

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

Financial Statements

December 31, 2009

February 18, 2010

**To the Unitholders of  
Sceptre Pooled Investment Fund - Small Capitalization Section**

We have audited the statement of investment portfolio of **Sceptre Pooled Investment Fund - Small Capitalization Section** as at December 31, 2009, the statements of net assets as at December 31, 2009 and 2008 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of Sceptre Investment Counsel Limited (the Manager). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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, 2009 and 2008 and the results of its operations and the changes in its net assets for the years 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

	2009	2008
	\$	\$
<b>Assets</b>		
Investments at fair value	353,940,489	156,594,151
Short-term investments at fair value	10,669,113	12,369,404
Cash	199,274	-
	<u>364,808,876</u>	<u>168,963,555</u>
Dividends receivable	650,540	495,254
Accounts receivable for units sold	-	308,000
Due from broker	2,062,373	1,549,977
	<u>367,521,789</u>	<u>171,316,786</u>
 <b>Liabilities</b>		
Bank indebtedness	-	182,624
Due to broker	2,629,246	620,417
Accounts payable	14,482	20,644
Redemptions payable	-	105,000
	<u>2,643,728</u>	<u>928,685</u>
<b>Net Assets and Unitholders' Equity</b>	<u><u>364,878,061</u></u>	<u><u>170,388,101</u></u>
Number of units outstanding	<u><u>3,329,057</u></u>	<u><u>2,496,620</u></u>
<b>Net Assets per unit</b>	<u><u>\$ 109.60</u></u>	<u><u>\$ 68.25</u></u>

## Sceptre Pooled Investment Fund - Small Capitalization Section

### Statements of Operations

For the years ended December 31

	2009	2008
	\$	\$
<b>Income</b>		
Interest	143,255	1,077,108
Dividends	2,542,487	2,514,097
Income received from income trusts	2,701,060	1,660,310
Security lending income	9,604	22,111
	<u>5,396,406</u>	<u>5,273,626</u>
<b>Expenses</b>		
Audit fees	11,100	13,282
Custodial fees	16,102	27,121
Trustee fees	1,500	1,500
Other expenses	63,633	60,880
	<u>92,335</u>	<u>102,783</u>
<b>Net investment income (loss) for the year</b>	<u>5,304,071</u>	<u>5,170,843</u>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain (loss) on investments	(3,869,838)	(29,442,836)
Transaction Costs (note 5)	(1,220,430)	(762,252)
Change in unrealized appreciation (depreciation) in value of investments during the year	<u>129,223,710</u>	<u>(186,776,763)</u>
<b>Net gain (loss) on investments</b>	<u>124,133,442</u>	<u>(216,981,851)</u>
<b>Increase (decrease) in net assets from operations</b>	<u>129,437,513</u>	<u>(211,811,008)</u>
<b>Increase (decrease) in net assets from operations per unit</b>	<u>\$ 43.40</u>	<u>\$ (66.84)</u>

## Sceptre Pooled Investment Fund - Small Capitalization Section

Statements of Changes in Net Assets

For the years ended December 31

	2009	2008
	\$	\$
<b>Net assets at beginning of year</b>	<u>170,388,101</u>	<u>445,144,129</u>
<b>Increase (decrease) in net assets from operations</b>	<u>129,437,513</u>	<u>(211,811,008)</u>
<b>Capital</b>		
Proceeds from units issued	78,218,285	60,177,094
Value of units redeemed	(13,165,838)	(123,122,114)
Capitalized distributions	5,158,677	5,114,359
<b>Net capital unit transactions</b>	<u>70,211,124</u>	<u>(57,830,661)</u>
<b>Distributions to unitholders</b>		
Net investment income	(5,158,677)	(5,114,359)
<b>Total Distributions</b>	<u>(5,158,677)</u>	<u>(5,114,359)</u>
<b>Increase (decrease) in net assets for the year</b>	<u>194,489,960</u>	<u>(274,756,028)</u>
<b>Net assets at end of year</b>	<u><u>364,878,061</u></u>	<u><u>170,388,101</u></u>

### Number of Units

<b>Balance - beginning of year</b>	2,496,620	3,291,302
Units issued during the year	972,084	615,940
Units redeemed during the year	(139,647)	(1,410,622)
<b>Balance - end of year</b>	<u><u>3,329,057</u></u>	<u><u>2,496,620</u></u>

