

Financial Statements

Lincluden Balanced Fund

December 31, 2010



Independent auditors' report

To the Unitholders of
Lincluden Balanced Fund
(the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2010, the statements of net assets as at December 31, 2010 and 2009, and the statements of operations and changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and 2009, and the results of the operations and the changes in the net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 29, 2011

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Lincluden Balanced Fund

STATEMENT OF NET ASSETS

As at December 31

	2010	2009
	\$	\$
ASSETS		
Investments	44,144,994	41,552,150
Cash	1,302,350	710,101
Accrued investment income	177,735	168,617
Subscriptions receivable	3,140	1,790
Net unrealized gain on foreign exchange forward contract <i>[note 4]</i>	49,693	44,002
	45,677,912	42,476,660
LIABILITIES		
Redemptions payable	61,013	-
Management fee payable	4,668	-
Accrued expenses	6,789	9,316
	72,470	9,316
Net assets representing unitholders' equity	45,605,442	42,467,344
Total net assets per Series		
Series A	3,169,028	2,562,162
Series O	42,436,414	39,905,182
Units outstanding by Series [note 3]		
Series A	252,018	214,905
Series O	3,251,091	3,225,227
Net Assets per unit per Series [note 8]		
Series A	\$ 12.57	\$ 11.92
Series O	\$ 13.05	\$ 12.37

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

On behalf of the Fund Manager,
Lincluden Management Limited, as Trustee:



C. Lynn Eplett
Vice President



Richard Wong
Vice President

Lincluden Balanced Fund

STATEMENT OF OPERATIONS

For the year ended December 31

	2010	2009
	\$	\$
INCOME		
Interest	703,554	687,458
Dividends	728,267	798,295
	1,431,821	1,485,753
EXPENSES <i>[note 5]</i>		
Management fees	49,752	42,641
Custodian	21,792	28,710
Audit	43,262	58,805
Operating	129,001	129,190
Independent Review Committee	35,000	31,775
Goods and Services Tax/Harmonized Sales Tax	21,802	11,903
	300,609	303,024
Expenses waived or absorbed by manager <i>[note 5]</i>	(175,956)	(195,679)
	124,653	107,345
Net investment income	1,307,168	1,378,408
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND TRANSACTION COSTS		
Net realized gain (loss) on sale of investments	803,113	(1,805,536)
Net realized gain on foreign exchange forward contracts	219,407	309,605
Net realized and unrealized loss on foreign exchange	(103,980)	(57,639)
Transaction costs <i>[note 6]</i>	(19,421)	(32,997)
Change in unrealized appreciation in the value of investments	1,490,196	6,490,179
Change in unrealized appreciation on foreign exchange forward contracts <i>[note 4]</i>	5,691	114,004
Net gain on investments and transaction costs	2,395,006	5,017,616
Increase in net assets resulting from operations	3,702,174	6,396,024
Increase in net assets from operations per Series		
Series A	193,025	312,428
Series O	3,509,149	6,083,596
Increase in net assets from operations per unit per Series		
Series A	\$ 0.81	\$ 1.41
Series O	\$ 1.07	\$ 1.79

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

Lincluden Balanced Fund

STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31

Series A

	2010	2009
Net assets, beginning of year	2,562,162	2,427,978
Increase in net assets resulting from operations	\$ 193,025	\$ 312,428
DISTRIBUTIONS TO INVESTORS		
From net investment income	(33,013)	(39,079)
	(33,013)	(39,079)
CAPITAL UNIT TRANSACTIONS [note 3]		
Proceeds from subscriptions	1,057,501	616,554
Reinvested distributions	33,013	39,079
Payments on redemptions	(643,660)	(794,798)
	446,854	(139,165)
Increase in net assets for the year	606,866	134,184
Net assets, end of year	\$ 3,169,028	\$ 2,562,162

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

Series O

	2010	2009
Net assets, beginning of year	39,905,182	37,807,065
Increase in net assets resulting from operations	\$ 3,509,149	\$ 6,083,596
DISTRIBUTIONS TO INVESTORS		
From net investment income	(1,258,503)	(1,376,380)
	(1,258,503)	(1,376,380)
CAPITAL UNIT TRANSACTIONS [note 3]		
Proceeds from subscriptions	3,183,759	4,865,802
Reinvested distributions	1,248,962	1,363,258
Payments on redemptions	(4,152,135)	(8,838,159)
	280,586	(2,609,099)
Increase in net assets for the year	2,531,232	2,098,117
Net assets, end of year	\$ 42,436,414	\$ 39,905,182

