Financial Statements of

MAXAM DIVERSIFIED STRATEGIES FUND

Year ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Maxam Diversified Strategies Fund

We have audited the accompanying financial statements of Maxam Diversified Strategies Fund, which comprise the statement of net assets as at December 31, 2012, 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 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 Maxam Diversified Strategies Fund as at December 31, 2012, and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

March 26, 2013
Vancouver, Canada

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Net Assets

December 31, 2012, with comparative information for 2011

	Notes	2012	2011
Assets			
Cash		$ 1,104,761	$ 3,804,967
Investments		6,339,510	3,578,441
Accrued dividends and interest receivable		8,390	7,985
		7,452,661	7,391,393
Liabilities			
Accrued liabilities and other accounts payable		$ 3,459	$ 3,465
Management fees payable	4	13,839	13,835
Performance fees payable	4	480	-
Redemptions payable		24,233	136,760
		42,011	154,060
Net Assets		$ 7,410,650	$ 7,237,333
Net assets by series:			
Series A - Master sub-series		$ 1,698,220	$ 2,087,874
Series A - January 2011 sub-series		469,425	427,815
Series A - February 2011 sub-series		137,743	142,287
Series A - March 2011 sub-series		27,327	24,905
Series A - April 2011 sub-series		46,197	63,154
Series A - July 2011 sub-series		510,969	464,943
Series A - September 2011 sub-series		4,211,760	3,838,138
Series A - May 2012 sub-series		52,359	-
Series A - December 2012 sub-series		75,000	-
Series B - June 2011 sub-series		-	21,923
Series B - October 2011 sub-series		75,500	69,207
Series B - November 2011 sub-series		106,150	97,087
		$ 7,410,650	$ 7,237,333

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Net Assets (continued)

December 31, 2012, with comparative information for 2011

	Notes	2012	2011
Number of units outstanding:	5		
Series A - Master sub-series		129,726	174,954
Series A - January 2011 sub-series		50,400	50,400
Series A - February 2011 sub-series		14,986	16,986
Series A - March 2011 sub-series		3,000	3,000
Series A - April 2011 sub-series		5,000	7,500
Series A - July 2011 sub-series		50,000	50,000
Series A - September 2011 sub-series		402,500	402,500
Series A - May 2012 sub-series		5,000	-
Series A - December 2012 sub-series		7,500	-
Series B - June 2011 sub-series		-	2,500
Series B - October 2011 sub-series		7,000	7,000
Series B - November 2011 sub-series		9,963	9,963

	Notes	2012	2011
Net assets per unit:	6		
Series A - Master sub-series		$ 13.09	$ 11.93
Series A - January 2011 sub-series		9.31	8.49
Series A - February 2011 sub-series		9.19	8.38
Series A - March 2011 sub-series		9.11	8.30
Series A - April 2011 sub-series		9.24	8.42
Series A - July 2011 sub-series		10.22	9.30
Series A - September 2011 sub-series		10.46	9.54
Series A - May 2012 sub-series		10.47	-
Series A - December 2012 sub-series		10.00	-
Series B - June 2011 sub-series		-	8.77
Series B - October 2011 sub-series		10.79	9.89
Series B - November 2011 sub-series		10.65	9.75

See accompanying notes to financial statements.

Approved by Maxam Capital Management Ltd., in its capacity as Manager:

"Travis Dowle" Director *"Johnny Ciampi"* Director

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Operations

Year ended December 31, 2012, with comparative information for 2011

	Notes	2012	2011
Investment income:			
Dividends		$ 46,491	$ 33,854
Interest		30,302	22,318
		76,793	56,172
Expenses:	4		
Management fees		147,122	102,994
Fund expenses absorbed by manager		26,880	20,411
HST expense		21,743	15,581
Brokerage commission		5,211	9,082
Performance fees		613	203
Professional & Administration fees		40,052	61,668
Interest expense on securities sold short		1,083	4,916
Dividend expense		651	-
Total expenses, before waived expenses		243,355	214,855
Expenses waived by Manager		(26,880)	(20,411)
Total expenses		216,475	194,444
Net investment loss		(139,682)	(138,272)
Net realized loss on investments		(99,152)	(110,729)
Net realized gain on foreign currency		2,382	5,053
Net change in unrealized gain (loss) on investments		910,540	(546,470)
Increase (decrease) in net assets from operations		$ 674,088	$ (790,418)

