



Interim Financial Statements

## **Marret IGB Trust**

(unaudited)

June 30, 2011

### **NOTICE**

The accompanying unaudited financial statements of Marret IGB Trust for the six months ended June 30, 2011 have been prepared by management and have not been reviewed by the external auditors of the Fund.

## Marret IGB Trust - Semi Annual Report 2011

### Statements of Net Assets

As at (unaudited)	June 30 2011	December 31 2010
<b>Assets</b>		
Investments, at fair value (note 11)	\$ 403,163,189	\$ 394,762,109
Cash and cash equivalents	217,378	50,874
Cash margin on swaps	491,793	507,246
Receivable for portfolio securities sold	52,879,539	-
Accrued interest receivable	5,592,415	5,342,721
Unrealized gain on foreign forward currency contracts (note 4)	256,459	377,341
<b>Total assets</b>	<b>462,600,773</b>	<b>401,040,291</b>
<b>Liabilities</b>		
Due to broker (note 6)	54,388,904	52,974,496
Investment - short position, at fair value (note 11)	39,007,252	33,068,572
Payable for portfolio securities purchased	55,083,282	-
Interest payable, short position	183,516	170,731
Accrued liabilities	128,284	135,512
Unrealized loss on credit default swap agreement (note 5)	107,519	158,639
Unrealized loss on foreign forward currency contracts (note 4)	212,458	-
<b>Total liabilities</b>	<b>149,111,215</b>	<b>86,507,950</b>
<b>Net Assets representing unitholders' equity</b>	<b>\$ 313,489,558</b>	<b>\$ 314,532,341</b>
<b>Units outstanding (note 7)</b>	<b>25,113,067</b>	<b>25,113,067</b>
<b>Net Assets per unit (note 3)</b>	<b>\$ 12.48</b>	<b>\$ 12.52</b>

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

(signed)

(signed)

Barry Allan  
President & Chief Executive Officer

Marcus Spain  
Chief Financial Officer

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

## Marret IGB Trust - Semi Annual Report 2011

### Statements of Operations

	June 30	June 30
For the six-month periods ended June 30 (unaudited)	2011	2010
<b>Income</b>		
Interest income	\$ 11,071,840	\$ 11,259,358
Loss from credit default swaps	(163,836)	-
<b>Total income</b>	<b>10,908,004</b>	<b>11,259,358</b>
<b>Expenses</b>		
Management fees (note 8)	664,220	654,206
Audit fees	14,771	8,300
Custodial fees	15,020	20,555
Legal fees	-	(2,977)
Regulatory fees	297	-
Interest expense	354,508	222,558
Securities borrowing fees	51,427	-
Interest expense, short positions	628,233	432,750
<b>Total expense</b>	<b>1,728,476</b>	<b>1,335,392</b>
<b>Net investment income / (loss)</b>	<b>9,179,528</b>	<b>9,923,966</b>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain / (loss) on sale of investments	935,435	616,386
Net realized gain / (loss) on credit default swaps	(33,988)	-
Net realized gain / (loss) on foreign forward currency contracts	1,136,961	-
Net realized gain / (loss) on foreign currency	610,137	648,121
Change in unrealized appreciation / (depreciation) on investments	(4,117,040)	11,411,915
Change in unrealized appreciation / (depreciation) on credit default swaps	51,119	-
Change in unrealized appreciation / (depreciation) on foreign forward currency contracts	(333,340)	-
Change in unrealized appreciation / (depreciation) on foreign currency	63,405	(709,321)
<b>Realized and unrealized gain (loss) on investments</b>	<b>(1,687,311)</b>	<b>11,967,101</b>
<b>Increase / (decrease) in net assets from operations</b>	<b>\$ 7,492,217</b>	<b>\$ 21,891,067</b>
<b>Increase / (decrease) in net assets from operations per unit<sup>(1)</sup></b>	<b>\$ 0.30</b>	<b>\$ 0.81</b>

<sup>(1)</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 IGB Trust - Semi Annual Report 2011

