



Interim Financial Statements

# **Marret HYS Trust**

(unaudited)

June 30, 2010

## Marret HYS Trust - Semi Annual Report 2010

### Statements of Net Assets

As at (unaudited)	June 30 2010	December 31 2009
<b>Assets</b>		
Investments, at fair value (note 2)	\$ 239,565,384	\$ 303,210,933
Cash and cash equivalents	1,561,990	4,238,349
Cash held at broker, margin deposit	1,972,715	-
Receivable for portfolio securities sold	11,324,014	306,293
Accrued interest and dividend receivable	3,403,294	3,771,989
Unrealized gain on credit default swap agreement	-	85,303
Unrealized gain on forward currency contract (note 4)	-	304,691
<b>Total assets</b>	<b>257,827,397</b>	<b>311,917,558</b>
<b>Liabilities</b>		
Due to broker (note 5)	1,173,805	60,060,996
Investment - short positions, at fair value (note 2)	13,116,970	15,559,191
Payable for portfolio securities purchased	1,401,328	690,000
Interest and dividend payable, short positions	27,391	44,089
Accrued liabilities	174,637	204,379
Accrued performance fee (note 7)	55,291	2,766,635
Unrealized loss on forward currency contract (note 4)	4,451,859	-
<b>Total liabilities</b>	<b>20,401,281</b>	<b>79,325,290</b>
<b>Net Assets representing unitholder's equity</b>	<b>\$ 237,426,116</b>	<b>\$ 232,592,268</b>
<b>Units outstanding (note 6)</b>	<b>20,340,000</b>	<b>21,231,650</b>
<b>Net Assets per unit (note 3)</b>	<b>\$ 11.67</b>	<b>\$ 10.96</b>

Approved on behalf of the Trustee, Marret Asset Management Inc.

(signed)

(signed)

Barry Allan  
President & Chief Executive Officer

Lara Misner  
Vice President & Chief Financial Officer

See accompanying notes which are an integral part of these semi-annual financial statements.

## Marret HYS Trust - Semi Annual Report 2010

### Statements of Operations

For the periods ended June 30 (unaudited)	June 30 2010	June 30 2009 <sup>(1)</sup>
<b>Income</b>		
Interest revenue	\$ 11,261,354	\$ 125,745
Dividend revenue	44,607	-
Income from swaps	295,131	-
<b>Total income</b>	<b>11,601,092</b>	<b>125,745</b>
<b>Expenses</b>		
Management fees (note 7)	939,309	54,116
Audit fees	8,300	825
Custodial fees	14,434	2,013
Legal fees	(8,077)	533
Interest expense	122,500	585
Securities borrowing fees	118,920	-
Performance fees (note 7)	55,291	-
Interest expense, short positions	461,363	-
Dividend expense, short positions	88,723	-
<b>Total expenses</b>	<b>1,800,763</b>	<b>58,072</b>
<b>Net investment income / (loss)</b>	<b>9,800,329</b>	<b>67,673</b>
<b>Realized and unrealized gain / (loss) on investments</b>		
Net realized gain / (loss) on sale of investments	9,435,403	37,551
Net realized gain / (loss) on swaps	255,612	-
Net realized gain / (loss) on forward currency contracts	(5,499,854)	(1,193,888)
Net realized gain / (loss) on foreign currency	8,088,065	447,731
Transaction costs (note 2)	(49,966)	(7,817)
Change in unrealized appreciation / (depreciation) on investments	(1,900,545)	1,559,570
Change in unrealized appreciation / (depreciation) on swaps	(85,303)	-
Change in unrealized appreciation / (depreciation) on forward currency contracts	(4,756,550)	(172,010)
Change in unrealized appreciation / (depreciation) on foreign currency	(144,199)	(8,644)
<b>Net gain / (loss) on investments</b>	<b>5,342,663</b>	<b>662,493</b>
<b>Increase / (Decrease) in Net Assets from operations</b>	<b>\$ 15,142,992</b>	<b>\$ 730,166</b>
<b>Increase / (Decrease) in Net Assets from operations per unit<sup>(2)</sup></b>	<b>\$ 0.73</b>	<b>\$ 0.04</b>

<sup>(1)</sup> For the period from June 17, 2009, date of commencement, to June 30, 2009.

<sup>(2)</sup> Based on the weighted average number of units outstanding for the period.

See accompanying notes which are an integral part of these semi-annual financial statements.

## Marret HYS Trust - Semi Annual Report 2010

### Statements of Changes in Net Assets

For the periods ended June 30 (unaudited)	June 30 2010	June 30 2009 <sup>(1)</sup>
<b>Net Assets, beginning of period</b>	\$ 232,592,268	\$ -
<b>Operations:</b>		
Increase / (Decrease) in Net Assets from operations	15,142,992	730,166
<b>Unitholder transactions:</b>		
Proceeds from issuance of units	-	213,866,750
Payments on redemption of units	(10,309,144)	-
Total unit transaction	(10,309,144)	213,866,750
<b>Increase / (Decrease) in Net Assets</b>	<b>4,833,848</b>	<b>214,596,916</b>
<b>Net Assets, end of period</b>	<b>\$ 237,426,116</b>	<b>\$ 214,596,916</b>

<sup>(1)</sup> For the period from June 17, 2009, date of commencement, to June 30, 2009.

See accompanying notes which are an integral part of these semi-annual financial statements.

