

Financial Statements of

**LIONS DIVERSIFIED
STRATEGIES OM FUND**

Year ended December 31, 2010



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Lions Diversified Strategies OM Fund

We have audited the accompanying financial statements of Lions Diversified Strategies OM Fund, which comprise the statement of net assets as at December 31, 2010, and the statements of operations and changes in net assets for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets of the Lions Diversified Strategies OM Fund as at December 31, 2010, and the results of its operations and changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

March 30, 2011
Vancouver, Canada

LIONS DIVERSIFIED STRATEGIES OM FUND

Statements of Net Assets

December 31, 2010, and 2009

	2010	2009
Assets		
Cash	\$ 1,284,781	\$ 244,813
Investments	2,687,042	1,464,730
Accrued dividends and interest receivable	2,388	2,286
	3,974,211	1,711,829
Liabilities		
Investments sold short	-	300
Payable for securities purchased	61,650	12,805
Performance fees payable (note 4)	73,751	39,444
Management fees payable (note 4)	5,759	2,935
Accrued expenses and other payables	13,922	4,079
Subscriptions received in advance	804,000	-
	959,082	59,563
Net Assets	\$ 3,015,129	\$ 1,652,266
Net assets by series:		
Series A – Master sub-series	\$ 1,881,677	\$ 1,135,297
Series A – October 2009 sub-series	-	225,919
Series A – December 2009 sub-series	-	291,050
Series A – February 2010 sub-series	29,614	-
Series A – March 2010 sub-series	234,280	-
Series A – April 2010 sub-series	115,571	-
Series A – July 2010 sub-series	61,631	-
Series A – October 2010 sub-series	263,144	-
Series A – November 2010 sub-series	187,516	-
Series A – December 2010 sub-series	241,696	-
	\$ 3,015,129	\$ 1,652,266
Number of units outstanding (note 5):		
Series A – Master sub-series	134,736	97,500
Series A – October 2009 sub-series	-	20,000
Series A – December 2009 sub-series	-	28,000
Series A – February 2010 sub-series	2,500	-
Series A – March 2010 sub-series	20,000	-
Series A – April 2010 sub-series	10,000	-
Series A – July 2010 sub-series	5,000	-
Series A – October 2010 sub-series	23,500	-
Series A – November 2010 sub-series	17,500	-
Series A – December 2010 sub-series	23,000	-
Net assets per unit (note 6):		
Series A – Master sub-series	\$ 13.97	\$ 11.64
Series A – October 2009 sub-series	-	11.30
Series A – December 2009 sub-series	-	10.39
Series A – February 2010 sub-series	11.85	-
Series A – March 2010 sub-series	11.71	-
Series A – April 2010 sub-series	11.56	-
Series A – July 2010 sub-series	12.33	-
Series A – October 2010 sub-series	11.20	-
Series A – November 2010 sub-series	10.72	-
Series A – December 2010 sub-series	10.51	-

See accompanying notes to financial statements.

Approved by Lions Investment Management Ltd., in its capacity as Manager

"Travis Dowie" Director

"Frank Holler" Director

LIONS DIVERSIFIED STRATEGIES OM FUND

Statement of Operations

	Year ended December 31, 2010	Period from commencement of operations on July 1, 2009 to December 31, 2009
Investment income:		
Dividends	\$ 33,601	\$ 6,976
Interest	4,860	479
	38,461	7,455
Expenses (note 4):		
Performance fees	79,858	43,954
Management fees	39,530	12,564
Administration fees	35,897	10,176
Brokerage commission	54,769	5,250
Other	24,512	5,445
Total expenses, before waived expenses	234,566	77,389
Expenses waived by Manager	(14,230)	(7,759)
Total expenses	220,336	69,630
Net investment loss	(181,875)	(62,175)
Net realized gains on investments	386,058	806
Net realized losses on foreign currency	(3,772)	(3,154)
Net unrealized gain on investments	237,452	276,007
Brokerage commissions and transaction charges	-	(14,218)
Increase in net assets from operations	\$ 437,863	\$ 197,266
Increase in net assets from investment operations per sub-series:		
Series A – Master sub-series	\$ 318,207	\$ 160,297
Series A – October 2009 sub-series	-	25,919
Series A – December 2009 sub-series	-	11,050
Series A – February 2010 sub-series	4,655	-
Series A – March 2010 sub-series	34,586	-
Series A – April 2010 sub-series	15,715	-
Series A – July 2010 sub-series	11,727	-
Series A – October 2010 sub-series	28,426	-
Series A – November 2010 sub-series	12,674	-
Series A – December 2010 sub-series	11,873	-
	\$ 437,863	\$ 197,266
Increase in net assets from investment operations per unit:		
Series A – Master sub-series	\$ 2.36	\$ 1.35
Series A – October 2009 sub-series	-	1.30
Series A – December 2009 sub-series	-	0.39
Series A – February 2010 sub-series	1.86	-
Series A – March 2010 sub-series	1.73	-
Series A – April 2010 sub-series	1.57	-
Series A – July 2010 sub-series	2.35	-
Series A – October 2010 sub-series	1.21	-
Series A – November 2010 sub-series	0.72	-
Series A – December 2010 sub-series	0.52	-