## SCEPTRE POOLED INVESTMENT FUND - SMALL CAPITALIZATION SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2009

	NUMBER OF SHARES	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Cash</b>		199,274	199,274	0.05
<b>Short-Term Notes</b>				
<b>Treasury Bills</b>				
Canada Treasury Bills, with various due dates to April 29, 2010 0.250% - 0.285%		10,666,054	10,669,113	2.92
<b>Equities</b>				
<b>Energy</b>				
AltaGas Income Trust	257,600	5,157,672	4,835,152	
Bankers Petroleum Ltd.	1,999,400	4,797,603	12,416,274	
Birehcliff Energy Ltd.	348,000	2,329,236	3,271,200	
BlackPearl Resources Inc.	852,100	1,364,102	2,155,813	
Calfrac Well Services Ltd.	116,500	2,246,451	2,408,055	
Celtic Exploration Ltd.	571,200	9,325,878	11,875,248	
Crew Energy Inc.	365,000	4,063,037	5,325,350	
Daylight Resources Trust	584,100	4,767,359	5,940,297	
Legacy Oil + Gas Inc.	548,283	4,932,081	5,269,000	
Mullen Group Ltd.	452,000	5,221,068	7,349,520	
NAL Oil & Gas Trust	450,500	4,559,052	6,153,830	
Pacific Rubiales Energy Corp.	402,383	1,774,300	6,196,698	
Painted Pony Petroleum Ltd., Class A	211,700	1,235,435	1,210,924	
Result Energy	7,708,900	2,158,492	3,391,916	
ShawCor Ltd., Class A	168,780	3,775,203	4,941,878	
Storm Exploration Inc.	275,600	3,269,456	3,585,556	
Trinidad Drilling Ltd.	713,400	3,865,349	5,000,934	
Uranium One, Inc.	1,332,200	3,186,430	3,996,600	
<b>Total Energy</b>		<b>68,028,204</b>	<b>95,324,245</b>	<b>26.13</b>
<b>Materials</b>				
Alamos Gold Inc.	662,400	6,324,685	8,280,000	
Argonaut Gold Inc.	591,800	1,775,400	1,923,350	
Argonaut Gold Inc., Warrants (29 Dec 12)	295,900	-	-	
Capstone Mining Corp.	1,398,600	3,299,745	3,930,066	
Consolidated Thompson Iron Mines Ltd.	603,200	2,123,396	4,059,536	
Detour Gold Corp.	253,300	3,471,469	4,511,273	
Equinox Minerals Ltd.	2,461,500	4,606,752	9,944,460	
FNX Mining Co Inc.	266,700	3,071,327	3,069,717	
Golden Star Resources Ltd.	1,102,800	2,981,316	3,573,072	
Hanfeng Evergreen Inc.	508,000	6,409,402	3,733,800	
Harry Winston Diamond Corp.	152,300	1,535,786	1,521,477	
HudBay Minerals Inc.	180,800	2,531,403	2,444,416	
Jaguar Mining Inc.	398,700	3,614,311	4,676,751	
Lundin Mining Corp.	956,100	3,854,059	4,082,547	
Major Drilling Group International	217,400	3,202,452	6,195,900	
Migao Corp.	473,900	3,549,759	3,293,605	
New Gold Inc.	1,344,400	5,066,289	5,081,832	
Osisko Mining Corp.	391,600	2,049,827	3,301,188	
Quadra Mining Ltd.	553,200	4,885,017	8,021,400	
Romarco Minerals Inc.	1,610,100	1,865,096	2,704,968	
San Gold Corp.	1,360,900	3,235,589	4,953,676	
SEMAFO Inc.	2,162,500	3,516,178	9,471,750	
Western Coal Corp.	450,700	1,471,514	1,464,775	
<b>Total Materials</b>		<b>74,440,772</b>	<b>100,239,559</b>	<b>27.48</b>

The accompanying notes are an integral part of these financial statements.

