MARRET ASSET MANAGEMENT INC.

Interim Financial Statements

Marret High Yield Strategies Fund

(unaudited)

June 30, 2013

NOTICE

The accompanying unaudited financial statements of Marret High Yield Strategies Fund for the six months ended June 30, 2013 have been prepared by management and have not been reviewed by the external auditors of the Fund.

Statements of Net Assets

As at (unaudited)		June 30 2013		December 31 2012
Assets				
Investments, at fair value (note 2)	$	15,251	$	15,392
Forward purchase agreement, at fair value (note 3)		616,603,676		669,825,439
Cash and cash equivalents		9,094,383		5,505,664
Other receivable		301,618		236,222
Accrued interest receivable		35		37
Prepaid expenses		2,848		-
Total assets		**626,017,811**		**675,582,754**
Liabilities				
Payable for units redeemed		1,458,688		-
Accrued liabilities		1,340,377		1,412,936
Distributions payable to unitholders		3,380,487		3,437,941
Total liabilities		**6,179,552**		**4,850,877**
Unitholders' equity				
Unitholders' equity (note 4)		564,612,291		595,314,556
Retained earnings		55,225,968		75,417,321
Net Assets representing unitholders' equity	**$**	**619,838,259**	**$**	**670,731,877**
Units outstanding (note 4)		**67,448,241**		**68,758,811**
Net Assets per unit (note 2)	**$**	**9.19**	**$**	**9.75**

Approved on behalf of the Manager, 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.

Statements of Operations and Retained Earnings

For the six-month periods ended June 30 (unaudited)		June 30 2013		June 30 2012
Income				
Interest revenue	$	224	$	224
Expenses				
Management fees (note 5)		892,729		1,026,718
Service fees (note 5)		1,428,366		1,642,715
Audit fees		7,340		2,806
Custodial fees		19,526		18,843
Professional fees		536		-
Trustee fees		2,730		2,742
Legal fees		22,874		2,426
Regulatory fees		87,199		35,206
Transfer agent fees		6,636		6,959
Commission fees (note 4)		21,157		-
Counterparty fees (note 5)		887,591		933,020
Interest expense		30		-
Total expenses		**3,376,714**		**3,671,435**
Net investment loss		**(3,376,490)**		**(3,671,211)**
Realized and unrealized gain / (loss) on investments				
Net realized gain on forward purchase agreement		4,317,090		3,070,270
Change in unrealized appreciation / (depreciation) on forward purchase agreement		(19,392,049)		1,233,113
Change in unrealized depreciation on investments		(141)		(160)
Realized and unrealized gain / (loss) on investments		**(15,075,100)**		**4,303,223**
Increase / (decrease) in net assets from operations	**$**	**(18,451,590)**	**$**	**632,012**
Increase / (decrease) in net assets from operations per unit [(1)]	**$**	**(0.27)**	**$**	**0.01**
Retained earnings, beginning of period	$	75,417,321	$	65,974,740
Increase / (decrease) in net assets from operations		(18,451,590)		632,012
Shares redeemed at more than weighted average unit capital		(1,739,763)		(18,746)
Retained earnings, end of period	**$**	**55,225,968**	**$**	**66,588,006**

[(1)] 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.

Statements of Changes in Net Assets

For the six-month periods ended June 30 (unaudited)		June 30 2013		June 30 2012
Net Assets, beginning of period	**$**	670,731,877	**$**	605,283,670
Operations:				
Increase / (decrease) in net assets from operations		(18,451,590)		632,012
Unitholder transactions:				
Distribution to unitholders (note 6)				
Return of capital		(20,467,881)		(31,049,841)
Proceeds from issuance of units		8,220,200		224,555,250
Payments on redemption of units		(19,862,712)		(208,676)
Issuance costs		(331,635)		(9,323,787)
Total unitholder transactions		(32,442,028)		183,972,946
Increase / (decrease) in Net Assets		**(50,893,618)**		**184,604,958**
Net Assets, end of period	**$**	**619,838,259**	**$**	**789,888,628**

