manager equal to 20% of the increase in net asset value, calculated as the Net Asset Value of the Fund at the end of the period, less the Net Asset Value of the Fund at the beginning of the period, less issuances during the period, plus any redemptions during the period.

**5. CAPITAL UNIT TRANSACTIONS**

**Authorized**

An unlimited number of Class A Shares, issuable in series.

An unlimited number of Class A Shares, Series 1.

An unlimited number of common shares.

**Class A Shares**

*Issuance of Shares*

Class A Shares may be issued for cash or property in one or more series in an unlimited number at a price per Class A Share equal to the net asset value per Class A Share. The Board of Directors of the Fund shall determine the designation, rights, privileges and conditions to be attached to each series of Class A Shares.

*Ranking of Class A Shares*

Class A Shares shall rank equally with all other classes of shares and every other series of Class A Shares on payment of dividends and on a return of capital in the event of the liquidation and dissolution or wind-up of the Fund.

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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*Voting*

Subject to the Canada Business Corporations Act, Class A shareholders shall not be entitled to receive notice of or to attend any meetings of the shareholders and shall not be entitled to vote at any such meetings.

*Dividends*

Dividends may be paid in cash or in specie, as and when declared by the Board of Directors of the Fund.

*Redemptions*

- a) Each Class A shareholder is entitled to redeem Class A Shares at any time at the net asset value per Class A Share determined on the last business day of each week.
- b) Under certain conditions, the Fund may redeem Class A Shares of any series at the net asset value per Class A Share or suspend redemption of Class A Shares.

**Common Shares**

*Dividends*

The Fund will pay dividends after providing for the full dividend on the Class A Shares.

*Liquidation, Dissolution or Winding-up*

The common shares are entitled to receive the remaining property of the Fund after providing for the holders of the Class A Shares.

*Notice and Voting*

The holders of common shares shall be entitled to receive notice of and to attend and vote at all shareholder meetings and have the right to one vote in person or by proxy.

**Issued**

*Class A Shares, Series 1*

Share transactions of the Fund for the periods ended June 30, 2010 and December 31, 2009 were as follows:

	<b>2010</b>	2009
	<b>Number of</b>	Number of
	<b>shares</b>	shares
	<u>                    </u>	<u>                    </u>
Shares outstanding, beginning of period	<b>980,617</b>	1,166,438
Shares issued for investments:		
On merger with AGS 2007-1	-	478,354
Shares redeemed	<b>(212,222)</b>	(664,175)
Shares outstanding, end of period	<u><b>768,395</b></u>	<u>980,617</u>

In 2009, the Fund acquired the net assets of AGS Energy 2007-1 in exchange for 478,354 units with a fair value of \$5,934,073.

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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Unitholders' equity is considered to be the source of capital for the Fund. The Fund objectives are managing capital to safeguard the Fund's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, and to provide an adequate return to unitholders commensurate with the level of risk while maximizing the distributions to shareholders.

The Fund does not have any externally imposed capital requirements. The Manager believes that the current level of distributions, capital and capital structure is sufficient to sustain ongoing operations. The Manager actively monitors the cash position and financial performance of the Fund to ensure there are resources to meet current distribution and redemption levels.

## **6. INCOME TAXES**

The Fund presently qualifies as a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and the Ontario Corporation Tax Act. As a mutual fund corporation, taxable dividends received from taxable Canadian corporations are subject to a tax of 33 1/3%. Such taxes are fully refundable on payment of taxable dividends to its shareholders on a basis of \$1 for every \$3 of dividends paid. Any such tax is reported as an amount receivable until recovered through payment to shareholders of dividends out of net investment income.

Interest income and foreign dividends, net of applicable expenses, are taxed at full corporate rates with credits, subject to certain limitations, for foreign taxes paid.

For the years ended December 31, 2009 and 2008, the Fund was subject to tax at full corporate rates on 50% of its net realized capital gains. This tax can be eliminated or recovered by "capital gains redemptions" [as defined in the Act] by the Fund, making payments to its shareholders of a capital gains dividend out of the Fund's realized but undistributed capital gains, or by a combination of both. Consequently, no amount has been included for this tax in the provision for income taxes for the current or prior year, and the amount of the tax is reported as an amount receivable until recovered through capital gains redemptions or payment of capital gains dividends.

## **7. BROKERAGE COMMISSIONS**

The Fund paid \$265,433 (2009 - \$172,888) in brokerage commissions and transaction costs on investment portfolio transactions during the period. There were no soft dollar amounts included in these payments.