See accompanying notes to financial statements.

LIONS DIVERSIFIED STRATEGIES OM FUND

Statement of Changes in Net Assets

Series A	Year ended December 31, 2010	Period from commencement of operations on July 1, 2009 to December 31, 2009
Net assets, beginning of period	\$ 1,652,266	\$ 10
Increase in net assets from operations	437,863	197,266
Capital transactions, proceeds from units issued	1,025,000	1,455,000
Capital transactions, proceeds from redemptions	(100,000)	(10)
Net assets, end of period	\$ 3,015,129	\$ 1,652,266

See accompanying notes to financial statements.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

1. The Fund:

The Lions Diversified Strategies OM Fund (the Fund and formerly Vistra Fund) is an open-end investment fund created by a Master Trust Agreement under the laws of the Province of British Columbia. The Fund was established on December 19, 2008 and commenced operations on July 1, 2009.

Lions Investment Management Ltd. (the Manager and formerly Vistra Capital Management Ltd.) is the manager and portfolio advisor of the Fund. Caledon Trust Company (the Trustee) has been appointed trustee of the Fund. The Trustee has delegated its responsibilities to the Manager in accordance with the Master Trust Agreement.

TD Securities Inc. (TDSI) in its role as prime broker for the Fund, holds the Fund's securities as collateral rather than under a custodial arrangement. However, TDSI is required to segregate and hold in trust all the Fund's securities that are fully paid for or otherwise represent excess margin.

2. Significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include estimates and assumptions made by the Manager that affect the reported amounts of assets, liabilities, revenue and expenses during the reporting year. The following is the summary of the significant accounting policies consistently followed by the Fund:

(a) Valuation of investments:

For financial reporting purposes, equity and fixed income investments listed on a recognized securities exchange or that are traded on an over-the-counter market are valued at their closing bid-price on the valuation date. Investments sold-short are valued at their closing ask-price on the valuation date.

Options written by the Fund are valued at the closing market value of the option that would have the effect of closing the position. Warrants are valued using an option pricing model.

Investments for which a current market value quotation is not available are valued in such manner as in the opinion of the Manager most accurately reflects the investments' fair value.

(b) Investment transactions and income:

Investment transactions are accounted for on a trade date basis. Interest income is recorded as earned and includes accretion of discounts and amortization of premiums on debt securities. Dividend income is recorded on the ex-dividend date. Distributions from investments in other investment funds are recognized when received by the Fund. Realized gains and losses arising from the sale of investments are determined using the weighted average cost basis. Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities by the Fund, are charged to operations in the period incurred.

Investment income, realized gains and losses arising from the sale of investments, and changes in unrealized appreciation or depreciation of investments are allocated among series of units based on each series' proportionate share of the net asset value of the Fund.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

2. Significant accounting policies (continued):

(c) Valuation of Series:

The net assets of a particular series of units is computed by calculating the Series' proportionate share of net assets of the Fund common to all series with investments valued at their closing bid-price (closing ask-price for short-sales), plus net assets of the Fund attributable only to that specific Series. Expenses directly attributable to a Series are charged only to that Series. Other common expenses are allocated proportionately based upon the relative net asset value of the respective series in relation to the total net asset value of the Fund.

Net asset values are calculated for each series (or sub-series) of units at each month-end valuation date. The net asset value per unit used for transacting subscriptions and redemptions of each series is further described in note 6.