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

Statements of Cash Flows

For the six-month periods ended June 30 (unaudited)		June 30 2013		June 30 2012
Cash flows provided by / (used in) operating activities:				
Net investment income / (loss)	$	(3,376,490)	$	(3,671,211)
Proceeds on partial settlements of forward purchase agreement		38,146,804		33,590,833
Prepayment of forward purchase agreement		-		(215,223,040)
Net change in working capital		(140,801)		235,219
Cash provided by / (used in) operating activities		**34,629,513**		**(185,068,199)**
Cash flows provided by / (used in) financing activities:				
Proceeds from issuance of units		8,220,200		224,555,250
Issuance costs		(331,635)		(9,323,787)
Distributions paid to unitholders		(20,525,335)		(29,638,566)
Payments on redemption of units		(18,404,024)		(208,676)
Cash provided by / (used in) financing activities		**(31,040,794)**		**185,384,221**
Net increase / (decrease) in cash and cash equivalents		**3,588,719**		**316,022**
Cash and cash equivalents, beginning of period		**5,505,664**		**245,471**
Cash and cash equivalents, end of period	**$**	**9,094,383**	**$**	**561,493**

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

Statement of Investment Portfolio

As at June 30, 2013 (unaudited)

Par Value		Average Cost ($)	Fair Value ($)
Canadian Bond			
15,000	Government of Canada, 3.000%, 2014/06/01	15,285	15,251
Government of Canada & Guaranteed (0.00%, 12/31/2012: 0.00%)		**15,285**	**15,251**
Forward Purchase Agreement (note 3) (99.48%, 12/31/2012: 99.87%)		**560,523,645**	**616,603,676**
Total Investments (99.48%, 12/31/2012: 99.87%)		**560,538,930**	**616,618,927**
Other assets, less liabilities (0.52%, 12/31/2012: 0.13%)			3,219,332
Total Net Assets (100.00%)			**619,838,259**

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

Notes to the Financial Statements
June 30, 2013
(unaudited)

1. Fund Activities

Marret High Yield Strategies Fund (the “Fund”) is a closed-end investment fund established under the laws of the Province of Ontario and is governed by a declaration of trust dated May 28, 2009. Marret Asset Management Inc. (“Marret” or the “Manager”) is the manager of the Fund and provides all administrative services required by the Fund.

The Fund's investment objectives are:

- (i) to maximize total returns for holders of units consisting of both tax-advantaged distributions and capital appreciation, while reducing risk; and
- (ii) to provide unitholders with attractive monthly tax-advantaged cash distributions

The Fund has exposure to a portfolio focused primarily on High Yield Debt. The Manager’s investment strategy for the portfolio is designed to produce attractive risk-adjusted returns in each phase of the credit cycle. Over the course of the credit cycle, the investment strategy seeks to generate returns consistent with the long-term performance of equity indices, and with volatility and risk characteristics consistent with 10-Year U.S. Treasury notes.

Units of the Fund commenced trading on June 17, 2009 on the Toronto Stock Exchange. Net proceeds of $214.6 million (net of issue costs of $12.73 million) were raised in the initial public offering and exercise of the over-allotment option to brokers, on the issuance of 22,730,000 units.

The Fund made additional offerings of units in October 2010, September 2011, and February 2012. In October 2010, net proceeds of $167.3 million (net of issue costs of $7.4 million) were raised in an offering and exercise of the over-allotment option to brokers, on the issuance of 15,666,109 units. In September 2011, net proceeds of $225.3 million (net of issue cost of $9.8 million) were raised in an offering and exercise of the over-allotment option to brokers on the issuance of 21,275,000 units. In February 2012, net proceeds of $215.2 million (net of issue cost of $9.4 million) were raised in an offering and exercise of the over-allotment option to brokers on the issuance of 21,085,000 units. On February 28, 2013, the Fund completed a private placement for net proceeds of $7.9 million (net of issue costs of $0.3 million) on the issuance of 812,000 units.

To provide the Fund with the means to meet its investment objectives, the Fund used the net proceeds of its offerings to prepay its obligations under a forward purchase and sale agreement (the “Forward Purchase Agreement”) with The Bank of Nova Scotia (the “Counterparty”) all as described in note 3. Such net proceeds were invested by the Counterparty in Marret HYS Trust (the "Trust"). The cash received from the Counterparty was used by the Trust to purchase the portfolio securities.

