

# **Sceptre Pooled Investment Fund - Small Capitalization Section**

Financial Statements  
December 31, 2008

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February 19, 2009

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## Auditors' Report

### To the Unitholders of Sceptre Pooled Investment Fund – Small Capitalization Section

We have audited the statements of investment portfolio and net assets of the Sceptre Pooled Investment Fund – Small Capitalization Section (the Fund) as at December 31, 2008 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the fund manager. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the fund manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants

## Sceptre Pooled Investment Fund - Small Capitalization Section

### Statements of Net Assets

As at December 31

	2008	2007
	\$	\$
<b>Assets</b>		
Investments at fair value	156,594,151	421,025,229
Short-term investments at fair value	12,369,404	24,106,094
Cash	-	10,847
	<u>168,963,555</u>	<u>445,142,170</u>
Dividends receivable	495,254	223,970
Accounts receivable for units sold	308,000	-
Due from broker	1,549,977	184,275
	<u>171,316,786</u>	<u>445,550,415</u>
<b>Liabilities</b>		
Bank indebtedness	182,624	-
Due to broker	620,417	384,928
Accounts payable	20,644	21,208
Redemptions payable	105,000	150
	<u>928,685</u>	<u>406,286</u>
<b>Net Assets and Unitholders' Equity</b>	<u><u>170,388,101</u></u>	<u><u>445,144,129</u></u>
Number of units outstanding	<u><u>2,496,620</u></u>	<u><u>3,291,302</u></u>
<b>Net Assets per unit</b>	<u><u>\$ 68.25</u></u>	<u><u>\$ 135.25</u></u>

## Sceptre Pooled Investment Fund - Small Capitalization Section

### Statements of Operations

For the years ended December 31

	2008	2007
	\$	\$
<b>Income</b>		
Interest	1,077,108	2,067,285
Dividends	2,514,097	2,016,335
Income received from income trusts	1,660,310	1,140,842
Security lending income	22,111	28,219
	<u>5,273,626</u>	<u>5,252,681</u>
<b>Expenses</b>		
Audit fees	13,282	11,795
Custodial fees	27,121	34,078
Trustee fees	1,500	1,590
Other expenses	60,880	75,317
	<u>102,783</u>	<u>122,780</u>
<b>Net investment income for the year</b>	<u>5,170,843</u>	<u>5,129,901</u>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain (loss) on investments	(29,442,836)	88,538,226
Transaction Costs	(762,252)	(858,823)
Change in unrealized depreciation in value of investments during the year	<u>(186,776,763)</u>	<u>(22,708,809)</u>
<b>Net gain (loss) on investments</b>	<u>(216,981,851)</u>	<u>64,970,594</u>
<b>Increase (decrease) in net assets from operations</b>	<u>(211,811,008)</u>	<u>70,100,495</u>
<b>Increase (decrease) in net assets from operations per unit</b>	<u>\$ (66.84)</u>	<u>\$ 19.79</u>

## Sceptre Pooled Investment Fund - Small Capitalization Section

Statements of Changes in Net Assets

For the years ended December 31

	2008	2007
	\$	\$
<b>Net assets at beginning of year</b>	<u>445,144,129</u>	<u>426,261,979</u>
<b>Increase (decrease) in net assets from operations</b>	<u>(211,811,008)</u>	<u>70,100,495</u>
<b>Capital</b>		
Issue of 615,940 units (2007 - 277,173 units) on subscription	60,177,094	35,506,957
Redemption of 1,410,622 units (2007 - 657,351 units)	(123,122,114)	(86,725,302)
Capitalized distributions	<u>5,114,359</u>	<u>93,183,977</u>
<b>Net capital unit transactions</b>	<u>(57,830,661)</u>	<u>41,965,632</u>
<b>Distributions to unitholders</b>		
Net investment income	(5,114,359)	(5,040,896)
Net realized gain on investments	-	(88,143,081)
<b>Total distributions</b>	<u>(5,114,359)</u>	<u>(93,183,977)</u>
<b>Increase (decrease) in net assets for the year</b>	<u>(274,756,028)</u>	<u>18,882,150</u>
<b>Net assets at end of year</b>	<u><u>170,388,101</u></u>	<u><u>445,144,129</u></u>