## **8. FAIR VALUE DISCLOSURE**

The Fund's assets recorded at fair value have been categorized 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.

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009.

**2010**

<b>Financial Assets at fair value as at June 30, 2010</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities - Long	2,646,549	-	1,820,432	4,466,981
Mutual Funds	6,962,683	-	-	6,962,683
	<u>9,609,232</u>	<u>-</u>	<u>1,820,432</u>	<u>11,429,664</u>

The following is a reconciliation of Level 3 fair value measurements from December 31, 2009 to June 30, 2010:

	<b>Fair value measurements using level 3 inputs</b>		
	<b>Equities - long</b>	<b>Bonds</b>	<b>Debt securities</b>
<b>Balance at December 31, 2009</b>	723,984	-	-
Net purchases and sales	1,005,950	-	-
Net transfers in (out)	-	-	-
Gains (Losses)	-	-	-
Realized	-	-	-
Unrealized	90,498	-	-
<b>Balance at June 30, 2010</b>	<u>1,820,432</u>	<u>-</u>	<u>-</u>

**2009**

<b>Financial Assets at fair value as at December 31, 2009</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities - Long	3,352,520	-	723,985	4,076,505
Mutual Funds	11,430,473	-	-	11,430,473
	<u>14,782,993</u>	<u>-</u>	<u>723,985</u>	<u>15,506,978</u>

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

	<b>Fair value measurements using level 3 inputs</b>		
	<b>Equities - long</b>	<b>Bonds</b>	<b>Debt securities</b>
<b>Balance at December 31, 2008</b>	1,136,956	-	-
Net purchases and sales	(575,629)	-	-
Net transfers in (out)	-	-	-
Gains (Losses)	-	-	-
Realized	272,153	-	-
Unrealized	(109,495)	-	-
<b>Balance at December 31, 2009</b>	<u>723,985</u>	<u>-</u>	<u>-</u>

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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**9. FINANCIAL RISK MANAGEMENT**

The Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. These risks and related risk management practices employed by the Fund are discussed below:

**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 a significant amount of interest rate risk due to fluctuations in the prevailing level of market interest rates. Excess cash amounts are invested in short-term securities.

**Credit risk**

The Fund's only credit risk is short-term debt securities. The Fund limits its exposure to credit loss by placing its cash and short-term investments in securities that have high credit quality. The Manager performs ongoing credit risk evaluation of counterparties.

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

**Currency risk**

The Fund has no material currency risk as all of its assets, liabilities, revenues, and expenses are denominated in Canadian dollars.

**Liquidity risk**

The Fund's exposure to liquidity risk is concentrated in the weekly redemptions of units. The Fund primarily invests in securities that are traded in active markets and can be readily disposed of in a timely manner. In addition, the Fund retains sufficient cash and cash equivalent positions to maintain liquidity.

**Other price risk**

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The investments of a fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The Manager moderates this risk through portfolio diversification and careful selection of securities. The Manager monitors the Fund's overall market positions on a daily basis with investment positions maintained within established ranges.

As at June 30, 2010, had the fair values of the portfolio investments increased or decreased by 5%, with all other variables held constant, this would have increased or decreased net assets by approximately \$223,349 (June 30, 2009 - \$598,784).

**CGS Resource Fund Ltd.**  
**(formerly AGS Lawrence Resource Fund Ltd.)**  
**Notes to Financial Statements**  
**June 30, 2010 (unaudited)**

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**10. NET ASSETS AND NET ASSET VALUE**

For investments that are traded in an active market where quoted prices are readily and regularly available, CICA Section 3855 requires bid prices (for investments held) and ask prices (for investments sold short) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining net asset value. For investments that are not traded in an active market, CICA Section 3855 requires the use of specific valuation techniques, rather than the use of best estimates by virtue of general practice in the investment funds industry. These changes account for the difference between net asset value per unit and net assets per unit.

A reconciliation of these two per unit amounts is as follows:

	<b>As at June 30, 2010 \$</b>	<b>As at December 31, 2009 \$</b>
<b>Net assets per unit</b>	16.03	16.05
<b>Net asset value per unit</b>	16.04	16.09

**11. FILING OF FINANCIAL STATEMENTS**

The Fund is relying on section 2.11 of National Instrument 81-106 to not file its financial statements with the Canadian Securities Administrators.