2. Significant Accounting Policies

Basis of Presentation
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 Fund's securities are held for trading and are presented at fair value. Investments held that are traded in an active market through recognized public stock exchanges, over the counter markets, or through recognized investment dealers, are valued at their bid prices. 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 securities is recorded as unrealized appreciation/ (depreciation) of investments. Security transactions are recorded on a trade-date basis. Realized gains/(losses) on the disposition of investments and unrealized appreciation/(depreciation) of investments are determined on an average cost basis.

Forward Purchase Agreement
The fair value of the Forward Purchase Agreement (note 3) is the value that would be realized if, as of any date, the Forward Purchase Agreement was settled in accordance with its terms, in which case the value shall be determined with reference to the current fair value of the underlying investments of the Trust using closing sale prices. If no sale has taken place that day, valuation will be at the average of the bid and ask price. The value takes into account amounts equal to other assets including cash, prepaids and distributions receivable, less the liabilities of the Trust and other liabilities attributed to the Forward Purchase Agreement on such date.

The unrealized appreciation on the Forward Purchase Agreement and the realized gains on partial settlements on the Forward Purchase Agreement are included in the Statements of Operations.

Income Recognition
Interest income is recorded on an accrual basis.

Net assets per unit
The net assets is calculated by subtracting the aggregate amount of the liabilities from the total assets of the Fund. The net assets per unit is calculated by dividing the net assets by the number of units outstanding.

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 Fund, divided by the weighted average number of units of the Fund outstanding during the period.

Financial Instruments
The Fund's financial instruments include cash and cash equivalents, investments and derivatives, receivables for accrued interest, distributions payable and accrued liabilities. Investments and derivatives are classified as held for trading and carried at fair value. Cash and cash equivalents and receivables for accrued interest are designated as loans and receivables and reported at amortized cost. Distributions payable and accrued liabilities are designated as other financial liabilities and reported at amortized cost.

Issuance Costs
Issue costs associated with the offerings have been recorded as a reduction to unitholders' equity during the periods. The amount represents a one-time charge in connection with each offering and was paid out of the gross proceeds of the offerings.

3. Forward Purchase Agreement

Pursuant to the Forward Purchase Agreement, the Counterparty will acquire, on or before May 30, 2014 (“the Termination Date”), the Canadian securities portfolio (“Canadian Securities”) having a value based on the economic return provided by the Portfolio from inception to the Termination Date. The Portfolio is held by the Trust. Under the Forward Purchase Agreement, the Counterparty will deliver, on the Termination Date, a specified portfolio of Canadian Securities with an aggregate value equal to the redemption proceeds of all of the corresponding units of the Trust, net of any amount then owing by the Fund to the Counterparty. The Fund will partially settle the Forward Purchase Agreement prior to the Termination Date in order to fund (i) redemptions, distributions, and repurchases of units; and (ii) operating expenses and other liabilities of the Fund. Pursuant to the terms of the Forward Purchase Agreement, the Counterparty will, in connection with a requested partial settlement deliver to the Fund securities of certain issuers in the Canadian Securities Portfolio based on the partial settlement amount. The Counterparty is the Bank of Nova Scotia rated AA by the Dominion Bond Rating Service.

Until the additional offering in February 2012, the obligations of the Counterparty under the Forward Purchase Agreement were unsecured. Due to regulatory changes prior to the February 2012 offering, the February 2012 offering was collateralized by a portfolio of TSX listed equity securities. Following the closing and to address future partial settlements, it was agreed that 26% of the Forward Purchase Agreement would be collateralized on an ongoing basis. The collateral is for the benefit of all units, not just those issued in the February 2012 opening. Fees paid to the Counterparty were also adjusted due to the partially collateralized nature of the Forward Purchase Agreement (see Note 5).

The fair value of the Fund’s Forward Purchase Agreement is equal to the net asset value of the Trust calculated at closing sale prices. For financial statement reporting purposes, the net assets of the Trust includes the investments measured in accordance with Section 3855 of the CICA Handbook, which for financial instruments that are quoted in active markets is based on closing bid prices for securities held long and on closing ask prices for securities held short.