## Marret HYS Trust - Semi Annual Report 2010

### Statements of Cash Flows

For the periods ended June 30 (unaudited)	June 30 2010	June 30 2009 <sup>(1)</sup>
<b>Cash flows from operating activities:</b>		
Net investment income / (loss)	\$ 9,800,329	\$ 67,673
Net gain (loss) on foreign currency and forward currency contracts	2,444,012	(754,801)
Net gain (loss) on swaps	255,612	-
Proceeds from disposition of investments	219,733,536	6,124,469
Proceeds from disposition of investments in short positions	46,612,656	-
Purchase of investments	(158,351,997)	(70,068,745)
Purchase of investments to cover short positions	(49,562,402)	-
Commission and other portfolio transaction costs	(49,966)	(7,817)
Net change in working capital	(4,361,804)	(621,306)
<b>Cash used in operating activities</b>	<b>66,519,976</b>	<b>(65,260,527)</b>
<b>Cash flows from financing activities:</b>		
Net change in due to broker	(58,887,191)	-
Proceeds from issuance of units	-	213,866,750
Distributions paid to unitholders	-	-
Payments on redemption of units	(10,309,144)	-
<b>Cash provided by financing activities</b>	<b>(69,196,335)</b>	<b>213,866,750</b>
<b>Net increase in cash and short-term investments</b>	<b>(2,676,359)</b>	<b>148,606,223</b>
<b>Cash and short-term investments, beginning of the year</b>	<b>4,238,349</b>	<b>-</b>
<b>Cash and short-term investments, end of period</b>	<b>\$ 1,561,990</b>	<b>\$ 148,606,223</b>
<b>Supplemental Information</b>		
Cash paid for interest	122,500	-
Interest paid on short positions	461,363	-

<sup>(1)</sup> For the period from June 17, 2009, date of commencement, to June 30, 2009.

See accompanying notes which are an integral part of these semi-annual financial statements.

## Marret HYS Trust - Semi Annual Report 2010

### Statement of Investment Portfolio

As at June 30, 2010 (unaudited)

Number of Shares/ Par Value		Average Cost (\$)	Fair Value (\$)
<b>Canadian Bonds</b>			
3,695,000	Equal Energy Ltd., Convertible, 8.000%, 2011/12/31	3,123,338	3,693,152
1,578,000	Equal Energy Ltd., Convertible, 8.250%, 2012/06/30	1,279,984	1,578,000
200,000	GlassBOX Television Inc., Series 'III', Convertible, 15.000%, 2011/05/21	200,000	200,000
5,131,000	New Gold Inc., Convertible, 5.000%, 2014/06/28	4,747,785	5,387,550
951,000	Prizm Income Fund, Convertible, Callable, 6.500%, 2012/06/30	777,616	732,270
795,000	Tree Island Wire Income Fund, Convertible, 10.000%, 2014/11/26	795,000	787,448
<b>Canadian Convertible Bonds (5.21%)</b>		<b>10,923,723</b>	<b>12,378,420</b>
1,000,000	Angiotech Pharmaceuticals Inc., Floating Rate, Callable, 4.288%, 2013/12/01 (USD)	857,112	816,662
5,695,000	BCE Generic Residual, Zero Coupon, 2054/12/01	238,222	286,458
3,250,000	BCE Inc., Zero Coupon, 2021/04/15	1,586,585	1,790,663
5,770,000	Canadian Satellite Radio Holdings Inc., Callable, 12.750%, 2014/02/15 (USD)	4,954,976	5,630,086
1,110,000	CCS Inc., Callable, 11.000%, 2015/11/15 (USD)	899,791	1,024,221
1,305,000	Connacher Oil and Gas Ltd., Callable, 11.750%, 2014/07/15 (USD)	1,472,886	1,480,968
2,030,000	Connacher Oil and Gas Ltd., Callable, 10.250%, 2015/12/15 (USD)	1,904,478	2,126,104
7,780,000	Consolidated Thompson Iron Mines Ltd., 8.500%, 2017/01/27 (USD)	8,285,701	8,555,737
5,825,000	Data & Audio-Visual Enterprises Holdings Inc., Callable, 15.000%, 2018/09/25	5,825,000	5,379,970