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

Lincluden Balanced Fund

STATEMENT OF INVESTMENTS

As at December 31, 2010

	Number of Shares	Average Cost \$	Fair Value \$
COMMON AND PREFERRED SHARES — 60.05%			
CANADIAN EQUITIES — 28.12%			
Capital Goods — 1.36%			
Bombardier Inc., Class 'B'	53,985	297,996	269,925
CAE Inc.	30,535	206,276	349,931
		504,272	619,856
Consumer Discretionary — 1.36%			
Shaw Communications Inc.	18,145	354,910	386,488
Thomson Reuters Corp.	6,270	233,611	232,930
		588,521	619,418
Consumer Staples — 0.92%			
Shoppers Drug Mart Corp.	10,630	457,952	419,885
		457,952	419,885
Energy — 6.85%			
Cameco Corp.	7,110	181,022	286,178
Canadian Natural Resources Ltd.	11,310	283,139	500,694
EnCana Corp.	17,535	504,673	509,216
Ensign Energy Services Inc.	17,440	222,189	262,123
Husky Energy Inc.	13,970	384,248	370,345
Suncor Energy Inc.	19,640	635,884	749,855
Talisman Energy Inc.	20,090	282,984	444,190
		2,494,139	3,122,601
Financials — 9.44%			
Bank of Montreal	7,535	327,950	432,735
Bank of Nova Scotia	8,645	322,655	493,024
Brookfield Properties Corp.	24,380	339,111	426,406
Intact Financial Corp.	9,805	327,740	497,702
Manulife Financial Corp.	39,115	849,516	668,866
Royal Bank of Canada	13,960	611,410	728,712
Sun Life Financial Inc.	14,875	533,633	446,548
Toronto-Dominion Bank (The)	8,270	472,458	612,807
		3,784,473	4,306,800
Health Care — 0.59%			
CML Healthcare Income Fund	23,545	301,257	268,884
		301,257	268,884
Information Technology — 1.21%			
Research In Motion Ltd.	9,550	557,816	553,709
		557,816	553,709
Materials — 3.07%			
Barrick Gold Corp.	12,513	446,568	663,564
Inmet Mining Corp.	4,220	223,121	326,037
Yamana Gold Inc.	32,210	330,536	410,355
		1,000,225	1,399,956

	Number of Shares	Average Cost \$	Fair Value \$
Telecommunication Services — 2.65%			
BCE Inc.	13,395	302,206	473,245
Rogers Communications Inc., Class 'B'	13,900	464,791	479,689
Telus Corp.	5,610	213,761	255,143
		980,758	1,208,077
Transportation — 0.67%			
WestJet Airlines Ltd.	21,760	255,762	305,293
		255,762	305,293
TOTAL CANADIAN EQUITIES — 28.12%		10,925,175	12,824,479
UNITED STATES EQUITIES — 16.12%			
Consumer Discretionary — 1.15%			
Comcast Corp., Class 'A'	12,792	319,566	280,044
Lowes Cos. Inc.	9,714	290,129	242,653
		609,695	522,697
Consumer Staples — 1.35%			
Coca-Cola Co.	4,498	232,618	294,650
Walgreen Co.	8,270	263,802	320,910
		496,420	615,560
Energy — 2.03%			
Chevron Corp.	3,354	248,652	304,828
Devon Energy Corp.	3,215	212,162	251,400
ExxonMobil Corp.	5,075	366,770	369,600
		827,584	925,828
Financials — 1.88%			
Bank of America Corp.	22,523	332,391	299,255
MetLife Inc.	6,730	308,690	297,818
Wells Fargo & Co.	8,474	237,290	261,474
		878,371	858,547
Health Care — 2.74%			
Eli Lilly and Co.	5,415	194,307	188,875
Johnson & Johnson	2,851	207,906	175,601
Pfizer Inc.	21,110	432,834	368,158
Quest Diagnostics Inc.	3,860	215,479	207,491
Zimmer Holdings Inc.	5,798	337,827	309,992
		1,388,353	1,250,117
Industrials — 2.04%			
Brink's Co. (The)	5,130	141,303	137,241
Danaher Corp.	3,714	120,526	174,415
Honeywell International Inc.	6,665	284,955	352,894
Pitney Bowes Inc.	11,065	267,126	266,482
		813,910	931,032