Increase (decrease) in net assets from investment operations per sub-series:	2012	2011
Series A - Master sub-series	$ 171,732	$ (401,407)
Series A - January 2011 sub-series	41,610	(116,172)
Series A - February 2011 sub-series	13,250	(27,571)
Series A - March 2011 sub-series	2,422	(5,095)
Series A - April 2011 sub-series	5,402	(11,846)
Series A - July 2011 sub-series	46,026	(35,057)
Series A - September 2011 sub-series	373,622	(186,862)
Series A - May 2012 sub-series	2,359	-
Series A - December 2012 sub-series	-	-
Series B - June 2011 sub-series	2,309	(3,077)
Series B - October 2011 sub-series	6,293	(793)
Series B - November 2011 sub-series	9,063	(2,538)
	$ 674,088	$ (790,418)

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Operations (continued)

Year ended December 31, 2012, with comparative information for 2011

	Notes	2012	2011
Increase (decrease) in net assets from investment operations per unit:	5		
Series A - Master sub-series		$ 1.14	$ (2.03)
Series A - January 2011 sub-series		0.83	(1.49)
Series A - February 2011 sub-series		0.79	(1.62)
Series A - March 2011 sub-series		0.81	(1.70)
Series A - April 2011 sub-series		0.74	(1.58)
Series A - July 2011 sub-series		0.92	(0.70)
Series A - September 2011 sub-series		0.92	(0.46)
Series A - May 2012 sub-series		0.47	-
Series A - December 2012 sub-series		-	-
Series B - June 2011 sub-series		0.92	(1.23)
Series B - October 2011 sub-series		0.90	(0.11)
Series B - November 2011 sub-series		0.91	(0.25)

See accompanying notes to financial statements.

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Changes in Net Assets

Year ended December 31, 2012, with comparative information for 2011

Series A	2012	2011
Net assets, beginning of year	$ 7,049,116	$ 3,015,129
Increase (decrease) in net assets from operations	656,423	(784,010)
Capital transactions, proceeds from units issued	125,000	5,603,861
Capital transactions, payment on redemptions	(601,539)	(785,864)
Series A net assets, end of year	$ 7,229,000	$ 7,049,116

Series B	2012	2011
Net assets, beginning of year	$ 188,217	$ -
Increase in net assets from operations	17,665	(6,408)
Capital transactions, proceeds from units issued	-	194,625
Capital transactions, payment on redemptions	(24,232)	-
Series B net assets, end of year	$ 181,650	$188,217
Total net assets, end of year	$ 7,410,650	$ 7,237,333

See accompanying notes to financial statements.

1. The Fund:

The Maxam Diversified Strategies Fund (the 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.

Maxam Capital Management Ltd. (the Manager) is the manager and portfolio advisor of the Fund. Valiant 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 (Canadian GAAP). 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 year 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.

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.

(e) Use of estimates and judgments:

The preparation of financial statements in conformity with Canadian GAAP requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

3. Future accounting changes:

International Financial Reporting Standards have replaced Canadian GAAP for all publicly accountable enterprises on January 1, 2011. The Accounting Standards Board (AcSB) has provided a deferral to investment companies (as defined by Accounting Guideline 18, *Investment Companies)*, to apply pre-changeover standards until fiscal years beginning on or after January 1, 2014. The deferral of the mandatory changeover to IFRS from January 1, 2011 to January 1, 2014 is intended to allow the International Accounting Standards Board's proposed exemption from consolidation of investment funds to be in place prior to adoption of IFRS by investment companies in Canada. The impact of adopting IFRS is expected to be mainly in the presentation and additional disclosure in the financial statements of the Fund.