### Number of Units

	2008	2007
<b>Balance - beginning of year</b>	3,291,302	3,671,480
Units issued during the year	615,940	277,173
Units redeemed during the year	(1,410,622)	(657,351)
<b>Balance - end of year</b>	<u><u>2,496,620</u></u>	<u><u>3,291,302</u></u>

## SCEPTRE POOLED INVESTMENT FUND - SMALL CAPITALIZATION SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2008

	NUMBER OF SHARES/ UNITS/FACE VALUE	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Bank Indebtedness</b>		(182,624)	(182,624)	(0.11)
<b>Short-Term Investments</b>				
<b>Treasury Bills</b>				
Canada Treasury Bills, with various due dates to March 19, 2009				
1.280% - 2.580%		12,306,428	12,369,404	7.33
<b>Equities</b>				
<b>Energy</b>				
AltaGas Income Trust	161,000	3,893,955	2,770,810	
Birchcliff Energy Ltd.	333,700	1,707,147	1,641,804	
Breaker Energy Ltd., Class A	370,800	2,818,661	1,898,496	
Calfrac Well Services Ltd.	129,100	1,340,620	1,123,170	
Cathedral Energy Services Income Trust	249,300	1,967,250	1,593,027	
Celtic Exploration Ltd.	389,300	6,597,735	4,800,068	
Daylight Resources Trust	358,000	2,819,304	2,760,180	
Fairborne Energy Ltd.	292,000	1,514,183	1,708,200	
Forbes Energy Services Ltd.	491,700	3,419,882	757,218	
Galleon Energy Inc., Class A	251,310	3,352,950	1,274,142	
Gran Tierra Energy Inc.	382,500	1,209,963	1,279,659	
Iteration Energy Ltd.	491,500	3,487,698	653,695	
Mullen Group Income Fund	92,200	986,805	1,170,940	
Pacific Rubiales Energy Corp.	805,383	2,926,118	1,731,573	
Pacific Rubiales Energy Corp., Warrants (12 July 12)	178,525	-	53,558	
ProEx Energy Ltd.	371,500	4,345,264	4,090,215	
Trican Well Service Ltd.	182,450	3,888,944	1,443,180	
Trilogy Energy Trust	151,700	1,039,617	875,309	
Trinidad Drilling Ltd.	154,800	1,996,713	674,928	
TriStar Oil and Gas Ltd.	423,300	7,936,971	4,783,290	
<b>Total Energy</b>		<b>57,249,780</b>	<b>37,083,462</b>	<b>21.98</b>
<b>Materials</b>				
Alamos Gold Inc.	37,500	172,961	324,000	
Blue Note Mining Inc., Warrants (09 November 09)	1,461,550	-	20,753	
CCL Industries Inc., Class B	284,900	4,473,985	7,105,405	
Centamin Egypt Ltd.	1,955,200	2,346,240	1,407,744	
Detour Gold Corp.	207,100	3,074,841	1,756,208	
Dioro Exploration NL	889,453	1,423,125	133,418	
Dioro Exploration NL, Warrants (30 October 09)	1,480,850	-	7,404	
Equinox Minerals Ltd.	945,100	855,248	1,256,983	
FNX Mining Co. Inc.	185,250	5,391,348	559,455	
Forsys Metals Corp.	355,900	1,690,525	2,071,338	
Franco-Nevada Corp.	194,000	2,959,324	4,128,320	
Hanfeng Evergreen Inc.	487,700	6,571,950	2,745,751	
Jaguar Mining Inc.	117,300	1,501,071	728,433	
Major Drilling Group International	101,100	1,110,263	1,242,519	
Migao Corp.	522,600	3,978,299	2,957,916	
Quadra Mining Ltd.	127,300	1,200,040	344,983	
Red Back Mining Inc.	789,300	4,170,580	6,716,943	