The following reconciles the net assets of the Trust for financial reporting purposes to the fair value of the Forward Purchase Agreement:

	As at June 30, 2013	As at December 31, 2012
Net assets of Marret HYS Trust	$ 614,054,819	$ 667,087,946
Valuation adjustment to Portfolio Securities to closing sale prices	2,548,857	2,737,493
Forward purchase agreement, at fair value	$ 616,603,676	$ 669,825,439

4. Unitholders' Capital

Pursuant to the declaration of trust, the Fund is authorized to issue an unlimited number of transferable, redeemable fund units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. 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 Fund and distributions upon the termination of the Fund.

Annual Redemptions

Annual Conditional Redemption Right
The annual redemption date is on the last business day in July of each year beginning in 2011. Units may be redeemed at the option of Unitholders on the annual redemption date of each year, if and only if the annual redemption condition, described below, has been met in such year. Units so redeemed will be redeemed at a redemption price equal to the redemption net asset value per unit (see below) on the annual redemption date, less any costs associated with the redemption, including commissions and other such costs, if any, related to the partial settlement of the Forward Purchase Agreement to fund such redemption. The units must be surrendered for redemption at least ten business days prior to the annual redemption date. Payment of the proceeds of redemption will be made on or before the 15th business day of the following month.

The redemption net asset value per unit for the purpose of processing unitholder redemptions is calculated in a manner similar to the calculation of net assets per unit except that, for purposes of calculating the net assets of the Fund, the value of the Forward Purchase Agreement will be determined on the basis that any bonds, debentures, and obligations that are owned by the Trust will be valued by taking the bid price on the valuation date and any short positions of the Trust will be valued by taking the ask price on the valuation date, calculated on a fully diluted basis, if applicable.

Annual Redemption Condition: Units may only be redeemed on an annual redemption date if the average of the net asset values of the units on the first four valuation dates occurring in the month of May preceding the annual redemption date is less than $10.59. On the first business day following the fourth such valuation date, the Manager will issue a press release stating the average net asset value and whether or not the annual conditional redemption right has been triggered.

Monthly Redemptions
The monthly redemption date is the second last business day of each month, other than July in a year where the annual redemption condition has been met. Units may be redeemed at the option of unitholders on a monthly redemption date, subject to certain conditions and, in order to effect such a redemption, the units must be surrendered on the date which is the last business day of the month preceding the monthly redemption date. Payment of the redemption price will be made on or before the redemption payment date, subject to the Manager’s right to suspend redemptions in certain circumstances.

Unitholders surrendering a unit for monthly redemption will receive a redemption price equal to the lesser of: (i) 94% of the weighted average trading price on the TSX for the 10 days immediately preceeding the monthly redemption date, and (ii) 100% of the TSX closing market price, or if no closing price is provided then the average of the highest and lowest traded price, or if highest and lowest trades are not available, then the average of the last bid and last ask, in each instance in reference to transactions on the monthly redemption date. The proceeds will be net of any costs associated with the redemption including brokerage costs.

The following table shows a roll forward of issued and outstanding units and unitholders’ equity for the six-month periods ended June 30, 2013 and June 30, 2012. When units of the fund are retracted or repurchased at prices per share which are above the average cost per share of capital, the amount above the average cost per share reduces retained earnings. When units of the fund are retracted or repurchased at prices per share which are below the average cost per share of capital, the difference is recorded as contributed surplus. The Fund does not have any accumulated contributed surplus.