(d) Foreign exchange:

The financial statements of the Fund are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Realized foreign currency gains and losses are recorded separately from other gains and losses in the statement of operations. Unrealized appreciation or depreciation of investments includes those gains and losses that result from foreign exchange rate changes.

3. Future accounting changes:

In February 2008, the Canadian Accounting Standards Board (AcSB) announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. For investment companies, however, the AcSB agreed to extend the option to defer their changeover by two years to January 1, 2013. As a publicly accountable investment company, the Company will be required to prepare December 31, 2013 financial statements, including comparative information for 2012, in compliance with IFRS.

The Fund is currently assessing the potential impact of the transition to IFRS on its financial statements, disclosures and broader financial reporting systems and controls. This includes analyzing the various elections available upon adoption and assessment of the potential impact of the conversion effort on systems, internal controls over financial reporting, disclosure controls and business activities.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

4. Management and other services:

(a) Expenses:

The Fund is responsible for payment of all expenses relating to the operation of the Fund and the carrying on of its business, including but not limited to: management fees and performance fees payable to the Fund's Manager and portfolio advisor; trustee fees; legal, audit and custodial fees; taxes; brokerage commissions; interest; operating and administrative costs; and costs associated with reporting to unitholders. The Manager has, at its discretion, agreed to waive certain expenses associated with the Fund. Such amounts are shown in the Statement of Operations.

(b) Management fees:

In consideration for management services, pursuant to the Master Trust Agreement, the Fund pays the Manager management fees at the annualized rates shown below (exclusive of HST charged thereon). The fees are calculated and paid monthly, based on the net asset value of the respective series of units of the Fund on the last business day of the month. The management fee is calculated prior to, and without taking into account, any performance fees payable to the Manager.

Series A	2%
Series B	2%

The management fee for Series I units is negotiated with the Manager by individual Series I unitholders and paid directly by each unitholder, outside the Fund.

(c) Performance fees:

In addition to the management fee payable in respect of each series of units, the Manager is entitled to receive performance fees for its services as portfolio advisor. The performance fee is equal to 20% of the increase in the net asset value of each sub-series of Series A and Series B units over the relevant period in excess of a 5% annualized minimum increase, subject to a quarterly "high watermark" that ensures any decline in the net asset value of each sub-series below the high watermark has to be recouped before performance fees will be charged in respect of the sub-series in any subsequent period. The high watermark for a sub-series is the greater of:

- (i) the purchase price of the sub-series, and
- (ii) if a performance fee has been paid in respect of the sub-series, the net asset value of the sub-series on the last date on which a performance fee was so paid.

Performance fees are calculated and accrued monthly and paid to the Manager quarterly.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

4. Management and other services (continued):

(c) Performance fees (continued):

Immediately following payment of performance fees to the Manager, the Manager may redesignate outstanding sub-series of a series as units of that same series (for example, by redesignating all outstanding sub-series of Series A units as Series A units), provided that all such redesignated sub-series are valued at their high watermark. This redesignation will occur on a pro-rata basis, based on the relative net asset value of each applicable sub-series. The use of sub-series and the periodic redesignation of outstanding sub-series in this manner enables the Manager to better track the performance of units purchased on a particular date and to charge the appropriate performance fee for each individual investor.

The performance fee for Series I units is negotiated by the Manager with individual Series I unitholders and is paid directly by each unitholder, outside the Fund.

5. Unit transactions:

The Master Trust Agreement authorizes the Fund to issue an unlimited number of units in one or more classes or series. Units have no nominal or par value. The Fund currently has three series of units: Series A, Series B and Series I. Series A units are available to investors who purchase units directly from the Manager. Series B units are available to investors who purchase units through authorized brokers or dealers. Series I units are available only to institutional investors or certain other investors who have entered into a separate agreement with the Manager. Each series of unit can be further subdivided into sub-series to enable the Manager to better track the performance of units purchased on a particular date. Units are redeemable, in accordance with the Master Trust Agreement, at the option of the holder on the last business day of each month subject to adequate notice being received by the Manager. For further information about the Fund, including each series, refer to the Fund's Confidential Offering Memorandum dated December 19, 2008.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

5. Unit transactions (continued):

The following units were issued or redeemed during the period:

	2010	2009
Series A:		
Balance, beginning of period	145,500	1
Issued:		
Series A – Master sub-series	45,254	97,500
Series A – October 2009 sub-series	-	20,000
Series A – December 2009 sub-series	-	28,000
Series A – February 2010 sub-series	2,500	-
Series A – March 2010 sub-series	20,000	-
Series A – April 2010 sub-series	10,000	-
Series A – July 2010 sub-series	5,000	-
Series A – October 2010 sub-series	23,500	-
Series A – November 2010 sub-series	17,500	-
Series A – December 2010 sub-series	23,000	-
Redeemed:		
Series A – Master sub-series	(8,018)	(1)
Series A – October 2009 sub-series	(20,000)	-
Series A – December 2009 sub-series	(28,000)	-
Balance, end of period	236,236	145,500

There were no Series B or Series I units issued or redeemed during 2010 or 2009.

6. Reconciliation of NAV to Net Assets:

Net assets per unit is computed by dividing the net assets attributable to the sub-series determined in accordance with GAAP, by the total number of units of the sub-series outstanding. Net increase in Net Assets from operations represents the net increase in net assets of the series from operations for the year divided by the monthly weighted average units outstanding for the year.

Net asset value (NAV) per unit is computed by dividing the NAV attributable to the sub-series of the Fund, determined for the purchase and redemption of units in accordance with the Fund's Trust Agreement, by the total number of units of the series outstanding. This amount may be different from the Net Assets per unit presented on the statement of net assets. Generally, any difference is due to valuing securities at bid (long) and ask (short) prices for GAAP purposes, while NAV typically utilizes closing sale price to determine fair value for the purchase and redemption of units.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

6. Reconciliation of NAV to Net Assets (continued):

December 31, 2010:

Sub-series	NAV			Per unit		
	NAV	Bid price adjustment	Net assets	NAV	Bid price adjustment	Net Assets
Series A – Master	1,893,656	(11,979)	1,881,677	14.05	(0.08)	13.97
Series A – February 2010	29,803	(189)	29,614	11.92	(0.07)	11.85
Series A – March 2010	235,772	(1,492)	234,280	11.79	(0.08)	11.71
Series A – April 2010	116,307	(736)	115,571	11.63	(0.07)	11.56
Series A – July 2010	62,022	(391)	61,631	12.40	(0.07)	12.33
Series A – October 2010	264,818	(1,674)	263,144	11.27	(0.07)	11.20
Series A – November 2010	188,710	(1,194)	187,516	10.78	(0.06)	10.72
Series A – December 2010	243,234	(1,538)	241,696	15.58	(0.07)	10.51
	3,034,322	(19,193)	3,015,129			

Sub-series	NAV			Per unit		
	NAV	Bid price adjustment	Net assets	NAV	Bid price adjustment	Net Assets
Series A – Master	1,138,873	(3,576)	1,135,297	11.68	(0.04)	11.64
Series A – October 2009	226,631	(712)	225,919	11.33	(0.03)	11.30
Series A – December 2009	291,967	(917)	291,050	10.43	(0.04)	10.39
	1,657,471	(5,205)	1,652,266			

7. Related party transactions:

The Manager, its officers and directors invest in units of the Fund from time to time in the normal course of business. All transactions with the Manager are measured at the exchange amounts. During the year ended December 31, 2010, 46,856 units (2009 – 25,000) of the Fund were owned by parties related to the Manager, or its officers and directors.

8. Financial instruments and risk management:

(a) Risk management:

The Fund's investment activities expose it to a variety of financial risks. The Fund's exposures to financial risks are concentrated in its investment holdings. Significant risks that are relevant to the Fund are discussed below.

The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objective, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager also uses internal guidelines that identify the target exposures for each type of risk, maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategies, internal guidelines, and securities regulations.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

8. Financial instruments and risk management (continued):

(b) Liquidity risk:

The Fund is exposed to monthly cash redemptions of units. In accordance with its Confidential Offering Memorandum, the Fund maintains a significant amount of its assets in liquid investments (i.e., investments that are traded in an active market and can be readily disposed).

(c) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As at December 31, 2010, the Fund is not exposed to significant credit risk as the Fund's investments consist of exchange traded securities, where credit risk is guaranteed by the exchange, and investments in convertible bonds comprised only 2.3% (2009 - 7.4%) of total investments.