### Statements of Changes in Net Assets

	June 30	June 30
For the six-month periods ended June 30 (unaudited)	2011	2010
<b>Net Assets, beginning of period</b>	\$ 314,532,341	\$ 325,566,324
<b>Operations:</b>		
Increase / (decrease) in net assets from operations	7,492,217	21,891,067
<b>Unitholder transactions:</b>		
Distribution to unitholders		
Net investment income	(8,535,000)	(9,200,000)
Total unit transactions	(8,535,000)	(9,200,000)
<b>Increase / (decrease) in Net Assets</b>	<b>(1,042,783)</b>	<b>12,691,067</b>
<b>Net Assets, end of period</b>	<b>\$ 313,489,558</b>	<b>\$ 338,257,391</b>

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

## Marret IGB Trust - Semi Annual Report 2011

### Statements of Cash Flows

For the six-month periods ended June 30 (unaudited)	June 30 2011	June 30 2010
<b>Cash flows provided by / (used in) operating activities:</b>		
Net investment income / (loss)	\$ 9,179,528	\$ 9,923,966
Proceeds from settlement of foreign currency and foreign forward currency contracts	1,810,503	(61,200)
Proceeds from settlement of credit default swaps	(33,988)	-
Proceeds from sale of investments	258,028,788	418,253,040
Proceeds from investments in short positions	599,224,013	467,067,760
Purchase of investments	(287,029,829)	(402,104,197)
Purchase of investments to cover short positions	(573,663,235)	(432,411,795)
Net change in working capital	(228,684)	(590,117)
<b>Cash provided by / (used in) operating activities</b>	<b>7,287,096</b>	<b>60,077,457</b>
<b>Cash flows provided by / (used in) financing activities:</b>		
Change in due to broker	1,414,408	(49,293,356)
Distributions paid to unitholders	(8,535,000)	(9,200,000)
<b>Cash provided by / (used in) financing activities</b>	<b>(7,120,592)</b>	<b>(58,493,356)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>166,504</b>	<b>1,584,101</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>50,874</b>	<b>758,362</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 217,378</b>	<b>\$ 2,342,463</b>
<b>Supplemental Information</b>		
Cash paid for interest	354,508	222,558
Cash interest paid on short positions	615,448	281,115

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

## Marret IGB Trust - Semi-Annual Report 2011

### Statement of Investment Portfolio

As at June 30, 2011 (unaudited)