	June 30, 2013		June 30, 2012	
	Units	Dollars	Units	Dollars
Units outstanding - beginning of year	68,758,811	595,314,556	59,671,109	539,308,930
Units issued	812,000	7,888,565	21,085,000	215,231,463
ROC Distributions	-	(20,467,881)	-	(31,049,841)
Units redeemed	(6,870)	(58,220)	-	-
Units redeemed - Issuer Bid [1]	(2,115,700)	(18,064,729)	(21,200)	(189,930)
Units outstanding - end of period	**67,448,241**	**564,612,291**	**80,734,909**	**723,300,622**

[1] These units were purchased and cancelled pursuant to issuer bid programs. The bid programs permit the purchase of units (see limits below) at prices which are less than the net asset value per Unit at the time of purchase (subject to certain other conditions including 30 day purchase limitations). The initial bid program ran from May 10, 2012 until May 9, 2013 and permitted the purchase of a maximum of 8,074,890 units. There were 4,418,100 units purchased under the initial bid program. A second bid program commenced May 10, 2013 and expires May 9, 2014 and permits the purchase of a maximum of 6,777,871 units. Through June 30, 2013, 487,700 units had been purchased under the second bid program. Commission fees on the purchase of units under the bid programs are recorded in the Statements of Operations.

5. Fees and Expenses

The Fund retained Marret Asset Management Inc., under an administration agreement (the "Administration Agreement") dated May 28, 2009 to administer all of the ongoing operations of the Fund. In consideration for the services provided by the Manager, the Fund pays a management fee equal to 0.25% per annum of the net asset value of the Fund (or 1.00% in total when combined with the management fee paid by the Trust). The management fee is calculated daily and payable monthly in arrears, plus applicable taxes. The total management fees (inclusive of taxes) earned by Marret Asset Management Inc. for six-month period ended June 30, 2013 were $892,729 (June 30, 2012 - $1,026,718), of which $146,310 (December 31, 2012 - $161,352) remained payable.

The Manager is also paid a service amount calculated and paid as soon as practicable after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the units plus applicable taxes. The service fee is in turn paid to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

The Fund will pay to the Counterparty an additional amount under the Forward Purchase Agreement, calculated weekly and payable quarterly in arrears. The amount was initially 0.25% per annum of the notional amount of the Forward Purchase Agreement (being effectively equal to the net asset value of the Trust). Effective February 21, 2012 the rate changed to 0.276% per annum reflecting the fact that the Counterparty's obligation is partially collateralized in accordance with new regulatory guidance (see Note 3).

All other reasonable expenses in connection with the administration of the Fund are paid by the Fund.

6. Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). A mutual fund trust is subject to tax on its net investment income for the year, including any net realized capital gains, which are not paid or payable to its unitholders. The financial statements of the Fund do not include a provision for income taxes because under the terms of the declaration of trust, net investment income and net realized capital gains are distributed each year to unitholders and are taxable in the unitholders' hands.

During the six-month period ended June 30, 2013, the Fund made monthly cash distributions which totaled $0.30 (June 30, 2012 - $0.40) per unit.

The Fund did not realize any income, gain or loss as a result of entering into the Forward Purchase Agreement and no amount is expected to be included in the Fund's income by virtue of the acquisition of the Canadian Securities through partial pre-settlements or final settlement of the Forward Purchase Agreement. The cost to the Fund of such Canadian Securities will be that portion of the aggregate amount paid by the Fund under the Forward Purchase Agreement attributable to the Canadian Securities. The resulting gains or losses realized by the Fund on the sale of Canadian Securities acquired pursuant to the Forward Purchase Agreement is expected to be taxed as capital gains or capital losses.

The federal government proposed in its budget on March 21, 2013 to treat gains and losses under forward contracts like the Forward Purchase Agreement as fully taxable ordinary income. The proposed rules will be applicable to any forward contract that is entered into on or after March 21, 2013 (or that was entered into before March 21, 2013 and is extended on or after that date) and has a term that exceeds 180 days or is part of a series of short-term forward contracts with a term that exceeds 180 days. Based on discussions between the Investment Fund Institute of Canada and the federal Department of Finance, rolling short-term contracts will be grandfathered for a period of time (which is expected to last until December 31, 2014 provided that certain conditions are met) and continue to obtain capital treatment. The Manager does not currently expect these changes to have any impact on the Fund prior to the maturity of its existing Forward Purchase Agreement on May 30, 2014.