See accompanying notes to the financial statements

## SCEPTRE POOLED INVESTMENT FUND - SMALL CAPITALIZATION SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2008

	NUMBER OF SHARES/ UNITS/FACE VALUE	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Materials (Continued)</b>				
Semafo Inc.	1,482,700	1,897,154	1,764,413	
Thompson Creek Metals Co. Inc.	153,700	852,181	739,297	
Western Goldfields Inc.	1,562,100	3,514,725	2,999,232	
<b>Total Materials</b>		<b>47,183,860</b>	<b>39,010,515</b>	<b>23.12</b>
<b>Industrials</b>				
<b>Capital Goods</b>				
AG Growth Income Fund	126,700	3,518,671	2,456,713	
GENIVAR Income Fund	46,200	984,650	1,156,386	
Russel Metals Inc.	64,600	1,294,449	1,225,462	
Stantec Inc.	18,600	380,348	555,768	
Toromont Industries Ltd.	57,000	1,275,035	1,305,300	
		7,453,153	6,699,629	3.97
<b>Commercial Services &amp; Supplies</b>				
Aecon Group Inc.	264,900	5,031,918	2,905,953	1.72
<b>Total Industrials</b>		<b>12,485,071</b>	<b>9,605,582</b>	<b>5.69</b>
<b>Consumer Discretionary</b>				
<b>Consumer Durables &amp; Apparel</b>				
Dorel Industries Inc., Class B	117,425	2,777,544	3,183,392	
Gildan Activewear Inc.	227,050	3,465,377	3,217,299	
		6,242,921	6,400,691	3.79
<b>Consumer Services</b>				
Melco China Resorts Holdings	2,457,620	7,372,860	98,305	
Melco China Resorts Holdings, Warrants (27May10)	122,910	-	1,229	
		7,372,860	99,534	0.06
<b>Media</b>				
Cineplex Galaxy Income Fund	89,400	1,164,584	1,222,098	
Cogeco Cable Inc.	109,400	4,513,566	3,769,924	
Corus Entertainment Inc., Class B	119,600	1,777,751	1,643,304	
		7,455,901	6,635,326	3.93
<b>Retailing</b>				
Reitmans Canada Ltd., Class A	495,300	2,692,818	5,760,339	
RONA Inc.	215,900	1,843,247	2,588,641	
		4,536,065	8,348,980	4.95
<b>Total Consumer Discretionary</b>		<b>25,607,747</b>	<b>21,484,531</b>	<b>12.73</b>
<b>Consumer Staples</b>				
<b>Food &amp; Staples Retailing</b>				
Atrium Innovations Inc.	67,000	854,792	863,630	
Empire Co. Ltd., Class A	66,200	3,105,643	3,210,700	
North West Co. Fund	165,700	2,719,732	2,785,417	
		6,680,167	6,859,747	4.06
<b>Total Consumer Staples</b>		<b>6,680,167</b>	<b>6,859,747</b>	<b>4.06</b>