2,865,000	Harvest Operations Corp., Callable, 7.500%, 2015/05/31	2,860,958	2,907,975
3,770,000	New Gold Inc., Callable, 10.000%, 2017/06/28	3,537,091	3,941,535
2,185,000	NOVA Chemicals Corp., Callable, 8.625%, 2019/11/01 (USD)	2,266,266	2,294,236
2,270,000	Novelis Inc., Callable, 7.250%, 2015/02/15 (USD)	2,055,605	2,323,296
1,040,000	Novelis Inc., 11.500%, 2015/02/15 (USD)	1,114,394	1,152,660
1,220,000	OPTI Canada Inc., Callable, 9.000%, 2012/12/15 (USD)	1,253,457	1,306,871
1,445,000	OPTI Canada Inc., Callable, 7.875%, 2014/12/15 (USD)	1,223,798	1,333,333
1,935,000	Pacific Rubiales Energy Corp., Callable, 8.750%, 2016/11/10 (USD)	2,055,443	2,216,441
2,365,000	Reliance Intermediate Holdings L.P., Callable, 9.500%, 2019/12/15 (USD)	2,478,902	2,643,140
2,455,000	Sherritt International Corp., Series 'C', Callable, 7.750%, 2015/10/15	2,163,827	2,589,411
4,440,000	Teck Resources Ltd., Callable, 10.250%, 2016/05/15 (USD)	5,348,429	5,556,693
290,000	Teck Resources Ltd., Callable, 10.750%, 2019/05/15 (USD)	355,294	376,870
<b>Canadian Corporate Bonds (23.48%)</b>		<b>52,738,215</b>	<b>55,733,330</b>
<b>Total of Canadian Bonds (28.69%)</b>		<b>63,661,938</b>	<b>68,111,750</b>
<b>United States Bonds</b>			
12,940,000	United States Treasury Bond, 4.375%, 2040/05/15 (USD)	14,352,830	14,843,499
<b>U.S. Federal Bonds &amp; Guaranteed (6.25%)</b>		<b>14,352,830</b>	<b>14,843,499</b>
2,220,000	Avis Budget Car Rental LLC, Callable, 9.625%, 2018/03/15 (USD)	2,296,802	2,378,076
2,130,000	Cablevision Systems Corp., Callable, 8.625%, 2017/09/15 (USD)	2,281,848	2,304,258
3,135,000	Calpine Construction Finance Co. L.P., Callable, 8.000%, 2016/06/01 (USD)	3,404,512	3,399,791
1,405,000	CB Richard Ellis Services Inc., Callable, 11.625%, 2017/06/15 (USD)	1,592,960	1,668,959
2,070,000	Charter Communications Operating LLC, Callable, 10.875%, 2014/09/15 (USD)	2,359,688	2,436,939
1,110,000	Clearwire Communications LLC / Clearwire Finance Inc, Callable, 12.000%, 2015/12/01 (USD)	1,145,826	1,166,964
3,480,000	Clearwire Communications LLC / Clearwire Finance Inc, Callable, 12.000%, 2015/12/01 (USD)	3,580,638	3,677,045
2,535,000	DISH DBS Corp., Callable, 7.875%, 2019/09/01 (USD)	2,686,160	2,796,164
2,150,000	Drummond Co. Inc., Callable, 9.000%, 2014/10/15 (USD)	2,231,274	2,291,690
4,370,000	Ford Motor Credit Co. LLC, 7.800%, 2012/06/01 (USD)	4,541,431	4,772,743
1,005,000	Gannett Co. Inc., Callable, 9.375%, 2017/11/15 (USD)	1,062,281	1,121,862
975,000	GeoEye Inc., Callable, 9.625%, 2015/10/01 (USD)	1,047,165	1,054,766
1,625,000	Geokinetics Holdings Inc., Callable, 9.750%, 2014/12/15 (USD)	1,702,085	1,473,570
2,600,000	Harrah's Operating Co. Inc., Callable, 11.250%, 2017/06/01 (USD)	2,829,802	2,902,330
2,605,000	HCA Inc., Callable, 8.500%, 2019/04/15 (USD)	2,912,294	2,928,633
1,225,000	HCA Inc., Callable, 7.875%, 2020/02/15 (USD)	1,309,269	1,336,587
2,750,000	Hertz Corp., Callable, 8.875%, 2014/01/01 (USD)	2,838,163	2,953,107
1,485,000	Huntsman International LLC, 5.500%, 2016/06/30 (USD)	1,313,660	1,378,116
3,795,000	Level 3 Financing Inc., Callable, 10.000%, 2018/02/01 (USD)	3,778,658	3,562,103
2,730,000	Limited Brands Inc., Callable, 8.500%, 2019/06/15 (USD)	3,003,524	3,119,833
2,060,000	Linn Energy LLC/Linn Energy Finance Corp., Callable, 8.625%, 2020/04/15 (USD)	2,024,643	2,236,725
3,330,000	MGM MIRAGE, 13.000%, 2013/11/15 (USD)	4,181,303	4,070,395