At December 31, 2012, the most recent taxation year end, the Fund has no capital loss carryforwards available to offset future capital gains for tax purposes. The non-capital loss amounts by year of expiry are as follows:

Year of Expiry		Non-Capital Loss
2029	$	1,864,522
2030		4,773,541
2031		8,001,929
2032		9,567,538
Total	**$**	**24,207,530**

7. Capital Management

The Fund's capital consists of the unitholders' equity. The Manager is responsible for managing the underlying Trust's investments in line with its mandate and the affairs of the Fund, including receipt of cash from partial unwinds of the Forward Purchase Agreement primarily to fund operating expenses, annual and monthly redemptions (note 4), and monthly distributions.

8. Financial Instrument Risk Management

In the normal course of business, the Fund 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 Fund's overall risk management program focuses on compliance and execution of the Fund's investment objectives.

The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisers, daily monitoring of the Fund's positions and market events and by diversifying the investment portfolio of the Trust 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 Fund's investment activities and monitors compliance with the Fund'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.

By virtue of the Forward Purchase Agreement, the price risk for the Fund is derived from the value of the investments held by the Trust. The value of the Trust's equity investments can fluctuate on a daily basis as a result of factors outside of the Fund's control, including financial performance of the issuers of the underlying Trust's 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.

If the prices for the equity securities held by the Trust had increased or decreased by 5% as at June 30, 2013 (December 31, 2012 – 5%), with all other variables remaining constant, net assets of the Fund would have increased or decreased by approximately $919,975 or 0.15% (December 31, 2012 – decreased or increased $843,394 or 0.13%). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Concentration Risk

By virtue of the Forward Purchase Agreement, the Fund is exposed to concentration risk of the Trust's underlying portfolio.

The table below summarizes the concentration risk as a percentage of the underlying Trust's net assets.

	June 30, 2013	December 31, 2012
Government of Canada & Government Guaranteed	0.45%	3.94%
Canadian Corporate	27.57%	24.76%
Canadian Corporate - short positions	-	(0.48%)
U.S. Federal Bonds & Government Guaranteed - short	(12.03%)	(18.45%)
U.S. Corporate Bonds	79.78%	64.86%
U.S. Corporate Bonds - short positions	(0.08%)	(3.58%)
International Bonds	7.18%	4.59%
Total of Bonds	**102.87%**	**75.64%**
Term Loans	**0.76%**	**2.57%**
Canadian Equities	2.53%	5.02%
Canadian Equities - short positions	-	(0.29%)
United States Equities	4.51%	2.95%
United States Equities - short positions	(4.04%)	(3.34%)
International Equities - short positions	-	(1.81%)
Total Equities	**3.00%**	**2.53%**
Total Investments	**106.63%**	**80.74%**

The Trust was also a party to several derivative contracts (forward foreign currency contracts, credit default swap contracts and total return swap contracts).

At June 30, 2013 the Trust had sold forward US$466,579,000 (counterparty Bank of New York Mellon – short term S&P rating A1+) and US$3,390,000 (counterparty Royal Bank of Canada – short term S&P rating A1+) to hedge USD currency risk (December 31, 2012 – sold forward US$404,255,000 with Bank of New York Mellon and US$39,921,000 with Royal Bank of Canada).

At June 30, 2013, the Trust had open Credit Default Swap Contracts of notional amount $19,370,000 (December 31, 2012 - $11,130,000) under which the Trust received a 5% per annum premium (December 31, 2012 – 5%) and was liable to the counterparty for a default event of the Markit CDX NA HY S20 Index (December 31, 2012 – Markit CDX NA HY S19 Index). The contract expires June 20, 2018 (December 31, 2012 – December 20, 2017).

As at December 31, 2012, the Trust had an open total return swap contract with Barclays Bank PLC (short-term S&P rating A1) under which the Trust paid 1.5% per annum on a monthly basis, and received the monthly return of the Dynamic VIX Futures Index. The notional amount of the contract was $13,680,000 and the expiry date was September 30, 2013.

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.

By virtue of the Forward Purchase Agreement, the Fund is exposed to changes in the value of the Trust's interest bearing securities.