See accompanying notes to the financial statements

## SCEPTRE POOLED INVESTMENT FUND - SMALL CAPITALIZATION SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2008

	NUMBER OF SHARES/ UNITS/FACE VALUE	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Health Care</b>				
<b>Health Care Equipment &amp; Services</b>				
BioMS Medical Corp.	1,144,300	3,531,375	3,959,278	
BioMS Medical Corp., Warrants (23Mar09)	459,100	-	83,273	
BioMS Medical Corp., Warrants (18May10)	205,000	-	255,970	
BioMS Medical Corp., Warrants (23May10)	314,900	162,750	390,262	
CML Healthcare Income Fund	172,800	2,287,645	2,218,752	
SXC Health Solutions Corporation	236,950	2,464,093	5,369,287	
		8,445,863	12,276,822	7.27
<b>Total Health Care</b>		<b>8,445,863</b>	<b>12,276,822</b>	<b>7.27</b>
<b>Financials</b>				
<b>Banks</b>				
Canadian Western Bank	188,800	4,871,797	2,327,904	
Home Capital Group Inc.	137,250	3,690,433	2,672,258	
		8,562,230	5,000,162	2.96
<b>Diversified Financials</b>				
AGF Management Ltd., Class B	174,200	5,647,723	1,633,996	
Dundee Corp., Class A	780,700	4,484,994	4,684,200	
		10,132,717	6,318,196	3.74
<b>Insurance</b>				
ING Canada Inc.	95,800	3,174,878	3,027,280	
Northbridge Financial Corp.	105,300	1,854,094	4,090,905	
		5,028,972	7,118,185	4.22
<b>Real Estate</b>				
Dundee Real Estate Investment Trust	92,410	3,360,009	1,164,366	
Melcor Developments Ltd.	561,300	596,312	2,503,398	
Northern Property REIT	83,400	1,455,468	1,351,080	
		5,411,789	5,018,844	2.97
<b>Total Financials</b>		<b>29,135,708</b>	<b>23,455,387</b>	<b>13.89</b>
<b>Information Technology</b>				
<b>Semiconductor &amp; Semiconductor Equipment</b>				
Evertz Technologies Ltd.	292,000	4,177,317	3,956,600	
Mosaid Technologies Inc.	216,600	3,372,752	1,841,100	
		7,550,069	5,797,700	3.44
<b>Total Information Technology</b>		<b>7,550,069</b>	<b>5,797,700</b>	<b>3.44</b>
<b>Utilities</b>				
Northland Power Income Fund	88,500	939,492	1,020,405	0.60
<b>Total Equities</b>		<b>195,277,757</b>	<b>156,594,151</b>	<b>92.78</b>
<b>Transaction Costs</b>		<b>(322,917)</b>		
<b>Total Investment Portfolio Including Bank Indebtedness and Short-Term Notes</b>		<b>207,078,644</b>	<b>168,780,931</b>	<b>100.00</b>

See accompanying notes to the financial statements

# **Sceptre Pooled Investment Fund - Small Capitalization Section**

Notes to Financial Statements

December 31, 2008

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## **1. Organization**

The Sceptre Pooled Investment Fund (the "Fund") was established under a Declaration of Trust dated May 4, 1983, as amended, with RBC Dexia Investor Services Trust as Trustee as a means by which assets of certain of the clients of Sceptre Investment Counsel Limited are pooled and jointly managed. Since fees are charged to the participants, no fees are charged to the fund by Sceptre Investment Counsel Limited, although the fund does bear certain administrative costs.

The Small Capitalization Section of the Fund (the "Section") commenced operations on January 1, 1989 with a net asset value of \$100 per unit.

Subsequent to a unit split on a ten-for-one basis, the unitholders of record on March 20, 2006 received 9 additional units for each unit held. All historical and per unit amounts have been restated to reflect the split.

## **2. Significant Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Actual results could vary from these estimates.

### **Adoption of New Accounting Standards**

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". The new standards replaced Section 3861, "Financial Instruments – Disclosure and Presentation". These sections establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. This standard will impact the Fund's disclosures provided but will not affect the Fund's net assets. Refer to Note 9 for new disclosures relating to adoption of the new requirements.

On January 1, 2007, the Fund adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement" which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires that bid prices (for investments held) and ask prices (for investments sold short) be used in determining the fair value of investments. Prior to the adoption of this standard, fair value was commonly based on the closing price of an investment for the day. For financial reporting purposes, on January 1, 2007, the Fund adopted the amended valuation policy for actively traded securities held by the Fund without retroactive restatement of prior periods.

# **Sceptre Pooled Investment Fund - Small Capitalization Section**

Notes to Financial Statements

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## **Valuation of Investments**

As a result of amendments made to National Instrument 81-106 by the Canadian Securities Administrators effective September 8, 2008, the Fund continues to use the close or last trade price as fair value of securities to determine the daily transactional Net Asset Value for purchases and redemptions by clients. This means the valuation method used to calculate the daily Net Asset Value to transact units of the Fund is not identical to the accounting policies used to determine the financial statement Net Assets. Any difference between the Net Asset Value per unit and Net Assets per unit is not significant and is disclosed in note 8.