Par Value	Average Cost (\$)	Fair Value (\$)
<b>Canadian Bonds</b>		
3,000,000 Alliance Pipeline L.P., Callable, 4.928%, 2019/12/16	3,000,000	3,121,481
10,000,000 American Express Canada Credit Corp., 4.853%, 2014/10/03	10,102,200	10,539,158
15,000,000 Bell Aliant Regional Communications L.P., Callable, 5.520%, 2019/02/26	14,986,500	15,391,570
4,500,000 Bell Canada, Callable, 4.950%, 2021/05/19	4,483,530	4,500,183
20,000,000 Bell Canada, Series 'M-17', Callable, 6.100%, 2035/03/16	18,602,750	19,746,648
3,000,000 Cameco Corp., Series 'D', Callable, 5.670%, 2019/09/02	3,127,440	3,186,001
10,000,000 Canadian Pacific Railway Co., Callable, 6.450%, 2039/11/17	10,585,180	11,004,161
9,500,000 Cogeco Cable Inc., Callable, 5.950%, 2014/06/09	10,126,650	10,220,255
14,000,000 Consumers' Waterheater Operating Trust (The), Callable, 5.250%, 2013/03/15	14,000,560	14,320,392
15,000,000 Co-operators Financial Services Ltd., Callable, 5.778%, 2020/03/10	14,994,300	15,342,374
16,000,000 First Capital Realty Inc., Series 'H', Callable, 5.850%, 2017/01/31	16,137,124	17,050,129
15,000,000 First National Financial Corp., Callable, 5.070%, 2015/05/07	15,000,000	15,357,214
10,000,000 Groupe Aeroplan Inc., Callable, 9.000%, 2012/04/23	10,676,000	10,414,548
1,900,000 Groupe Aeroplan Inc., Series '2', Callable, 7.900%, 2014/09/02	1,976,000	2,072,789
11,000,000 Husky Energy Inc., Callable, 5.000%, 2020/03/12	10,959,740	11,463,781
16,000,000 IGM Financial Inc., Callable, 6.000%, 2040/12/10	15,957,920	16,566,746
12,500,000 Inter Pipeline (Corridor) Inc., Callable, 4.897%, 2020/02/03	12,500,000	13,060,984
8,300,000 Molson Coors Capital Finance, Callable, 5.000%, 2015/09/22	8,743,575	8,807,219
12,000,000 Power Corp. of Canada, Callable, 7.570%, 2019/04/22	13,921,890	14,336,967
8,150,000 Rogers Communications Inc., Callable, 5.340%, 2021/03/22	8,163,751	8,207,039
15,000,000 Rogers Communications Inc., Callable, 6.560%, 2041/03/22	15,000,000	15,091,784
17,000,000 Shaw Communications Inc., Callable, 5.650%, 2019/10/01	17,286,423	17,455,732
6,309,000 Shaw Communications Inc., Callable, 6.750%, 2039/11/09	6,247,675	6,115,858
17,000,000 Suncor Energy Inc., Callable, 5.390%, 2037/03/26	15,730,862	17,260,936
5,000,000 Suncor Energy Inc., Callable, 6.500%, 2038/06/15 (USD)	5,668,892	5,328,793
15,100,000 Thomson Reuters Corp., Callable, 6.500%, 2018/07/15 (USD)	17,945,754	17,035,205
20,000,000 Viterro Inc., Callable, 5.950%, 2020/08/01 (USD)	20,552,782	19,611,889
5,000,000 Viterro Inc., Callable, 6.406%, 2021/02/16	5,000,000	5,256,223
21,574,000 Yellow Media Inc., Callable, 5.710%, 2014/04/21	21,294,049	20,089,730
<b>Canadian Corporate Bonds (110.99%, 2010: 116.28%)</b>	<b>342,771,547</b>	<b>347,955,789</b>
<b>Total Canadian Bonds (110.99%, 2010: 112.38%)</b>	<b>342,771,547</b>	<b>347,955,789</b>
<b>United States Bonds</b>		
28,000,000 Goldman Sachs Group Inc. (The), Variable Rate, Callable, 5.200%, 2022/04/19	27,686,363	27,155,800
<b>U.S. Corporate Bonds (8.66%, 2010: 9.23%)</b>	<b>27,686,363</b>	<b>27,155,800</b>
<b>United States Bonds - Short Position</b>		
(5,500,000) United States Treasury Bond, 0.500%, 2013/05/31 (USD)	(5,362,740)	(5,310,904)
(10,000,000) United States Treasury Bond, 3.125%, 2021/05/15 (USD)	(9,584,235)	(9,618,918)
(25,000,000) United States Treasury Bond, 4.375%, 2041/05/15 (USD)	(23,900,319)	(24,077,430)
<b>U.S. Federal Bonds &amp; Guaranteed (-12.44%, 2010: -6.62%)</b>	<b>(38,847,294)</b>	<b>(39,007,252)</b>
<b>Total U.S. Bonds (-3.78%, 2010: 2.61%)</b>	<b>(11,160,931)</b>	<b>(11,851,452)</b>
<b>International Bonds</b>		
18,000,000 Lloyds TSB Bank PLC, 5.280%, 2016/04/19	18,019,920	18,031,500
10,000,000 Sydney Airport Finance Co. Pty Ltd., Callable, 4.602%, 2018/07/27	9,999,600	10,020,100
<b>Total International Bonds (8.95%, 2010: 0.00%)</b>	<b>28,019,520</b>	<b>28,051,600</b>
<b>Investments (note 2)</b>	<b>398,477,430</b>	<b>403,163,189</b>
<b>Investments, short positions (note 2)</b>	<b>(38,847,294)</b>	<b>(39,007,252)</b>
<b>Total Investments (116.16%, 2010: 114.99%)</b>	<b>359,630,136</b>	<b>364,155,937</b>
Due to broker (-17.35%, 2010: -16.84%)		(54,388,904)
Margin (0.16%, 2010: 0.16%)		491,793
Unrealized gain on foreign forward currency contracts (0.08%, 2010: 0.12%) (note 4)		256,459
Unrealized loss on foreign forward currency contracts (-0.07%, 2010: 0.00%) (note 4)		(212,458)
Unrealized gain / (loss) on credit default swaps (-0.03%, 2010: -0.05%) (note 5)		(107,519)
Other assets, less liabilities (1.05%, 2010: 1.62%)		3,294,250
<b>Total Net Assets (100.00%)</b>		<b>313,489,558</b>

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

# **Marret IGB Trust – Semi Annual Report 2011**

## **Notes to the Financial Statements**

June 30, 2011

### **1. Fund Activities**

Marret IGB 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 September 29, 2009. The Trust will issue units from time to time in reliance on exemptions from applicable prospectus and registration requirements.