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

	June 30, 2013			December 31, 2012		
	Long	**Short**	**Net**	**Long**	**Short**	**Net**
< 1 year	73,998,059	-	73,998,059	57,774,911	-	57,774,911
1 - 3 years	66,614,100	-	66,614,100	75,934,059	-	75,934,059
3- 5 years	126,372,984	-	126,372,984	136,228,757	(5,645,990)	130,582,767
> 5 years	443,732,676	(74,375,250)	369,357,426	401,944,131	(144,480,264)	257,463,867
Total	**710,717,819**	**(74,375,250)**	**636,342,569**	**671,881,858**	**(150,126,254)**	**521,755,604**

If interest rates had increased or decreased by 1% at June 30, 2013 (December 31, 2012 – 1%), with all other variables remaining constant, net assets of the Trust would have decreased or increased by approximately $23,017,135 or 3.75% (December 31, 2012 - $13,878,138 or 2.08%). 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, 2013, the borrowings were $91,513,730 (December 31, 2012 – nil). If interest rates had increased or decreased by 1% at June 30, 2013, with all other variables remaining constant, run-rate interest expense would have increased or decreased on an annualized basis by approximately $915,137 or 0.15% of Trust net assets. 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 Fund's functional currency.

The portfolio securities of the Trust, to which the Fund is exposed through the Forward Purchase Agreement, are comprised in part of US dollar denominated securities. The table below indicates the currencies to which the Trust had significant net exposure as at June 30, 2013 and December 31, 2012, on its trading monetary and non-monetary assets and liabilities, as well as the underlying notional amount of forward currency contracts.

As at June 30, 2013

	Net Currency risk Investments	Working Capital	Currency risk Due from / (to) Broker	Forward Currency Contracts	Net Exposure	As a % of Net Assets
U.S. Dollar	566,104,378	52,139,295	(80,740,831)	(494,091,661)	43,411,181	7.07%

As at December 31, 2012

	Net Currency risk Investments	Working Capital	Currency risk Due from / (to) Broker	Forward Currency Contracts	Net Exposure	As a % of Net Assets
U.S. Dollar	421,301,371	17,753,145	2,869,417	(442,243,786)	(319,853)	-0.05%

As at June 30, 2013, had the Canadian dollar strengthened or weakened by 5% (December 31, 2012 – 5%) in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $2,170,559 or 0.35% (December 31, 2012 – increased or decreased $15,993 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 Fund. The main concentration of credit risk would be investments in debt instruments and derivatives. The Fund is exposed to the credit risk of the Bank of Nova Scotia on the non-collateralized portion (see Note 3) of the prepaid Forward Purchase Agreement. The Fund is also indirectly exposed to the credit risk of the investments held by the Trust. The fair value includes consideration of the credit worthiness of the issuer and therefore represents the maximum credit exposure of the Fund.

As at June 30, 2013 and December 31, 2012, the Trust invested in debt securities with the following credit ratings:

	As a % of Net Assets					
Debt securities by debt ratings	**June 30, 2013**			**December 31, 2012**		
	Long	**Short**	**Net**	**Long**	**Short**	**Net**
AAA	7.66	(12.03)	(4.37)	11.18	(18.45)	(7.27)
AA	13.35	-	13.35	14.08	-	14.08
A	3.76	-	3.76	3.83	-	3.83
BBB	0.96	-	0.96	1.51	-	1.51
BB	33.40	(0.08)	33.32	19.91	(1.15)	18.76
B	40.18	-	40.18	35.76	(2.91)	32.85
CCC	3.87	-	3.87	5.60	-	5.60
D	0.07	-	0.07	-	-	-
Unrated	12.49	-	12.49	8.85	-	8.85
Total	**115.74**	**(12.11)**	**103.63**	**100.72**	**(22.51)**	**78.21**

As at June 30, 2013 and December 31, 2012 the Trust invested in short-term investments with the following debt ratings:

	As a % of the Trust's Net Assets	
Short-term investment rating	**June 30, 2013**	**December 31, 2012**
R - 1(H)	-	14.98
Total	-	14.98

As at June 30, 2013 and December 31, 2012 the Trust invested in derivatives with the following counterparty ratings:

	As a % of the Trust's Net Assets	
Counterparty Ratings	**June 30, 2013**	**December 31, 2012**
A1+	(1.07)	(0.45)
A1	-	0.01
Total	(1.07)	(0.44)

Liquidity Risk

The Fund is exposed to annual and monthly redemptions. By virtue of the Forward Purchase Agreement, the Fund indirectly 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 Trust’s investments will exist at all times, or that the prices at which the underlying investments trade, accurately reflect their net asset values. Partial pre-settlement of the Forward Purchase Agreement prior to the

Termination Date is used to fund redemptions, distributions, operating expenses, and other liabilities of the Fund. All liabilities are due in less than 3 months.