The market value of investments as at the financial reporting period end is determined as follows:

- (i) Securities traded in an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers, on the valuation date. Securities with no available bid prices are valued at their closing sale prices.
- (ii) Securities not traded in an active market are valued using valuation techniques, on such basis and in such manner as established by the Manager.
- (iii) Short-term notes, treasury bills, bonds, asset backed securities and other debt instruments are valued at the bid quotations from recognized investment dealers.
- (iv) Underlying funds are valued each business day at the price calculated by the manager of such underlying fund in accordance with the relevant documents of such underlying fund.

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## **Financial Instruments**

The Section classifies their financial assets and financial liabilities in the following categories: available-for-trading, loans and receivables and other financial liabilities at amortized cost.

The Section's financial instruments consist of cash, investments, receivables and payables. The carrying values of cash, receivables and payables approximate fair value due to their short term nature. The Section is exposed to various types of risks that are associated with its investment strategies, financial instruments, and markets in which it invests.

# **Sceptre Pooled Investment Fund - Small Capitalization Section**

Notes to Financial Statements

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## **Transaction Costs**

Transaction costs are expensed. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

## **Investment Transactions**

Investment transactions are accounted for on the trade date.

## **Income Recognition**

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated with reference to the average cost of the related investments. The unrealized gain of short-term investments valued on mark to market basis is recorded as interest income.

## **Unit Valuation and Valuation Date**

Units are issued and redeemed on a continuous basis at their net asset value per unit. Net asset value per unit is determined daily as of the close of business on each day on which The Toronto Stock Exchange is open for trading. The unit valuation is made by dividing the total value of net assets by the total number of units outstanding. Units are not issued upon reinvestment of distributions to unitholders due to unit consolidation.

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## **Foreign Exchange**

Currency conversions are made at the relevant daily rate based on London 4:00 PM GMT, as quoted by Reuters. The market value of investments in foreign funds is translated into Canadian dollars at the exchange rate prevailing at the period-end date. Purchases and sales of investment securities and income and expense transactions are translated at the rate of exchange prevailing on the date of such transactions.

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

Increase (decrease) in net assets from operations per unit in the Statements of Operations represents the net increase (decrease) in net assets from operations for the year, divided by the weighted average number of units outstanding during the year.

# Sceptre Pooled Investment Fund - Small Capitalization Section

Notes to Financial Statements

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## 3. Income Taxes

The Section qualifies as a Unit Trust as defined in the Income Tax Act (Canada). Pursuant to the terms of The Declaration of Trust establishing the Fund, the Section is deemed to distribute annually to the unitholders all of the net taxable income, including net realized gains on investment transactions and such distributions are immediately recontributed to the Section without any increase in the number of units outstanding. As the net income, including net realized gains, is paid or payable to the unitholders, under existing tax legislation it is taxable in the hands of the unitholders and not in the Section. Accordingly, no provision for Canadian income taxes on such income has been included in these financial statements.

## 4. Commissions and Other Transaction Costs

The Section paid \$762,252 (2007 - \$858,823) in brokerage commissions and other transaction costs for portfolio transactions during the year.

The Section paid \$84,773 (2007 - \$81,359) in soft dollar commissions during the year.

## 5. Loss Carryforwards

The net capital losses for tax purposes are available for carry forward indefinitely, and may be applied against net capital gains realized in the future.

As at December 31, 2008, the Section had no accumulated (2007- \$nil) non-capital losses and \$27,699,727 (2007 - \$nil) net capital losses to carry forward.

## 6. Securities Lending

The aggregate market value of securities loaned and collateral held under securities lending transactions as at December 31, 2008 and 2007 are as follows:

	Outstanding Loans		Collateral Amount	
	2008	2007	2008	2007
Small Cap Section	\$ 2,455,610	\$ 13,443,251	\$ 2,610,350	\$ 14,451,748

The collateral held is in the form of Treasury Bills, Bankers' Acceptances and debt obligations of the Federal and Provincial Governments. The collateral held is not included in the Statement of Investment Portfolio.