	Number of Shares	Average Cost \$	Fair Value \$
Information Technology — 3.38%			
Applied Materials Inc.	18,275	281,530	255,373
Cisco Systems Inc.	14,947	321,966	300,871
Microsoft Corp.	11,739	324,328	326,208
Oracle Corp.	13,101	276,794	408,030
Texas Instruments Inc.	7,755	192,553	251,029
		1,397,171	1,541,511
Materials — 0.44%			
Monsanto Co.	2,900	203,294	201,090
		203,294	201,090
Telecommunication Services — 0.74%			
Verizon Communications Inc.	9,498	339,350	338,385
		339,350	338,385
Utilities — 0.37%			
Southern Co. (The)	4,390	148,968	167,158
		148,968	167,158
TOTAL UNITED STATES EQUITIES — 16.12%		7,103,116	7,351,925
INTERNATIONAL EQUITIES — 15.81%			
Brazil — 0.64%			
Petróleo Brasileiro SA, ADR	7,765	279,124	292,343
		279,124	292,343
Finland — 0.47%			
Nokia OYJ, ADR	20,869	333,311	214,507
		333,311	214,507
France — 2.51%			
Alstom SA	3,045	141,655	145,176
AXA, ADR	8,678	266,509	143,911
Carrefour SA	5,680	279,374	233,257
France Télécom SA, ADR	10,231	256,403	214,705
Sanofi-Aventis, ADR	5,731	257,223	183,286
TOTAL SA, ADR	4,236	259,904	225,551
		1,461,068	1,145,886
Germany — 1.08%			
Munchener Rueckversicherungs-Gesellschaft AG, Registered	1,700	264,159	257,682
Siemens AG, ADR	1,894	189,019	234,200
		453,178	491,882
Hong Kong — 0.45%			
China Mobile Ltd., ADR	4,195	218,190	207,240
		218,190	207,240
Ireland — 0.57%			
Accenture PLC, Class 'A'	5,380	227,732	259,726
		227,732	259,726

	Number of Shares	Average Cost \$	Fair Value \$
Japan — 3.46%			
Keyence Corp.	1,153	246,259	332,866
Murata Manufacturing Co. Ltd.	3,470	169,033	241,925
Nintendo Co. Ltd.	1,000	283,556	292,009
NTT DoCoMo Inc., ADR	7,516	125,581	130,405
Panasonic Corp., ADR	20,924	368,954	296,268
SECOM Co. Ltd.	5,990	275,447	282,332
		1,468,830	1,575,805
Netherlands — 0.90%			
ING Groep NV, ADR	21,892	343,369	213,029
Koninklijke Philips Electronics NV, ADR	6,498	193,627	198,561
		536,996	411,590
South Korea — 0.80%			
Samsung Electronics Co. Ltd., GDR	865	280,016	362,708
		280,016	362,708
Switzerland — 0.99%			
ABB Ltd., ADR	10,339	175,090	231,182
Nestlé SA, ADR, Registered	3,793	148,322	221,381
		323,412	452,563
United Kingdom — 3.94%			
Barclays PLC, ADR	13,516	335,206	222,257
BG Group PLC	10,620	179,326	213,903
GlaxoSmithKline PLC, ADR	5,955	316,341	232,621
Home Retail Group	77,065	272,445	225,731
HSBC Holdings PLC, ADR	3,865	264,532	196,481
Standard Life PLC	66,790	289,902	224,191
Vodafone Group PLC, ADR	9,290	214,178	244,553
Wolseley PLC	7,394	243,595	235,086
		2,115,525	1,794,823
TOTAL INTERNATIONAL EQUITIES — 15.81%		7,697,382	7,209,073
TOTAL EQUITIES — 60.05%		25,725,673	27,385,477