See accompanying notes which are an integral part of these semi-annual financial statements.

## Statement of Investment Portfolio (continued)

As at June 30, 2010

Number of Shares/ Par Value		Average Cost (\$)	Fair Value (\$)
<b>United States Bonds (continued)</b>			
4,460,000	MGM MIRAGE, Callable, 6.750%, 2012/09/01 (USD)	4,234,188	4,399,155
1,740,000	Michaels Stores Inc., Callable, 10.000%, 2014/11/01 (USD)	1,742,034	1,905,420
1,955,000	NII Capital Corp., Callable, 10.000%, 2016/08/15 (USD)	2,130,516	2,182,329
1,160,000	NII Capital Corp., Callable, 8.875%, 2019/12/15 (USD)	1,200,314	1,242,598
4,015,000	NRG Energy Inc., Callable, 8.500%, 2019/06/15 (USD)	4,334,572	4,327,504
3,760,000	Qwest Communications International Inc., Callable, 8.000%, 2015/10/01 (USD)	3,961,646	4,097,520
1,750,000	Sirius XM Radio Inc., 8.750%, 2015/04/01 (USD)	1,775,353	1,828,208
2,210,000	Tenneco Inc., Series 'B', Callable, 10.250%, 2013/07/15 (USD)	2,312,870	2,399,593
3,610,000	Wind Acquisition Finance SA, Callable, 11.750%, 2017/07/15 (USD)	4,175,847	3,924,483
4,075,000	Wynn Las Vegas Capital Corp., Callable, 6.630%, 2014/12/01 (USD)	4,085,181	4,332,748
7,500,000	Xinergy Ltd., 9.750%, 2015/05/01 (USD)	7,281,545	7,715,861
<b>U.S. Corporate Bonds (39.33%)</b>		<b>91,358,052</b>	<b>93,386,075</b>
<b>Total of U.S. Bonds (45.58%)</b>		<b>105,710,882</b>	<b>108,229,574</b>
<b>International Bonds</b>			
2,425,000	Columbus International Inc., Callable, 11.500%, 2014/11/20 (USD)	2,602,018	2,739,318
<b>Total International Bonds (1.15%)</b>		<b>2,602,018</b>	<b>2,739,318</b>
<b>Total of Bonds (75.42%)</b>		<b>171,974,838</b>	<b>179,080,642</b>
<b>Term Loans</b>			
1,235,690	Allison Transmission Inc., Variable Rate, 3.110%, 2014/08/07 (USD)	1,157,095	1,192,621
3,914,386	Chester Downs and Marina LLC, Variable Rate, 12.375%, 2016/08/06 (USD)	3,988,748	4,089,321
3,123,939	Eimskip Holdings Inc., Tranche, Variable Rate, 3.750%, 2012/08/02 (USD)	2,935,039	3,164,152
3,111,348	Michaels Stores Inc., Variable Rate, 2.813%, 2013/10/31 (USD)	2,876,592	3,060,652
2,563,809	Neiman Marcus Group Inc. (The), Variable Rate, 2.348%, 2013/04/06 (USD)	2,284,457	2,542,428
8,759,056	Texas Competitive Electric Holdings Co. LLC, Variable Rate, 3.791%, 2014/10/10 (USD)	7,164,943	6,781,590
<b>Total of U.S. Term Loans (8.77%)</b>		<b>20,406,874</b>	<b>20,830,764</b>
<b>Canadian Equities</b>			
98,690	Athabasca Oil Sands Corp.	1,478,512	1,086,577
32,380	Baytex Energy Trust	788,263	1,028,713
19,399	Bonavista Energy Trust	433,408	442,297
244,685	Canadian Oil Sands Trust	6,946,941	6,596,708
114,590	Cogeco Cable Inc.	3,282,230	3,905,227
324,000	Consolidated Thompson Iron Mines Ltd.	1,215,000	2,345,760
332,250	Consolidated Thompson Iron Mines Ltd., Warrants, 2012/07/27	-	1,239,924
75,225	Consolidated Thompson Iron Mines Ltd., Warrants, 2013/01/29	-	147,739
1,019,187	Crocodile Gold Corp.	1,189,051	1,080,338
949,600	Crocodile Gold Corp., Warrants, 2012/10/15	-	106,355
93,200	Data & Audio-Visual Enterprises Holdings Inc., Class 'B', Warrants, 2018/09/25	-	333,563
23,300	Data & Audio-Visual Enterprises Holdings Inc., Warrants, 2018/09/25	-	83,391
207,225	Davis + Henderson Income Fund	2,787,647	3,433,718
136,535	Enerplus Resources Fund	3,146,443	3,125,286
125,495	Fort Chicago Energy Partners L.P.	1,062,765	1,306,403
237,040	iShares CDN S&P/TSX Global Gold Index Fund	4,693,007	5,643,922
48,810	Silver Wheaton Corp.	897,468	1,041,117
21,090	Teck Resources Ltd., Class 'B'	757,010	663,913
397,500	Tree Island Wire Income Fund, Warrants, 2014/11/26	-	28,819
69,595	Vermilion Energy Trust	2,243,106	2,333,520
1,601,735	Westaim Corp.	800,866	945,024
<b>Canadian Equities - Long (15.55%)</b>		<b>31,721,717</b>	<b>36,918,314</b>
<b>Canadian Equities - Short Positions</b>			
(239,900)	iShares CDN S&P/TSX Capped Energy Index Fund	(4,195,287)	(4,099,891)
(194,600)	iShares CDN S&P/TSX Capped REIT Index Fund	(2,276,839)	(2,323,524)
(232,535)	RioCan REIT	(3,832,523)	(4,434,442)
<b>Canadian Equities - Short (-4.57%)</b>		<b>(10,304,649)</b>	<b>(10,857,857)</b>
<b>Total of Canadian Equities (10.98%)</b>		<b>21,417,068</b>	<b>26,060,457</b>

See accompanying notes which are an integral part of these semi-annual financial statements.

## Statement of Investment Portfolio (continued)

As at June 30, 2010

Number of Shares/ Par Value	Average Cost (\$)	Fair Value (\$)
<b>United States Equities</b>		
20,945 SPDR Gold Trust	2,180,765	2,702,364
300,000 Xinerdy Ltd., Warrants, 2010/08/29	-	33,300
<b>U.S. Equities - Long (1.15%)</b>	<b>2,180,765</b>	<b>2,735,664</b>
<b>United States Equities - Short Positions</b>		
(44,000) Calpine Corp.	(615,713)	(594,063)
(25,440) CB Richard Ellis Group Inc., Class 'A'	(281,176)	(368,030)
(15,315) Gannett Co. Inc.	(201,368)	(218,632)
(12,900) Las Vegas Sands Corp.	(330,054)	(302,914)
(451,020) Level 3 Communications Inc.	(750,596)	(516,620)
(3,200) Wynn Resorts Ltd.	(266,583)	(258,854)
<b>U.S. Equities - Short (-0.95%)</b>	<b>(2,445,490)</b>	<b>(2,259,113)</b>
<b>Total of U.S. Equities (0.20%)</b>	<b>(264,725)</b>	<b>476,551</b>
<b>Total of Equities (11.18%)</b>	<b>21,152,343</b>	<b>26,537,008</b>
Less: Transaction cost	(41,448)	
<b>Total of Investments (95.37%)</b>	<b>213,492,607</b>	<b>226,448,414</b>
Margin (0.83%)		1,972,715
Due to broker (-0.49%)		(1,173,805)
Unrealized loss on foreign currency contracts (-1.87%)		(4,451,859)
Other assets, less liabilities (6.16%)		14,630,651
<b>Total Net Assets (100.00%)</b>		<b>237,426,116</b>

See accompanying notes which are an integral part of these semi-annual financial statements.

## **Marret HYS Trust - Semi Annual Report 2010**

### **Notes to the Financial Statements (unaudited)**

June 30, 2010 and December 31, 2009

#### **1. Fund Activities**

Marret HYS Trust (the “Trust”) is an investment fund established under the laws of the Province of Ontario and is governed by a declaration of trust dated May 28, 2009. The Trust will issue units (“Units”) from time to time in reliance on exemptions from applicable prospectus and registration requirements. Units will be offered at prices negotiated between the Trust and the purchasers of Units.