The Trust's investment objectives are to maximize total returns for holders of units while reducing risk and preserving capital. The Trust has been established for the purposes of acquiring and holding investments focused primarily on investment grade bonds. The Portfolio is actively managed by Marret Asset Management Inc. (“Marret” or “the Manager”) using an investment strategy designed to produce attractive risk-adjusted returns across the credit cycle through exposure to a portfolio of investment grade bonds. Over the course of a credit cycle, the investment strategy seeks to generate total returns in excess of the DEX Mid-Corporate Bond Index with less volatility.

Marret employs hedging strategies to protect the Portfolio against the risk of loss from currency fluctuations. It is intended that 100% of the Portfolio investments denominated in foreign currencies are hedged to the Canadian dollar.

The Trust is a vehicle to allow the Marret Investment Grade Bond 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.

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

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 investments 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. The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding commissions and other portfolio transaction costs, where applicable. The difference between fair value and the average cost of investments is recorded as unrealized appreciation/ (depreciation) of investments.

Investments for which reliable quotations are not readily available, or for which there is no bid 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.

Investment 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.

### **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.

### **Income Recognition**

Interest income, interest expense, securities lending income and security borrowing fees are recorded on an accrual basis.

### **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.

### **Foreign forward currency contracts**

Foreign 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), cash, receivables for accrued interest, and for investments sold, payables for investments purchased, and payable for interest payable on short positions, due to broker, and other accrued expenses. Investments (long and short) are classified as held for trading and carried at fair value. Distributions and cash, receivables for accrued interest and for investments sold are designated as loans and receivables and reported at amortized cost. Payables for

investments purchased, interest payable on short positions, due to broker and other accrued expenses are designated as financial liabilities and reported at amortized cost.

### 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 Trust (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.

	As at June 30, 2011	As at December 31, 2010
Net Asset Value per Unit	\$12.53	\$12.57
Net Assets per Unit	\$12.48	\$12.52

### 4. Foreign Forward Currency Contracts

The following foreign forward currency contracts were outstanding as at June 30, 2011 and December 31, 2010:

#### As at June 30, 2011

Settlement Date	Currency Buys	Notional Value	Currency Sells	Notional Value	Forward Rate	Current Rate	Unrealized Gain (Loss)
7/22/2011	CAD	14,183,226	USD	14,436,000	1.018	1.037	\$ 256,459 <sup>(1)</sup>
7/22/2011	USD	12,622,815	CAD	12,390,000	0.982	0.965	\$ (212,458) <sup>(2)</sup>
							<b>\$ 44,001</b>

**Counterparties:** Bank of New York Mellon Corp. (The) <sup>(1)</sup> and Royal Bank of Canada <sup>(2)</sup>

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

#### As at December 31, 2010

Settlement Date	Currency Buys	Notional Value	Currency Sells	Notional Value	Forward Rate	Current Rate	Unrealized Gain (Loss)
1/26/2011	CAD	17,398,513	USD	17,106,000	0.983	1.005	\$ 377,341
							<b>\$ 377,341</b>

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

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

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

## 5. Credit Default Swaps

The following credit default swap was outstanding as at June 30, 2011 and December 31, 2010:

### As at June 30, 2011

<b>Credit Default Swap Contracts</b>	<b>Underlying Security Credit Rating (*)</b>	<b>Notional Amount</b>	<b>Expiry Date</b>	<b>Fair Value</b>
Pay 1.00% quarterly times the notional amount. Receive payment only upon a default event of Markit CDX NA IG S16 Index	B	25,000,000	6/20/2016	<u>(\$107,519)</u> <u><u>(\$107,519)</u></u>