(d) Market risk:

(i) Currency risk:

Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The Fund may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currency. As at December 31, 2010, the Fund held investments of \$88,256 (2009 – nil) in U.S. dollars.

As at December 31, 2010, if the Canadian dollar had strengthened or weakened by 0.146% (2009 – nil) in relation to all currencies, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$4,413 (2009 – nil). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(ii) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments. The Fund may be exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its investments. As at December 31, 2010, the Fund was not exposed to significant interest rate risk as only 2.3% (2009 - 7.4%) of total investments were interest sensitive.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

8. Financial instruments and risk management (continued):

(d) Market risk (continued):

(iii) Other price risk:

Other 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 currency risk or interest rate), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The Fund's investment portfolio is monitored on a daily basis by the Manager. Except for written options and securities sold short, the maximum risk resulting from financial instruments is equivalent to their fair values as set forth in the Fund's statement of net assets. Possible losses from written options and securities sold short can be unlimited.

The following table summarizes the Fund's exposure to other price risk as at December 31, 2009, by providing the market sector breakdown of investments.

	2010	2009
Communications	\$ 125,580	\$ 291,120
Energy	1,088,711	286,940
Consumer, non-cyclical	411,899	226,490
Technology	261,709	196,990
Financials	105,923	155,150
Basic materials	384,595	152,050
Consumer, cyclical	212,465	92,850
Utilities	-	36,200
Industrial	96,160	26,940
	<u>\$ 2,687,042</u>	<u>\$ 1,464,730</u>

For the Fund, the most significant exposure to other price risk arises from its investment in equity securities. As at December 31, 2010, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$268,704 (2009 - \$146,000), approximately 8.91% of net assets (2009 - 8.86%). In practice, the actual trading results may differ and the difference could be material.

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

9. Fair value disclosure:

The fair value of a financial instrument is the amount at which the investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The Fund's financial instruments are recorded at estimated fair value in the financial statements.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Fund's investments. 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 Manager has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are 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.

The following fair value hierarchy table presents information about the Fund's financial instruments measured at fair value:

December 31, 2010	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$ 1,284,781	\$ -	\$ -	\$ 1,284,781
Bonds	69,005	-	-	69,005
Options/warrants	-	70,701	-	70,701
Equities	2,497,522	-	49,815	2,547,337
Total assets	\$ 3,851,308	\$ 70,701	\$ 49,815	\$ 3,971,824
Liabilities:				
Options/warrants	\$ -	\$ -	\$ -	\$ -
December 31, 2009				
Assets:				
Cash	\$ 244,813	\$ -	\$ -	\$ 244,813
Bond	108,550	-	-	108,550
Options/warrants	24,770	32,250	-	57,020
Equities	1,263,310	35,850	-	1,299,160
Total assets	\$ 1,641,443	\$ 68,100	\$ -	\$ 1,709,543
Liabilities:				
Options/warrants	\$ (300)	\$ -	\$ -	\$ (300)

LIONS DIVERSIFIED STRATEGIES OM FUND

Notes to Financial Statements

Year ended December 31, 2010

9. Fair value disclosure (continued):

(a) Significant transfers between Levels 1 and 2:

For the year ended December 31, 2010 and 2009, there were no transfers between investments categorized as Levels 1 and 2.

(b) Reconciliation of the opening balance to the ending balance for instruments categorized as Level 3:

	2010	2009
Opening balance	\$ -	\$ -
Purchases	49,815	-
Change in unrealized gain	-	-
	<u>\$ 49,815</u>	<u>\$ -</u>

10. Income taxes:

The Fund is expected to qualify as a unit trust under the *Income Tax Act (Canada)* and will therefore not be subject to income tax (other than alternative minimum tax) on the portion of its income for income tax purposes, including net realized taxable capital gains, paid or made payable to unitholders during the year. All or substantially all of the income for income tax purposes of the Fund is paid or made payable to unitholders annually on or before December 31.

The Fund has non-capital losses available for utilization against taxable income in future years. If not utilized, these non-capital losses will expire as follows:

2030	\$ 62,000
	<u>\$ 62,000</u>

The Fund has no capital losses available to be carried forward at December 31, 2010 (2009 - \$10,000). Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.