3. Future accounting changes (continued):

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of the impact of IFRS, and the impact of new standards issued by the IASB prior to the Fund's adoption of IFRS (see commentary below). The criteria contained within IAS 32, *Financial Instruments: Presentation*, may require unitholders' equity to be classified as a liability within the Fund's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Fund's unitholder structure to confirm the appropriate classification in accordance with IFRS.

IFRS is also expected to affect the overall presentation of financial statements, such as the inclusion of a Statement of Cash Flows in the financial statements. Overall, enhanced disclosure requirements are expected.

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 specifies prospective application for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. If a Fund applies IFRS 13 for an earlier period, disclosure of this fact is required. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It applies when other IFRSs require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the NAV per unit and net assets per unit under current Canadian GAAP.

In October 31, 2012, the IASB published *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*, which provides an exemption from consolidation of subsidiaries under IFRS 10, *Consolidated Financial Statements*, for entities which meet the definition of an 'investment entity'. A qualifying investment entity is *required* to account for investments in controlled entities - as well as investments in associates and joint ventures - at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. The consolidation exception is mandatory - not optional.

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.

4. Management and other services (continued):

(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.

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.

The following units were issued or redeemed during the period:

2012					
Shares	Opening	Shares Issued	Shares Redeemed	Transfers	Closing
Series A – Master	174,954	-	(45,228)	-	129,726
Series A – January 2011	50,400	-	-	-	50,400
Series A – February 2011	16,986	(2,000)	-	-	14,986
Series A – March 2011	3,000	-	-	-	3,000
Series A – April 2011	7,500	(2,500)	-	-	5,000
Series A – July 2011	50,000	-	-	-	50,000
Series A – September 2011	402,500	-	-	-	402,500
Series A – May 2012	-	5,000	-	-	5,000
Series A – December 2012	-	7,500	-	-	7,500
Balance, end of year	705,340	8,000	(45,228)	-	668,112

2012					
Shares	Opening	Shares Issued	Shares Redeemed	Transfers	Closing
Series B – June 2011	2,500	(2,500)	-	-	-
Series B – October 2011	7,000	-	-	-	7,000
Series B – November 2011	9,963	-	-	-	9,963
Balance, end of year	19,463	(2,500)	-	-	16,963

There were no Series I units issued or redeemed during 2012 or 2011.

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 financial reporting purposes, while NAV typically utilizes closing sale price to determine fair value for the purchase and redemption of units.

2012						
	NAV			Per unit		
Sub-series	NAV	Bid/ask price adjustment	Net assets	NAV	Bid/ask price adjustment	Net assets
Series A - Master sub-series	1,710,724	(12,504)	1,698,220	13.19	(0.10)	13.09
Series A - January 2011 sub-series	472,881	(3,456)	469,425	9.38	(0.07)	9.31
Series A - February 2011 sub-series	138,757	(1,014)	137,743	9.26	(0.07)	9.19
Series A - March 2011 sub-series	27,528	(201)	27,327	9.18	(0.07)	9.11
Series A - April 2011 sub-series	46,537	(340)	46,197	9.31	(0.07)	9.24
Series A - July 2011 sub-series	514,731	(3,762)	510,969	10.29	(0.07)	10.22
Series A - September 2011 sub-series	4,238,999	(27,239)	4,211,760	10.53	(0.07)	10.46
Series A - May 2012 sub-series	52,669	(310)	52,359	10.53	(0.06)	10.47
Series A - December 2012 sub-series	75,000	-	75,000	10.00	-	10.00
Series B - October 2011 sub-series	76,056	(556)	75,500	10.87	(0.08)	10.79
Series B - November 2011 sub-series	106,932	(782)	106,150	10.73	(0.08)	10.65
	7,460,814	(50,164)	7,410,650			