The Trust's investment objectives are to maximize total returns for holder of units consisting of both distributions and capital appreciation while reducing risk. The Trust has been established for the purposes of acquiring and holding a portfolio (the “Portfolio”) focused primarily on high yield debt securities. The Portfolio is actively managed by Marret Asset Management Inc. (“Marret” or “the Manager”) using high yield debt strategies designed to maximize risk-adjusted returns and preserve capital in each phase of the credit cycle. The goal is to generate returns consistent with long-term performance of equity indices, but with the volatility and risk characteristics consistent with 10-year U.S. Treasury notes.

Marret employs hedging strategies, including short selling securities and holding cash, designed to generate positive returns and/or protect the Portfolio against the risk of losses from currency fluctuations, interest rate changes and market declines. It is intended that the majority (and not less than 75%) of the Portfolio investments denominated in foreign currencies will be hedged to the Canadian dollar.

The Trust is a vehicle to allow the Marret High Yield Strategies Fund (“the Fund”) to meet its investment objectives. The Fund used the net proceeds of its initial public offering to prepay its obligations under a forward purchase and sale agreement (the “Forward Purchase Agreement”) with The Bank of Nova Scotia (the “Counterparty”). Such net proceeds were invested by the Counterparty into the Trust. The cash received from the counterparty was used by the Trust to purchase the Portfolio. The number of units issued and redeemed by the Trust are derived from the Fund.

#### **2. Significant Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the most recent audited financial statements at December 31, 2009. The preparation of financial statements requires management to make estimates and assumptions that may impact the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from these estimates. The significant accounting policies followed in the preparation of these financial statements are summarized below:

##### **Investments**

The Trust's Portfolio Securities are held for trading and are presented at fair value. Investments held that are traded in an active market through recognized public stock exchanges, over the counter markets, or through recognized investment dealers, are valued at their bid prices for securities held long and at their ask prices for securities held short. Investments held with no available bid or ask prices are valued at their closing sale prices. Investments held that are not traded in an active market are valued based on the results of valuation techniques using observable market inputs, if available, on such basis and in such manner established by the

Manager. The fair value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs.

Investments for which reliable quotations are not readily available or, for which there is no bid or ask price, are valued at fair value as determined using management's best estimates thereof pursuant to procedures established by the Manager. Short-term notes and treasury bills are valued at their fair value.

The difference between fair value and the average cost of Portfolio Securities is recorded as unrealized appreciation/ (depreciation) of investments.

Portfolio Security transactions are recorded on a trade-date basis. Realized gains/(losses) on the disposition of the Portfolio Securities and unrealized appreciation/(depreciation) of Portfolio Securities are determined on an average cost basis.

### **Transaction Costs**

Trading commissions incurred for Portfolio Securities bought and sold are included as an expense in the Statement of Investment Operations.

### **Income Recognition**

Distribution from underlying trusts, dividend income and dividend expense are recorded on an ex-dividend date basis. Interest income, interest expense, securities lending income and security borrowing fees are recorded on an accrual basis.

### **Translation of Foreign Currencies**

The fair value of foreign investments and other assets and liabilities are translated into Canadian dollars at the exchange rate prevailing on the valuation date. Purchases and sales of foreign securities and the related income are translated into Canadian dollars at the exchange rate prevailing on the respective dates of such transactions.

### **Increase (decrease) in Net Assets from Operations Per Unit**

Increase (decrease) in Net Assets from Operations Per Unit in the Statements of Operations represents the increase (decrease) in net assets from operations attributable to the Trust, divided by the weighted average number of units of the Trust outstanding during the period.

### **Forward currency contracts**

Forward currency contracts entered into by the Trust are financial agreements to buy or sell a specific amount of an underlying currency for an agreed upon price at a future date. The fair value of these contracts is the gain or loss that would be recognized if the position was closed out on the valuation date, and is recorded as an unrealized gain (loss).

### **Credit Default Swaps**

Credit default swaps are agreements to mitigate credit risk exposure to certain issuing entities ("Referenced Entity") held by the Trust or to increase credit risk exposure to the Referenced Entity by creating a notional investment position for the Trust. Where a notional investment position is created, the credit risk exposure of the Trust is comparable to the exposure that would have resulted if the Trust has invested directly in the Referenced Entity. Under a credit default swap agreement, the protection buyer, whose intention is to reduce its credit risk exposure to the Referenced Entity, pays a premium to the protection seller, who assumes the credit risk of a default of the bond of a Referenced Entity. This premium is paid at regular intervals over the term of the swap agreement. In return for the premium paid, the protection buyer is entitled to receive from the protection seller full payment for a loss arising from a credit default event of the Referenced Entity. A credit default event may be triggered by bankruptcy, failure to pay or restructuring of the Referenced Entity.

If a credit default event occurs, the swap may be settled by either the physical delivery of the bond for proceeds equal to par value, or a cash payment equal to the loss amount. Credit default swaps are valued daily based on dealer-supplied valuations.

Changes in value of swap agreements are recorded as unrealized appreciation (depreciation). Premiums paid or received from swap agreements are included in investment income. When swap agreements expire or are closed out, gains or losses are included in net realized gain or loss on sale of swap agreements.

### **Financial Instruments**

The Trust’s financial instruments include investments (long and short), derivatives, receivables for accrued interest and dividends, and for portfolio securities sold, payables for portfolio securities purchased and performance fees, interest and dividends payable, due to broker, and other accrued expenses. Investments (long and short) and derivatives are classified as held for trading and carried at fair value. Receivables for accrued interest and dividends and for portfolio securities sold are designated as loans and receivables and reported at amortized cost. Payables for portfolio securities purchased and performance fees, interest and dividends payable, due to broker, and other accrued expenses are designated as financial liabilities and reported at amortized cost.