## SCEPTRE POOLED INVESTMENT FUND - SMALL CAPITALIZATION SECTION

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2009

	NUMBER OF SHARES	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Industrials</b>				
<b>Capital Goods</b>				
AG Growth International Inc.	143,100	3,916,218	4,979,880	
Genivar Income Fund	157,600	3,666,068	4,263,080	
Stantec Inc.	73,300	1,723,561	2,213,660	
Toromont Industries Ltd.	233,921	5,538,758	6,488,969	
		14,844,605	17,945,589	4.92
<b>Commercial Services &amp; Supplies</b>				
Aecon Group Inc.	427,900	6,919,961	6,405,663	
GLV Inc., Class A	294,300	2,162,935	2,575,125	
The Churchill Corp.	61,300	1,006,557	1,174,508	
		10,089,453	10,155,296	2.78
<b>Transportation</b>				
Transat AT Inc., Class B	240,800	2,919,011	5,054,392	
		2,919,011	5,054,392	1.39
<b>Total Industrials</b>		<b>27,853,069</b>	<b>33,155,277</b>	<b>9.09</b>
<b>Consumer Discretionary</b>				
<b>Consumer Durables &amp; Apparel</b>				
Dorel Industries Inc., Class B	155,325	3,780,510	4,999,912	1.37
<b>Consumer Services</b>				
Great Canadian Gaming Corp.	326,100	1,775,228	2,563,146	0.70
<b>Media</b>				
Cineplex Galaxy Income Fund	156,000	2,201,797	2,842,320	
Cogeco Cable Inc.	89,600	3,507,921	3,128,832	
Corus Entertainment Inc., Class B	229,700	3,557,527	4,536,575	
		9,267,245	10,507,727	2.88
<b>Retailing</b>				
Dollarama Inc.	146,300	2,601,388	3,269,805	
Reitmans Canada Ltd., Class A	445,500	3,496,916	7,422,030	
		6,098,304	10,691,835	2.93
<b>Total Consumer Discretionary</b>		<b>20,921,287</b>	<b>28,762,620</b>	<b>7.88</b>
<b>Consumer Staples</b>				
<b>Food &amp; Staples Retailing</b>				
Alliance Grain Traders Inc.	232,900	3,927,083	6,963,710	
Atrium Innovations Inc.	99,600	1,366,732	1,569,696	
North West Co. Fund	187,300	3,018,169	3,556,827	
		8,311,984	12,090,233	3.32
<b>Total Consumer Staples</b>		<b>8,311,984</b>	<b>12,090,233</b>	<b>3.32</b>
<b>Health Care</b>				
<b>Health Care Equipment &amp; Services</b>				
BioMS Medical Corp., Purchase Warrants (31 Dec 09)	459,100	-	-	
BioMS Medical Corp., Warrants (18 May 10)	166,600	-	-	
BioMS Medical Corp., Warrants (23 May 10)	314,900	132,258	-	
		132,258	-	-
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences</b>				
Paladin Labs Inc.	53,300	1,018,787	1,049,477	
		1,018,787	1,049,477	0.29
<b>Total Health Care</b>		<b>1,151,045</b>	<b>1,049,477</b>	<b>0.29</b>

The accompanying notes are an integral part of these financial statements.

**SCEPTRE POOLED INVESTMENT FUND - SMALL CAPITALIZATION SECTION**

**STATEMENT OF INVESTMENT PORTFOLIO**

As at December 31, 2009

	NUMBER OF SHARES	AVERAGE COST (\$)	FAIR VALUE (\$)	% OF TOTAL
<b>Financials</b>				
<b>Banks</b>				
Canadian Western Bank	496,491	9,466,112	10,873,153	
Home Capital Group Inc.	250,250	7,150,188	10,432,923	
		16,616,300	21,306,076	5.84
<b>Diversified Financials</b>				
AGF Management Ltd., Class B	327,100	7,514,116	5,550,887	
Dundee Corp., Class A	923,500	5,463,236	11,100,470	
GMP Capital Trust	115,400	1,186,495	1,449,424	
		14,163,847	18,100,781	4.96
<b>Real Estate</b>				
Calloway Real Estate Investment Trust	313,400	5,745,188	6,098,764	
Dundee Real Estate Investment Trust	83,010	2,381,675	1,711,666	
FirstService Corp.	178,400	3,234,622	3,585,840	
Melcor Developments Ltd.	535,900	815,570	5,964,567	
Northern Property Real Estate Investment Trust	237,200	4,366,964	5,194,680	
		16,544,019	22,555,517	6.19
<b>Total Financials</b>		<b>47,324,166</b>	<b>61,962,374</b>	<b>16.99</b>
<b>Information Technology</b>				
<b>Software &amp; Services</b>				
MacDonald Dettwiler & Associates Ltd.	272,455	6,944,862	11,601,134	3.17
<b>Semiconductor &amp; Semiconductor Equipment</b>				
Evertz Technologies Ltd.	271,900	3,917,957	3,537,419	
Mosaid Technologies Inc.	149,900	2,341,467	2,849,599	
		6,259,424	6,387,018	1.75
<b>Total Information Technology</b>		<b>13,204,286</b>	<b>17,988,152</b>	<b>4.92</b>
<b>Utilities</b>				
Ram Power Corp.	833,800	2,501,400	3,368,552	
<b>Total Utilities</b>		<b>2,501,400</b>	<b>3,368,552</b>	<b>0.92</b>
<b>Total Equities</b>		<b>263,736,213</b>	<b>353,940,489</b>	<b>97.03</b>
<b>Transaction costs</b>				
		(718,662)		
<b>Total Investment Portfolio Including Cash and Short-Term Notes</b>		<b>273,882,879</b>	<b>364,808,876</b>	<b>100.00</b>