6. Reconciliation of NAV to net assets (continued):

2011

	NAV			Per unit		
Sub-series	NAV	Bid/ask price adjustment	Net assets	NAV	Bid/ask price adjustment	Net assets
Series A - Master sub-series	2,102,827	(14,953)	2,087,874	12.01	(0.08)	11.93
Series A - January 2011 sub-series	430,692	(2,877)	427,815	8.55	(0.06)	8.49
Series A - February 2011 sub-series	143,244	(957)	142,287	8.44	(0.06)	8.38
Series A - March 2011 sub-series	25,072	(167)	24,905	8.36	(0.06)	8.30
Series A - April 2011 sub-series	63,578	(424)	63,154	8.48	(0.06)	8.42
Series A - July 2011 sub-series	468,070	(3,127)	464,943	9.36	(0.06)	9.30
Series A - September 2011 sub-series	3,863,955	(25,817)	3,838,138	9.60	(0.06)	9.54
Series B - June 2011 sub-series	22,071	(148)	21,923	8.83	(0.06)	8.77
Series B - October 2011 sub-series	69,673	(466)	69,207	9.96	(0.07)	9.89
Series B - November 2011 sub-series	97,740	(653)	97,087	9.82	(0.07)	9.75
	7,286,922	(49,589)	7,237,333			

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, its offices and Directors are measured at the exchange amounts. At December 31, 2012, 856 Series A units (2011 - 856 Series A units) and 16,963 Series B units (2011 - 16,963 Series B Units), of the Fund were owned by 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.

8. Financial instruments and risk management (continued):

(b) 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, 2012, 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 4.4% (2011 - 2.7%) of total net assets.

(c) Liquidity risk:

Liquidity risk is the risk that the Fund may not be able to meet its financial obligations as they fall due. 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).

(d) Market risk:

(*i*) 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, 2012, the Fund was not exposed to significant interest rate risk as only 4.4% (2011 - 2.7%) of total net assets were interest sensitive.

(*ii*) Currency risk:

Currency risk is the risk that financial instruments which are denominated 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, 2012, the Fund held investments of $249,873 (2011 - $30,672) in U.S. dollars.

As at December 31, 2012, if the Canadian dollar had strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately $12,494 (2011 - $1,534). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

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 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. 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, by providing the market sector breakdown of investments.

	2012	2011
Communications	$ 217,320	$ -
Energy	814,740	1,043,379
Consumer, non-cyclical	126,000	-
Technology	2,085,875	1,035,171
Financials	342,410	-
Basic materials	867,350	484,908
Consumer, cyclical	659,660	376,625
Health care	43,450	167,402
Industrial	855,080	269,526
	$ 6,011,885	$ 3,377,011

For the Fund, the most significant exposure to other price risk arises from its investment in equity securities. As at December 31, 2012, 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 $601,189 (2011 - $337,701), approximately 8.12% of net assets (2011 - 4.61%). In practice, the actual trading results may differ and the difference could be material.

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:

2012	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 1,104,761	$ -	$ -	$ 1,104,761
Bonds	327,625	-	-	327,625
Options/warrants	-	17,370	-	17,370
Equities	5,959,515	-	35,000	5,994,515
Total assets	$ 7,391,901	$ 17,370	$ 35,000	$ 7,444,271

9. Fair value disclosure (continued):

2011	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 3,804,967	$ -	$ -	$ 3,804,967
Bonds	201,430	-	-	201,430
Options/warrants	-	14,883	-	14,883
Equities	3,337,128	-	25,000	3,362,128
Total assets	$ 7,343,525	$ 14,883	$ 25,000	$ 7,383,408

(a) Significant transfers between Levels 1 and 2:

For the year ended December 31, 2012 and 2011, 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:

	2012	2011
Opening balance	$ 25,000	$ 49,815
Sales	-	(49,815)
Purchases	-	25,000
Transfer from level one	10,000	-
	$ 35,000	$ 25,000

10. Income taxes:

The Fund is 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 of $288,000 (2011 - $119,000). If not utilized, these non-capital losses will expire as follows:

2030	$ 62,000
2031	119,000
2032	107,000
	$ 288,000

The Fund has capital losses of $156,000 available to be carried forward at December 31, 2012 (2011 - $57,000). Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.