### **Return of Capital**

Distributions received as return of capital (“ROC”) from Portfolio Securities reduce the adjusted cost base (“ACB”) of the underlying investments. Distributions received from investments are allocated initially as dividends, interest, capital gains, or return of capital (“ROC”) based on estimates of the categorization of distributions received from the underlying issuers. These allocations may change once the final categorization of the distributions is received on an annual basis from the underlying issuers.

## **3. Net Assets Per Unit**

The Trust is required to calculate the net assets per unit for the purposes of the financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The valuation principles and practices established by the Manager for the purpose of subscriptions and redemptions differ from Canadian GAAP primarily with respect to fair valuation of securities. Under Canadian GAAP, financial instruments that are quoted in active markets shall be measured based on the bid price for long positions and the ask price for short positions while under the Manager’s valuation principles such securities shall be valued using close prices for listed securities and the average of the bid and ask prices for those securities traded through recognized investment dealers. As a result, the net assets per unit presented in the financial statements (the “Net Assets per Unit”) may differ from the net asset value per unit for the purpose of redemption and purchase of units of the Funds (the “Net Asset Value per Unit”). A comparison between the net asset value per unit calculated for subscriptions and redemptions and the net assets per unit calculated for financial reporting is required to be disclosed in the financial statements.

	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
Net asset value per unit	\$11.73	\$11.01
Net assets per unit	\$11.67	\$10.96

## 4. Forward Currency Contracts

The Trust has the following forward currency contracts outstanding:

### As at June 30, 2010

Settlement Date	Currency Buys	Par Value	Currency Sells	Par Value	Forward Rate	Current Rate	Unrealized Gain (Loss)
2010/07/29	CAD	179,380,029	USD	173,268,000	0.966	0.943	\$ (4,415,680)
2010/07/29	CAD	3,146,100	USD	3,000,000	0.943	0.943	\$ (36,179)
							<u>\$ (4,451,859)</u>

**Counterparty** Bank of New York Mellon Corp. (The)

**Credit Rating for Counterparty**<sup>(\*)</sup> A1+

<sup>(\*)</sup> Standard and Poor's short term rating.

### As at December 31, 2009

Settlement Date	Currency Buys	Par Value	Currency Sells	Par Value	Forward Rate	Current Rate	Unrealized Gain (Loss)
2010/01/28	CAD	141,727,619	USD	135,129,000	0.953	0.955	\$ 304,691
							<u>\$ 304,691</u>

**Counterparty** Royal Bank of Canada

**Credit Rating for Counterparty**<sup>(\*)</sup> A1+

<sup>(\*)</sup> Standard and Poor's short term rating.

## 5. Leverage

The Trust may utilize various forms of borrowing, including a loan facility and margin purchases, up to 35% of the net asset value of the Trust at the time of borrowing. Accordingly, the maximum amount of leverage that the Trust could employ is 1.35:1.

In addition, the net exposure of the Trust should not exceed 135%, on a daily marked-to-market basis, with net exposure calculated as the value of long security positions, excluding cash and cash equivalents, minus the absolute value of short positions, divided by Net Asset Value of the Trust.

The Trust has a credit facility which provides the ability to borrow i) Canadian dollars at a rate equal to the Bank of Canada overnight lending rate plus a fixed percentage, and ii) U.S. dollars at a rate equal to federal funds overnight rate plus a fixed percentage. The facility has been used by the Trust to invest in additional portfolio investments.

During the six months ended June 30, 2010, the minimum and maximum amounts of net borrowings of the Fund were nil and \$65.87 million, respectively.

## 6. Unitholder's Capital

Pursuant to the declaration of trust, the Trust is authorized to issue an unlimited number of a single class of transferable redeemable units of beneficial interest, each of which represents a pro rata interest in the Trust. All units have equal rights and privileges. Each whole unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally with respect to any and all distributions made by the Trust and distributions upon the termination of the Trust. The sole unitholder of the trust is the Bank of Nova Scotia.

### Redemption of Units

Units may be redeemed at any time for a redemption price per Unit equal to the Net Asset Value per Unit as at the date Units are surrendered for redemption (the "Redemption Date") by Unitholders of the Fund. Units surrendered for redemption on any Redemption Date will be redeemed as at such Redemption Date and the unitholder will receive payment in respect of any Units surrendered for redemption on or before the redemption payment date.

The issued and outstanding Units as at June 30, 2010 and June 30, 2009 consist of:

	June 30, 2010	June 30, 2009
Units outstanding - beginning of period	21,231,650	-
Units issued	-	21,381,535
Units reinvested	-	-
Units redeemed	(891,650)	-
Units outstanding - end of period	<b>20,340,000</b>	<b>21,381,535</b>

For units reconsolidated refer to Note 8.

## 7. Fees and Expenses

The Trust pays a management fee to the Manager, computed daily and payable monthly in arrears at the annual rate of 0.75%, plus applicable taxes, of the net asset value of the Trust.

The Manager will also receive, for each fiscal year of the fund, a performance fee (the "Performance Fee"). The Performance Fee is calculated and accrued on a monthly basis and paid annually. The amount of the Performance Fee for a given year will be an amount for each unit of the Trust then outstanding equal to 15% of the amount by which the sum of (i) the net asset value of such unit (calculated without taking into account the Performance Fee), and (ii) the distributions paid on such unit during the previous 12 months or since the last performance fee was paid, exceeds 106.35% of the Threshold Amount.

The Threshold Amount is the greater of (i) the Net Asset Value per Unit of the Trust on the Determination Date for the previous fiscal year (after payment of such Performance Fee); and (ii) the Net Asset Value per Unit of the Trust on the determination date in the fiscal year in which a Performance Fee was last paid (after payment of such Performance Fee).