The accompanying notes are an integral part of these financial statements.

# Sceptre Pooled Investment Fund - Small Capitalization Section

Notes to Financial Statements

December 31, 2009

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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 (the "Manager") 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 ("GAAP"), 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.

### (a) Adoption of new accounting standards

On January 20, 2009, The Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board issued Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 supplements CICA Handbook Section 3855, wherein it states that fair value takes into account the credit quality of a financial instrument. The EIC-173 affirms that an entity's own credit risk (in the case of financial liabilities) and counterparty's credit risk (in the case of financial assets) should be taken into account in determining the fair values of financial assets and financial liabilities, including derivative instruments.

The Manager has reviewed its policies for valuation of assets and liabilities and believes that the fair values ascribed to the financial assets and financial liabilities in these financial statements incorporate appropriate levels of credit risk.

Effective January 1, 2009, the Section adopted the recent amendments to CICA 3862, "Financial Instruments – Disclosures".

# Sceptre Pooled Investment Fund - Small Capitalization Section

## Notes to Financial Statements

December 31, 2009

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These amendments establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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.
  
- Level 2            Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.
  
- Level 3            Inputs that are based on unobservable market data and which require significant management judgment or estimation.

### **(b) Financial Instruments and Capital Disclosures**

On January 1, 2008, the Section adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". The standard 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 requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. Refer to Financial Instrument Risk (note 9) for disclosures relating to the adoption of the requirements.

The Section's financial instruments consist of cash, available-for-trading 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.

On January 1, 2008 the Section also adopted CICA Section 1535, "Capital Disclosures", which requires that the Sections disclose information about their objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacts the Sections' disclosure provided but does not affect the Sections' results or financial position.

### **(c) Valuation of investments**

Investments are deemed as held for trading in accordance with CICA Section 3855 and Accounting Guideline 18 and the fair value of investments as at the financial reporting period end is determined as follows:

# Sceptre Pooled Investment Fund - Small Capitalization Section

## Notes to Financial Statements

December 31, 2009

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- (i) Securities traded in an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers. 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, using observable market inputs where possible 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.

The Section continues to use the close or last trade price as fair value of a security to determine the daily transactional Net Asset Value (“NAV”) per unit for purchases and redemptions by clients, in accordance with Part 1.4 of National Instrument 81-106 – Investment Fund Continuous Disclosure.

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 and Net Assets is not significant and is disclosed in note 8.

### **(d) Transaction costs**

Transaction costs are expensed as incurred. 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.

### **(e) Unit valuation and valuation date**

Units are issued and redeemed on a continuous basis at their Net Asset Value per unit which is determined on each day that the Toronto Stock Exchange is open for business. The unit valuation is determined by dividing the aggregate market value of the net assets by the total number of units outstanding at the close of business on the valuation day.

### **(f) Investment transactions**

Investment transactions are accounted for on the trade date. The cost of investments represents the amount paid for each security, and is determined on the average cost basis.

### **(g) Revenue recognition**

- (i) Interest income and income from securities lending is recorded on an accrual basis.