**Counterparty:** JP Morgan Securities Inc.

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

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

### As at December 31, 2010

<b>Credit Default Swap Contracts</b>	<b>Underlying Security Credit Rating (*)</b>	<b>Notional Amount</b>	<b>Expiry Date</b>	<b>Fair Value</b>
Pay 1.00% quarterly times the notional amount. Receive payment only upon a default event of Markit CDX NA IG S15 Index	B	25,000,000	12/20/2015	<u>(\$158,639)</u> <u><u>(\$158,639)</u></u>

**Counterparty:** JP Morgan Securities Inc.

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

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

## 6. Leverage

The Trust may utilize various forms of borrowing, including a loan facility and margin purchases, up to 25% 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 1.25:1.

In addition, the net exposure of the Trust should not exceed 125%, 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 month period ended June 30, 2011, the minimum and maximum amounts of net borrowings of the Trust were approximately \$17.9 million and \$78.7 million (year ended December 31, 2010 – \$3.4 million and \$105.6 million), respectively.

## 7. 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 (the "Unitholder").

### 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 Redemption Date. Units surrendered for redemption by a Unitholder 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, 2011 and June 30, 2010 consist of:

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Units outstanding - beginning of period	25,113,067	27,101,368
Issued for consideration	-	-
Reinvestment of distribution	-	-
Redemption	-	-
Reduced by consolidation	-	-
Units outstanding - end of period	<b>25,113,067</b>	<b>27,101,368</b>

## 8. Fees and Expenses

The Trust retained Marret Asset Management Inc., under an administration agreement dated September 29, 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 management fee is computed daily and payable monthly in arrears at the annual rate of 0.375%, plus applicable taxes, of the net asset value of the Trust. The total management fees earned by Marret Asset Management Inc. for the six month period ended June 30, 2011 were \$664,220 (June 30, 2010 – \$654,206) of which \$111,200 (December 31, 2010 - \$116,827) remained payable.

All other reasonable expenses in connection with the administration of the Trust are paid by the Trust. No trustee fees were charged during the period (2010 – nil).

## 9. 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 capital gains 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 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. The amount of the additional distribution as at December 31, 2010 was \$13,203,813.

## **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 the 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. 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 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 investments 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 underlying investments, 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 investments and other financial market conditions.

As at June 30, 2011 and December 31, 2010, the Trust was not exposed to price risk as all of the investments were debt securities.

## 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 net exposure to interest rate risks by remaining term to maturity.

	June 30, 2011			December 31, 2010		
	Long	Short	Net	Long	Short	Net
< 1 year	10,414,548	-	10,414,548	-	-	-
1 - 3 years	44,630,377	(5,310,904)	39,319,473	41,521,746	-	41,521,746
3- 5 years	54,807,880	-	54,807,880	69,304,262	(3,436,922)	65,867,340
> 5 years	293,310,384	(33,696,348)	259,614,036	283,936,101	(29,631,650)	254,304,451
<b>Total</b>	<b>403,163,189</b>	<b>(39,007,252)</b>	<b>364,155,937</b>	<b>394,762,109</b>	<b>(33,068,572)</b>	<b>361,693,537</b>

If interest rates had increased or decreased by 1% at June 30, 2011 (December 31, 2010 – 1%), with all other variables remaining constant, net assets would have decreased or increased by approximately \$21,340,166 or 6.81% (December 31, 2010 - \$24,965,909 or 7.94%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

The Trust also has interest rate exposure on credit facility borrowings, as at June 30, 2011 the borrowings were \$54,388,904 (December 31, 2010 - \$52,974,496). If interest rates had increased or decreased by 1% at June 30, 2011 (December 31, 2010 – 1%), with all other variables remaining constant, run-rate interest expense would have decreased or increased on an annualized basis by approximately \$543,889 or 0.17% (December 31, 2010 - \$529,745 or 0.17%). 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 net exposure as at June 30, 2011 and December 31, 2010, on its monetary and non-monetary assets and liabilities as well as the underlying notional amount of foreign forward currency contracts..