All other reasonable expenses in connection with the administration of the Trust, including trustee fees and custodian fees, are paid by the Trust. The Trust is also responsible for the costs of portfolio transactions and any extraordinary expenses that may be incurred from time to time.

## **8. Income Taxes**

The Trust qualifies as a unit trust and a financial institution for purposes of the mark-to-market rules contained in the Income Tax Act (Canada). The Trust is subject to tax on its net investment income, including any net realized and unrealized gain on its mark-to-market property, which is not paid or payable to its unitholder. The financial statements of the Trust do not include a provision for income taxes because under the terms of the declaration of trust, net investment income is distributed each year to its unitholder.

Where the Trust realizes income for tax purposes which is in excess of any distributions paid or made payable to the unitholder during the year, the declaration of trust provides that an additional distribution (the "Additional Distribution") will be automatically payable in each year to the unitholder on December 31. The Additional Distribution will be automatically reinvested in additional units of the Trust on December 31, following which the outstanding units of the Trust will be automatically consolidated on a basis such that the number of consolidated Units is equal to the number of Units outstanding immediately preceding the Additional Distribution.

## **9. Related Party Information**

The Trust retained Marret Asset Management Inc., under an administration agreement (the "Administration Agreement") dated May 28, 2009 to administer all of the ongoing operations of the Trust. In consideration for the services provided by the Manager, the Trust pays a management fee. The total management fees earned by Marret Asset Management Inc. for the period ended June 30, 2010 was \$939,309 (June 30, 2009 - \$54,116), of which \$153,496 (December 31, 2009 - \$154,977) remained payable.

The performance fee accrued for the period ended June 30, 2010 is \$55,291 (December 31, 2009 - \$2,766,635).

## **10. Capital Management**

The Trust's capital consists of the Unitholder's equity. The Manager is responsible for managing the Trust's Portfolio in line with its mandate and the affairs of the Trust, including the receipt of revenues and the payment of distributions to the Unitholder.

In accordance with its investment strategies and risk management policies, the Trust endeavours to invest their subscriptions received and borrowings in appropriate investments while maintaining sufficient liquidity to meet redemptions and the repayment of borrowings. Capital movements are shown in the Statements of Changes in Net Assets.

## **11. Capital Commitment**

The Trust had an unfunded capital commitment on December 31, 2009 amounting to \$6,211,570 which expired on June 30, 2010.

## 12. Financial Instrument Risk Management

In the normal course of business, the Trust is exposed to a variety of financial risks: market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk. The Trust's overall risk management program focuses on compliance with and execution of the Trust's investment objectives.

The Manager seeks to minimize potential adverse effects of these risks on the Trust's performance by employing professional, experienced portfolio advisers, daily monitoring of the Trust's positions and market events and by diversifying the investment portfolio within the constraints of the investment strategy. To assist in managing risks, the Manager also uses internal guidelines that identify the target exposure for each type of risk, maintains a governance structure that oversees the Trust's investment activities and monitors compliance with the Trust's stated investment strategy and securities regulations.

### Price Risk

Price Risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment.

The value of the Portfolio can fluctuate on a daily basis as a result of factors outside of the Trust's control, including financial performance of the issuers of the Portfolio Securities, operational risks relating to the specific business activities of the respective issuers, quality of assets owned by respective issuers, commodity prices, exchange rates, interest rates, environmental risks, political risks, issues relating to government regulation and taxation, composition of the Portfolio and other financial market conditions.

If the prices for the equity Portfolio Securities had increased or decreased by 5% as at June 30, 2010 (December 31, 2009 – 5%), with all other variables remaining constant, net assets of the Trust would have increased or decreased by approximately \$1,326,850 or 0.56% (December 31, 2009 - \$1,549,718 or 0.67%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### Interest Rate Risk

Interest rate risk arises from changes in the prevailing levels of market interest rates, resulting in fluctuations in the value of interest bearing financial instruments.

The table below summarizes the Trust's exposure to interest rate risks by remaining term to maturity.

<b>Bonds</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Less than 1 year	200,000	4,007,607
1 - 3 years	22,188,771	29,691,065
3 - 5 years	67,001,690	70,471,154
> 5 years	110,520,945	152,487,553
<b>Total</b>	<b>199,911,406</b>	<b>256,657,379</b>

If interest rates had increased or decreased by 1% at June 30, 2010 (December 31, 2009 – 1%), with all other variables remaining constant, net assets would have decreased or increased by approximately \$10,335,067 or 4.35% (December 31, 2009 - \$14,335,059 or 6.16%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

## Currency Risk

Currency risk is the risk that the value of investments will fluctuate due to changes in foreign exchange rates. This risk arises when financial instruments (including cash and cash equivalents) are denominated in a currency other than Canadian dollars, which represents the Trust's functional currency.

The table below indicates the currencies to which the Trust had significant exposure as at June 30, 2010 and December 31, 2009, on its trading monetary and non-monetary assets and liabilities as well as the underlying notional amount of forward currency contracts.

### As at June 30, 2010

	Currency risk Investments	Working Capital	Currency risk Due to broker	Forward Currency Contract	Net Exposure	As a % of Net Assets
U.S. Dollar	171,080,225	13,892,735	(3,659,570)	(186,977,988)	(5,664,598)	2.39%

### As at December 31, 2009

	Currency risk Investments	Working Capital	Currency risk Due to broker	Forward Currency Contract	Net Exposure	As a % of Net Assets
U.S. Dollar	191,198,929	6,233,309	(55,918,071)	(141,422,929)	91,238	0.04%

As at June 30, 2010, had the Canadian dollar strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$283,230 or 0.12% (December 31, 2009 - \$4,562 or 0.00%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

## Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. The main concentration of credit risk would be where a Trust invests in debt instruments and derivatives. The Trust maintains all of its cash and cash equivalents at its custodian or in bankers' acceptances or term deposits with financial institutions having a minimum debt rating of A.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is made only when the Trust has received payment. Payment is made on purchases once the securities have been received by the Trust. Should either party not meet its obligation, the trade will fail.