	Par Value \$	Average Cost \$	Fair Value \$
BONDS — 36.75%			
Government of Canada — 11.09%			
Canada Housing Trust No. 1, 3.950%, 15/12/11	690,000	726,593	706,151
Canada Housing Trust No. 1, 4.550%, 15/12/12	695,000	739,570	731,278
Canada Housing Trust No. 1, 1.670%, 15/09/14	1,425,000	1,442,277	1,440,676
Canada Housing Trust, Series '23', 4.100%, 15/12/18	1,405,000	1,456,032	1,490,586
Canada Housing Trust No. 1, Series '25', Variable Rate, 1.800%, 15/03/1	545,000	553,326	552,832
Government of Canada, 3.500%, 01/06/13	130,000	135,148	135,164
		5,052,946	5,056,687
Provincial Government — 7.75%			
Province of Manitoba, 5.700%, 05/03/37	245,000	284,390	297,092
Province of New Brunswick, 4.550%, 26/03/37	445,000	431,633	451,817
Province of Ontario, 4.200%, 02/06/20	475,000	483,632	489,792
Province of Ontario, 4.700%, 02/06/37	480,000	474,478	503,638

	Par Value \$	Average Cost \$	Fair Value \$
Province of Ontario, Series 'KJ', 7.600%, 02/06/27	340,000	468,202	476,150
Province of Quebec, 4.500%, 01/12/18	920,000	915,416	979,780
Province of Quebec, 5.000%, 01/12/38	310,000	318,670	337,003
		3,376,421	3,535,272
Municipal Government — 0.58%			
Greater Toronto Airports Authority, Series '2004-1', 6.470%, 02/02/34	30,000	33,561	35,663
Greater Toronto Airports Authority, Series '2009-1', 5.960%, 20/11/19	200,000	218,590	227,754
		252,151	263,417
Corporate — 14.38%			
407 International Inc., Callable, 4.990%, 16/06/20	85,000	88,238	90,462
Bank of Montreal, 5.450%, 17/07/17	342,000	345,581	376,203
Bank of Nova Scotia, 4.560%, 30/10/13	192,000	186,732	202,436
Bank of Nova Scotia, 5.040%, 08/04/13	160,000	159,971	169,365
Bank of Nova Scotia, 4.100%, 08/06/17	100,000	99,988	102,340
Bank of Nova Scotia, Variable Rate, Callable, 4.940%, 15/04/19	110,000	109,966	116,586
Bell Aliant Regional Communications L.P., 4.370%, 13/09/17	120,000	119,993	118,985
Bell Canada, Callable, 4.850%, 30/06/14	160,000	162,891	169,046
Cameco Corp., Series 'D', Callable, 5.670%, 02/09/19	80,000	83,424	85,673
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 4.110%,	315,000	317,338	325,051
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 3.150%,	90,000	89,810	88,097
Canadian Tire Corp. Ltd., Callable, 5.650%, 01/06/16	25,000	24,990	27,372
Citigroup Finance Canada Inc., 4.900%, 13/11/12	90,000	89,896	92,597
Citigroup Finance Canada Inc., 6.750%, 22/09/14	90,000	89,921	97,961
CU Inc., Callable, 4.800%, 22/11/21	70,000	64,561	72,985
Enbridge Inc., Callable, 5.000%, 09/08/16	200,000	194,998	214,685
Enbridge Pipelines Inc., Callable, 4.490%, 12/11/19	140,000	139,888	145,741
Golden Credit Card Trust, Series '2008-1', 5.110%, 15/04/11	70,000	70,000	70,669
Honda Canada Finance Inc., 5.680%, 26/09/12	100,000	100,000	105,557
Husky Energy Inc., Callable, 5.000%, 12/03/20	90,000	91,513	91,748
Hydro One Inc., 6.400%, 01/12/11	100,000	103,250	104,131
Hydro One Inc., Callable, 6.350%, 31/01/34	60,000	61,221	71,936
Loblaws Cos. Ltd., 6.150%, 29/01/35	100,000	105,570	100,916
Manulife Financial Corp., Callable, 5.500%, 26/06/18	410,000	434,075	433,243
Master Credit Card Trust, Class 'A', Series '2006-2', 4.444%, 21/11/11	100,000	99,473	102,356
NAV Canada, Floating Rate, 1.680%, 29/04/13	90,000	90,000	89,990
Nova Scotia Power Inc., Series 'X', Callable, 5.610%, 15/06/40	40,000	39,965	42,613
Rogers Communications Inc., Callable, 5.800%, 26/05/16	125,000	124,709	136,956
Royal Bank of Canada, 4.530%, 07/05/12	100,000	97,385	103,428
Royal Bank of Canada, 5.950%, 18/06/14	100,000	101,648	108,476
Royal Bank of Canada, Variable Rate, Callable, 4.350%, 15/06/20	220,000	223,737	227,411
Scotiabank Tier I Trust, Variable Rate, Callable, 7.802%, 30/06/19	35,000	35,000	40,183
Shaw Communications Inc., Callable, 5.650%, 01/10/19	160,000	159,493	165,292
Shaw Communications Inc., Callable, 5.500%, 07/12/20	70,000	69,744	70,860
TELUS Corp., Series 'CD', 4.950%, 15/03/17	200,000	199,072	209,075
TELUS Corp., Series 'CG', Callable, 5.050%, 04/12/19	125,000	124,274	127,357
Teranet Holdings L.P., Callable, 4.810%, 16/12/20	230,000	230,000	232,206
Thomson Reuters Corp., Callable, 5.250%, 15/07/11	100,000	99,765	101,875
Toronto-Dominion Bank (The), Variable Rate, Callable, 5.480%, 02/04/	100,000	106,798	108,780
TransAlta Corp., Callable, 6.900%, 01/06/11	250,000	282,915	254,315
TransCanada PipeLines Ltd., 11.100%, 20/06/14	200,000	263,778	249,387
TransCanada PipeLines Ltd., 7.900%, 15/04/27	80,000	93,008	103,473
TransCanada PipeLines Ltd., Series 'W', 9.450%, 20/03/18	100,000	131,318	133,000
Wells Fargo Financial Canada Corp., Callable, 4.330%, 06/12/13	310,000	297,092	321,651
Westcoast Energy Inc., Series 'W', 7.300%, 18/12/26	125,000	122,360	153,915
		6,325,349	6,556,384