### As at June 30, 2011

	Currency risk Investments	Working Capital	Currency risk Due to broker	Forward Currency Contract	Net Exposure	As a % of Net Assets
U.S. Dollar	2,861,116	17,477,682	(19,688,191)	(1,749,224)	(1,098,617)	(0.35%)

### As at December 31, 2010

	Currency risk Investments	Working Capital	Currency risk Due to broker	Forward Currency Contract	Net Exposure	As a % of Net Assets
U.S. Dollar	21,408,378	825,209	(5,267,612)	(17,021,171)	(55,196)	0.02%

As at June 30, 2011, had the Canadian dollar strengthened or weakened by 5% (December 31, 2010 – 5%) in relation to all currencies, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$54,931 or 0.02% (December 31, 2010 - \$2,760 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 the Trust invests in debt instruments and derivatives. The fair value includes consideration of the credit worthiness of the issuer and therefore represents the maximum credit exposure of the Trust. 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, 2011 and December 31, 2010 the Trust invested in debt securities with the following credit ratings:

Debt securities by debt ratings	As a % of Net Assets					
	June 30, 2011			December 31, 2010		
	Long	Short	Net	Long	Short	Net
AAA	-	(12.44)	(12.44)	-	(10.51)	(10.51)
AA	-	-	-	-	-	-
A	36.37	-	36.37	36.20	-	36.20
BBB	92.24	-	92.24	89.30	-	89.30
<b>Total</b>	<b>128.61</b>	<b>(12.44)</b>	<b>116.17</b>	<b>125.50</b>	<b>(10.51)</b>	<b>114.99</b>

As at June 30, 2011 and December 31, 2010 the Trust invested in derivatives with the following counterparty ratings:

Counterparty Ratings	As a % of Net Assets	
	June 30, 2011	December 31, 2010
A1+	0.01	0.12
A1	(0.03)	(0.05)
<b>Total</b>	<b>(0.02)</b>	<b>0.07</b>

### 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 investments will exist at all times, or that the prices at which the investment trade, accurately reflect their fair value. Low trading volumes of the investments will make it difficult to liquidate holdings quickly. All liabilities are due in less than 3 months, except for credit default swaps which have expiry dates as disclosed in Note 5.

### 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 may 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 with inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

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, 2011**

	Level 1		Level 2		Level 3		Total
Bonds - Long	\$	-	\$	403,163,189	\$	-	\$ 403,163,189
Foreign forward currency contracts				256,459			256,459
<b>Total Financial Assets</b>		<b>-</b>		<b>403,419,648</b>		<b>-</b>	<b>403,419,648</b>
Bonds - Short		-		(39,007,252)		-	(39,007,252)
Foreign forward currency contracts				(212,458)			(212,458)
Credit default swaps				(107,519)			(107,519)
<b>Total Financial Liabilities</b>		<b>-</b>		<b>(39,327,229)</b>		<b>-</b>	<b>(39,327,229)</b>
<b>Total Investments</b>	\$	<b>-</b>	\$	<b>364,092,419</b>	\$	<b>-</b>	\$ <b>364,092,419</b>

**As at December 31, 2011**

	Level 1		Level 2		Level 3		Total
Bonds - Long	\$	-	\$	394,762,109	\$	-	\$ 394,762,109
Foreign forward currency contracts				377,341			377,341
<b>Total Financial Assets</b>		<b>-</b>		<b>395,139,450</b>		<b>-</b>	<b>395,139,450</b>
Bonds - Short		-		(33,068,572)		-	(33,068,572)
Credit default swaps				(158,639)			(158,639)
<b>Total Financial Liabilities</b>		<b>-</b>		<b>(33,227,211)</b>		<b>-</b>	<b>(33,227,211)</b>
<b>Total Investments</b>	\$	<b>-</b>	\$	<b>361,912,239</b>	\$	<b>-</b>	\$ <b>361,912,239</b>

## 12. Transition to International Financial Reporting Standards

In January 2011, the Canadian Accounting Standards Board ("AcSB") announced that it will provide a deferral to International Financial Reporting Standards ("IFRS") for investment companies until January 1, 2013. The Trust will adopt IFRS by the deadline provided by the AcSB or by such earlier time as may be required by the Canadian Securities Administrators. Under the original general transition rules for publicly accountable enterprises the Trust would adopt IFRS for its fiscal period beginning January 1, 2011.

The Trust 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 Trust'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.