As at June 30, 2010 and December 31, 2009, the Trust invested in debt securities with the following credit ratings:

Debt securities by debt ratings	As a % of Net Assets	
	June 30, 2010	December 31, 2009
AAA	6.25	9.78
AA	-	-
A	0.75	2.76
BBB	2.62	3.00
Below BB	56.21	76.37
Unrated	18.36	18.43
Total	84.19	110.34

As at June 30, 2010 and December 31, 2009 Marret HYS Trust invested in derivatives with the following counterparty ratings:

Counterparty Ratings	As a % of Net Assets	
	June 30, 2010	December 31, 2009
A1+	1.88	0.13
A1	-	0.04
Total	1.88	0.17

### Liquidity Risk

The Trust is exposed to cash redemptions and repayment of borrowings. The Trust invests a substantial portion of its assets in investments that are traded in an active market and can be readily disposed of. There can be no assurance that an adequate market for the Portfolio Securities will exist at all times, or that the prices at which the Portfolio trades, accurately reflect their net asset values. Low trading volumes of the Portfolio Securities will make it difficult to liquidate holdings quickly. All liabilities are due in less than 3 months.

### Fair Value Hierarchy

Canadian Institute of Chartered Accountants Handbook Section 3862 ("Section 3862"), Financial Instruments - Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Inputs may be based on independent market data ("observable inputs") or they be internally developed ("unobservable inputs"). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the hierarchy are as follows:

Level (1) - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level (2) - investments that trade in markets that are not considered to be active, but whose values are based on inputs such as quoted market prices, dealer quotations or valuations provided by alternative pricing sources supported by observable inputs.

Level (3) - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used in valuing the Trust's investments and derivatives carried at fair values:

### As at June 30, 2010

	Level 1	Level 2	Level 3	Total
Bonds	\$ -	\$ 178,059,838	\$ 21,851,568	\$ 199,911,406
Equities	37,680,887	-	1,973,091	39,653,978
<b>Total Financial Assets</b>	<b>37,680,887</b>	<b>178,059,838</b>	<b>23,824,659</b>	<b>239,565,384</b>
Equities	(13,116,970)	-	-	(13,116,970)
Forward currency contracts	-	(4,451,859)	-	(4,451,859)
<b>Total Financial Liabilities</b>	<b>(13,116,970)</b>	<b>(4,451,859)</b>	<b>-</b>	<b>(17,568,829)</b>
<b>Total Investments</b>	<b>\$ 24,563,917</b>	<b>\$ 173,607,979</b>	<b>\$ 23,824,659</b>	<b>\$ 221,996,555</b>

**As at December 31, 2009**

	Level 1		Level 2		Level 3		Total
Bonds	\$	-	\$	256,657,379	\$	-	\$ 256,657,379
Equities		42,860,826		446,894		3,245,834	46,553,554
Forward currency contracts		-		304,691		-	304,691
Swaps		-		85,303		-	85,303
<b>Total Financial Assets</b>		<b>42,860,826</b>		<b>257,494,267</b>		<b>3,245,834</b>	<b>303,600,927</b>
Equities		(15,559,191)		-		-	(15,559,191)
<b>Total Financial Liabilities</b>		<b>(15,559,191)</b>		<b>-</b>		<b>-</b>	<b>(15,559,191)</b>
<b>Total Investments</b>	\$	<b>27,301,635</b>	\$	<b>257,494,267</b>	\$	<b>3,245,834</b>	\$ <b>288,041,736</b>

During the period ended June 30, 2010 and June 30, 2009, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

**For the period ended June 30, 2010**

	Balance, beginning of period	Purchases	Sales	Net transfers	Realized gains / (losses)	Change in unrealized appreciation / (depreciation)	Balance, end of period
Bonds	-	18,163,497	(2,335,068)	5,378,106	(61,182)	706,215	21,851,568
Equities	3,245,834	-	-	(1,203,245)	-	(69,498)	1,973,091
<b>Total</b>	<b>3,245,834</b>	<b>18,163,497</b>	<b>(2,335,068)</b>	<b>4,174,861</b>	<b>(61,182)</b>	<b>636,717</b>	<b>23,824,659</b>

There were no Level 3 holdings as at June 30, 2009

As at June 30, 2010, the potential impact of using reasonable possible alternative assumptions for valuing Level 3 financial instruments would increase their fair value by up to \$1,389,814 (December 31, 2009 - \$255,412), or decrease their fair value by up to \$1,361,432 (December 31, 2009 - \$215,143).

There were no transfers of financial assets and liabilities from Level 1 to Level 2 in the current period.

**13. Transition to International Financial Reporting Standards**

International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises, which include investment funds and other reporting issuers. Under the general transition rules for publicly accountable enterprises the Fund would adopt IFRS for its fiscal period beginning January 1, 2011.

The Fund has developed a plan to meet the timetable published by Canadian Institute of Chartered Accountants for changeover to IFRS. Key elements of the plan include the determination of the qualitative impact and the quantitative impact, if any, on the Fund’s financial statements in accordance with IFRS. Based on the current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is expected to have no impact on the calculation of net assets or net asset value. IFRS is expected to affect the overall presentation of financial statements and result in additional disclosure in the accompanying notes. However, the Manager’s assessment may change if new standards are issued or if the interpretations of current standards are revised.

In June 2010, the Canadian Accounting Standards Board published for comment an Exposure Draft proposing that investment companies, which include investment funds, can defer adoption of IFRS by one year. If the amendments proposed by the Exposure Draft are adopted, investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2012.