	Par Value \$	Average Cost \$	Fair Value \$
United States Bonds — 2.59%			
Bank of America Corp., 5.450%, 17/09/14	100,000	99,908	103,046
Bank of America Corp., 4.360%, 21/09/15	100,000	93,319	97,781
United States Treasury Bond, 4.250%, 15/11/40	1,000,000	985,580	981,508
		1,178,807	1,182,335
International Bonds — 0.36%			
Kreditanstalt fuer Wiederaufbau (KFW), 4.300%, 24/05/12	160,000	159,843	165,422
		159,843	165,422
TOTAL BONDS — 36.75%		16,345,517	16,759,517
TRANSACTION COSTS		(24,525)	
TOTAL INVESTMENT PORTFOLIO — 96.80%		42,046,665	44,144,994
TOTAL UNREALIZED GAIN ON FORWARD CONTRACTS — 0.11%			49,693
OTHER ASSETS, NET OF LIABILITIES — 3.09%			1,410,755
NET ASSETS — 100.00%			45,605,442

Summary of Investment Portfolio

As at December 31, 2009

The following is the summary of the Fund's investment portfolio as at December 31, 2009:

Portfolio by Category	Percentage of Net Assets (%)
Canadian Equities:	
Capital Goods	1.30
Consumer Discretionary	2.15
Consumer Staples	0.88
Energy	8.63
Financials	9.94
Health Care	0.73
Information Technology	0.48
Materials	1.04
Telecommunication Services	2.71
Transportation	0.66
	28.52
United States Equities:	
Consumer Discretionary	1.87
Consumer Staples	1.38
Energy	1.76
Financials	1.58
Health Care	2.80
Industrials	1.99
Information Technology	3.41
Materials	0.50
Telecommunication Services	0.77
Utilities	0.68
	16.74
International Equities:	
Finland	0.38
France	2.40
Germany	1.79
Japan	3.60
Netherlands	1.20
South Korea	0.56
Switzerland	1.53
United Kingdom	4.02
	15.48
Bonds:	
Government of Canada	12.97
Provincial Government	7.98
Municipal Government	0.08
Corporate	13.72
United States Bonds	0.54
International Bonds	0.40
	35.69
Short-term Notes	
	1.41
Unrealized gain on forward contract	0.11
Other Assets, net of Liabilities	2.05
	100.00

Lincluden Balanced Fund

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. ESTABLISHMENT OF THE FUND

The Lincluden Balanced Fund (the "Fund") is an open-end mutual fund trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated February 23, 2000. The Fund commenced operations on September 29, 2000. Lincluden Management Limited acts as the Trustee and Investment Manager of the Fund (the "Fund Manager").