# Sceptre Pooled Investment Fund - Small Capitalization Section

Notes to Financial Statements

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## 7. Filing Exemption

National Instrument 81-106 Investment Fund Continuous Disclosure (the "rule") allows for Investment Funds categorized as non-reporting issuers to take advantage of an exemption to file annual and interim financial statements with the relevant regulatory authority as per Section 2.11 of the rule. The Fund, as a non-reporting issuer, is relying on this exemption and therefore does not make such filings.

## 8. Comparison of Net Asset Value and Net Assets

The table below shows the difference between Net Asset Value per unit and Net Assets per unit.

	2008		2007	
	Net Assets Per Unit (\$)	Net Asset Value Per Unit (\$)	Net Assets Per Unit (\$)	Net Asset Value Per Unit (\$)
<b>As at December 31, 2008</b>				
Sceptre Pooled Investment Fund - Small Capitalization Section	68.25	68.57	135.25	134.93

## 9. Financial Instrument Risk

The Section's financial instruments consist of cash, investments, receivables and payables. As a result, the Section is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The risks include market risk, credit risk and liquidity risk. These risks and related risk management practices employed by the Section are discussed below.

Market risk is comprised of three components: market price risk, interest rate risk and foreign currency risk.

As at December 31, 2008, the Section's market risk is primarily related to changes in actual market prices on its portfolio of equity securities, and to a limited degree by interest rate risk on its short-term note investments. There is no foreign currency risk as the Section's financial instruments are denominated in Canadian dollars.

# Sceptre Pooled Investment Fund - Small Capitalization Section

Notes to Financial Statements

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## *(a) Market Price Risk*

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Section are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Section is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Section's market price risk is managed through diversification of the investment portfolio. The Investment Manager monitors the Section's overall market positions on a daily basis and positions are maintained within established ranges.

If the following index had increased (decreased) by 5% at December 31, 2008, with all other variables held constant, the Section's net assets could have increased (decreased) approximately as follows:

<b>Index</b>	<b>5% Increase</b>	<b>5% Decrease</b>
S&P/TSX Composite Index	\$ 8,378,000	\$ (8,378,000)

In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

## *(b) Interest Rate Risk*

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Section invests in interest-bearing financial instruments. Interest rate risk is considered to be minimal in the Section as its holdings of short-term investments, represent only 7.33% of the fair value of the Section at December 31, 2008.

## *Credit Risk*

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Section is subject to credit risk from its short-term note investments. However, since the short-term notes are Canada Treasury Bills or are guaranteed by the Government of Canada, and represent less than 7.33% of the fair value of the Section, credit risk is considered minimal.

# Sceptre Pooled Investment Fund - Small Capitalization Section

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All portfolio transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities are received by the broker. The trade will not settle if either party fails to meet its obligation.

The Section may engage in securities lending transactions with counterparties. Credit risk associated with these transactions is considered minimal as: the value of the collateral must be no less than 102% of the value of the loaned securities (where the amount of collateral is adjusted each trading day to make sure that the value of the collateral does not go below 102% minimum level); the collateral to be held may consist only of cash, qualified securities or securities that can be immediately converted into identical securities to those that are on loan; the Section cannot loan more than 50% of the total value of its assets through securities lending transactions; and the Section's total exposure to any one borrower in securities, derivative transactions and securities lending will be limited to 10% of the total value of the Section's assets.

## ***Liquidity Risk***

Liquidity risk is the risk that the Section will encounter difficulty in raising funds to meet cash-flow commitments associated with financial instruments. The Section is exposed to daily cash redemptions of redeemable units. The units of the Section are redeemed on demand at the current Transactional NAV per unit at the option of the unitholder. Liquidity risk is managed by investing the majority of the Section's assets in investments that are traded in an active market and can be readily disposed of. In addition, the Section aims to retain sufficient cash and cash equivalent positions to maintain liquidity.

The Section's investments are considered readily realizable and highly liquid, therefore the Section's liquidity risk is considered minimal.

## **10. Future changes in accounting standards**

In February 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Section's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Section. Management has presently determined that there will be no significant impact to Net Assets per Unit as a result of the changeover to IFRS.