Fair Value Hierarchy
Canadian Institute of Chartered Accountants Handbook Section 3862 ("Section 3862"), Financial Instruments - Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Inputs may be based on independent market data (“observable inputs") or they 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 Fund’s investments and derivatives carried at fair values:

As at June 30, 2013

	Level 1	Level 2	Level 3	Total
Bonds	$	$ 15,251	$	$ 15,251
Forward purchase agreement	-	616,603,676	-	616,603,676
Total Investments	**$ -**	**$ 616,618,927**	**$ -**	**$ 616,618,927**

As at December 31, 2012

	Level 1	Level 2	Level 3	Total
Bonds	$	$ 15,392	$	$ 15,392
Forward purchase agreement	-	669,825,439	-	669,825,439
Total Investments	**$ -**	**$ 669,840,831**	**$ -**	**$ 669,840,831**

The underlying Trust’s financial statements include the fair value hierarchy disclosures for the investments it holds.

9. Transition to International Financial Reporting Standards

The Canadian Accounting Standards Board (“AcSB”) confirmed that effective January 1, 2011, IFRS replaced current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises, which includes investment funds. The deferral of the mandatory IFRS changeover for investment companies and the Adoption of IFRS for investment companies will not be mandatory until periods beginning on or after January 1, 2014. The deferral of the mandatory changeover was intended to allow the International Accounting Standard Board's proposed exemption from consolidation for investment companies to be in place prior to the adoption of IFRS by investment companies in Canada.

In October 2012, the IASB approved the proposed amendments to IFRS 10 which define criteria for an entity to qualify as an investment entity and exempts such entity from consolidation requirements. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with "Financial Instruments" ("IFRS 9") and expand disclosures to help users evaluate the nature and financial effect of its investment activities. The amendment will be effective January 1, 2014. Based on the Manager's assessment, the Fund currently meets the proposed criteria for an investment entity and as such will be exempt from consolidation requirements.

The Manager has developed a plan to meet the timetable published by the CICA for the changeover to IFRS. The key elements of the plan include an assessment of: differences between Canadian GAAP and IFRS; changes required to financial statement disclosure; and, the impact on the financial reporting process.

Based on the Manager's assessment of the accounting differences between Canadian GAAP and IFRS, the following areas of differences were identified:

(a) IAS 32, "Financial Instruments; Disclosure and Presentation", requires puttable instruments to be classified as a liability unless certain conditions are met. The Funds' unitholders' equity meets the definition of a puttable instrument. The Manager has assessed the Funds' unitholder structure and expects that liability treatment will be the most appropriate classification.

(b) IFRS 13, Fair Value Measurements, was published in May 2011. The standard provides guidance on the measurement of fair value and allows for the use of closing market prices to value investments. Under Canadian GAAP the fair value of investments for financial statement reporting purposes, was required to be measured at closing bid price for long positions and closing ask price for short positions. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of closing market prices is likely to be appropriate in valuing investments.

The Manager has presently determined that the impact of IFRS will also include additional note disclosure and modifications to existing presentation. The Manager does not expect that the trading net asset value or trading net asset value per unit will be impacted by the changeover to IFRS.

10. Subsequent Event

On July 17, 2013, the Manager announced that 30,157,174 units of the Fund were submitted for redemption on the annual redemption date of July 30, 2013. Unitholders who tendered units for redemption were entitled to receive $9.2521 per unit, the applicable net asset value per unit on the annual redemption date. Redeeming unitholders were also entitled to receive the previously announced distribution for July of $0.05 per unit. Payments were to be made on or about August 22, 2013.