# Sceptre Pooled Investment Fund - Small Capitalization Section

## Notes to Financial Statements

December 31, 2009

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- (ii) Dividend income is recorded on the ex-dividend date and is net of withholding taxes.
- (iii) Realized gains and (losses) on investments and unrealized appreciation (depreciation) in value of investments are calculated with reference to the average cost of the related investments.
- (iv) Income received from income trusts is recorded on the ex-distribution date and allocated between income, capital gains and return of capital when the information necessary for such an allocation becomes available.

### (h) Foreign exchange

Foreign currency amounts are expressed in Canadian dollars on the following basis:

- (i) Market value of investments, other assets and liabilities at the rate of exchange prevailing on December 31.
- (ii) Value of investment transactions, income and expenses at the rates prevailing on the respective dates of such transactions.

### (i) 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 each class for the year, divided by the weighted average units outstanding during the year.

## 3. Fair Value Disclosure

The Section’s assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See note 2(a) for a discussion of the Section’s policies regarding this hierarchy. The following fair value hierarchy table presents information about the Section’s assets measured at fair value on a recurring basis as of December 31, 2009.

(Thousands of dollars)	Financial Assets at fair value as at December 31, 2009		
	Level 1	Level 2	Total
Equities - Long	348,625	5,315	353,940
Short Term Notes	-	10,669	10,669
	348,625	15,984	364,609

## 4. 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

# Sceptre Pooled Investment Fund - Small Capitalization Section

## Notes to Financial Statements

December 31, 2009

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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.

As at December 31, 2009, the Section had no accumulated (2008- \$nil) non-capital losses and \$33,185,948 (2008 - \$27,699,727) in net capital losses to carry forward.

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

### 5. Commissions and Other Transaction Costs

The amounts paid by the Sections for brokerage commissions and other transaction costs for portfolio transactions are included in the Statement of Operations for each Section.

The Section paid \$175,153 (2008 - \$84,773) in soft dollar commissions during the year.

### 6. Securities Lending

The aggregate market value of securities loaned and collateral held under securities lending transactions as at December 31, 2009 and 2008 are as follows:

	Outstanding Loans		Collateral Amount	
	2009	2008	2009	2008
Small Cap Section	\$ 10,042,219	\$ 2,455,610	\$ 10,544,332	\$ 2,610,350

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.

### 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.

# Sceptre Pooled Investment Fund - Small Capitalization Section

## Notes to Financial Statements

December 31, 2009

### 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 as at December 31:

	2009		2008	
	Net Assets Per Unit (\$)	Net Asset Value Per Unit (\$)	Net Assets Per Unit (\$)	Net Asset Value Per Unit (\$)
Sceptre Pooled Investment Fund - Small Capitalization Section	109.60	110.27	68.25	68.57

### 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*

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

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.

#### *(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.

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Utilizing a predicted beta of 1.37 (2008 – 1.07), if the S&P/TSX Composite index had increased or decreased by 5% at December 31, 2009, with all other variables held constant, the Fund's net assets could have increased or decreased, respectively, by approximately \$24,245,000 (2008 - \$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 it's holdings of short-term investments, represent only 2.92% of its fair value of the Section at December 31, 2009. At December 31, 2008, 7.33% of the fair value of the Section was held in short-term investments in reaction to the volatility in the markets at that time.

### *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 only 2.92% (2008: 7.33%) of the fair value of the Section, credit risk is considered minimal.

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 limited to 10% of the total value of the Section's assets.

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## *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. Unitholders' Equity**

Units of the Section, which are redeemable at the option of the unitholder in accordance with the provisions of the Declaration of Trust, do not have any nominal or par value and the number of units which may be issued is unlimited. Units of the Section are issued or redeemed on a daily basis at the NAV per unit next determined after the purchase order of redemption request, respectively, is received by the Manager.

Units issued and outstanding represent the capital of the Section. Changes in the Section's capital during the year are reflected in the Statements of Changes in Net Assets. The Manager is responsible for managing the capital of the Section in accordance with their investment objectives and in managing its liquidity in order to meet redemption requests.

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

In February 2008, the Canadian Accounting Standards Board confirmed that 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. The Section will adopt IFRS on January 1, 2011. 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 Sections' 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 NAV per Unit as a result of the changeover to IFRS. Management is continuing to assess the impact to

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NAV of the Section of future accounting changes relating to the convergence of IFRS with US GAAP.