The investment objective of the Fund is to generate both capital appreciation and income, while maintaining a relatively low level of risk. To achieve its objectives, the Fund invests in a diverse portfolio of stocks, government and corporate bonds, and short-term instruments such as Government of Canada treasury bills.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. The following is a summary of the significant accounting policies followed by the Fund.

Investments

Investments are recorded in the accounts at their fair value in Canadian currency with the difference between this amount and the average cost being shown as unrealized appreciation (depreciation) of investments. The gain or loss on sale of investments is calculated with reference to the average cost of the related investments.

The fair value of investments is determined as follows:

Investments in securities listed on a public securities exchange or traded on an over-the-counter market are valued at the closing bid price. Securities with no available closing bid prices are valued at the last sale or close price. In respect of any unlisted or non-exchange traded securities, or securities for which a closing bid price or last sale or close price are unavailable or securities for which market quotations are, in the Fund Manager's opinion, inaccurate, unreliable, or not reflective of all available material information, such securities are valued at their fair value as determined by Lincluden. Short-term notes are valued at

closing bid price. If the closing bid price is not available, such short-term notes are valued at cost plus accrued interest, which approximates fair value.

Investment transactions and income recognition

The Fund follows the accrual method of recording investment income and expenses. Security transactions are recorded on the trade date. Dividends are accrued as of the ex-dividend date. Stock dividends are recorded in income based on the fair value of the security on the ex-dividend date.

Commissions and other transaction costs

Commissions and other 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, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Commissions and transaction costs are included as expenses in the Statements of Operations.

Cost of investments

The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding commissions and other transaction costs.

Foreign currency translation

The fair values of foreign currency denominated investments are translated into Canadian dollars using the prevailing rate of exchange on each valuation date. Income, expenses and investment transactions in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the respective dates of such transactions. Foreign currency gains and losses resulting from these translations are separately disclosed in the Statement of Operations.

Income taxes

The Fund presently qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada), and accordingly, is not taxed on that portion of its taxable income, which is paid or payable to unitholders at the end of the taxation year. The Fund has elected for a December 15 taxation year end. The Fund pays out sufficient net income and net realized capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made in these financial statements.

Capital losses incurred by the Funds cannot be allocated to unitholders but may be carried forward indefinitely to reduce future realized capital gains. As at December 31, 2010, the

Fund has no non-capital losses (2009 – nil) and has capital losses carrying forward of \$1,180,259 (2009 - \$1,810,892).

Unitholders

For each Fund unit sold, the Fund receives an amount equal to the Net Asset Value per unit at the date of sale, which amount is included in unitholders' equity. Units are redeemable at the option of unitholders at their Net Asset Value on the redemption date. For each unit redeemed, unitholders' equity is reduced by the Net Asset Value of the unit at the date of redemption.

3. UNITHOLDERS' EQUITY

Unitholders' equity consists of amounts paid for units, unrealized appreciation (depreciation) of investments, undistributed realized net capital gains and income, less amounts paid for redemptions.

Unit transactions for the period ended December 31, 2010 and 2009 are as follows:

	Series A			
	December 31, 2010		December 31, 2009	
	Number of units	Amount \$	Number of units	Amount \$
Subscriptions	89,170	1,057,501	56,542	616,554
Distributions reinvested	2,756	33,013	3,549	39,079
Redemptions	54,813	643,660	74,961	794,798

The number of issued and outstanding Series A units as at December 31, 2010 is 252,018 [December 31, 2009 – 214,905].

	Series O			
	December 31, 2010		December 31, 2009	
	Number of units	Amount \$	Number of units	Amount \$
Subscriptions	256,602	3,183,759	439,182	4,865,802
Distributions reinvested	100,082	1,248,962	116,887	1,363,258
Redemptions	330,820	4,152,135	773,959	8,838,159

The number of issued and outstanding Series O units as at December 31, 2010 is 3,251,091 [December 31, 2009 – 3,225,227].

4. FOREIGN EXCHANGE FORWARD CONTRACTS

The Fund may utilize foreign exchange forward contract hedging in the management of currency risk associated with its investment in foreign securities. The objective is to protect the Fund from the possibility of capital losses on foreign currency denominated investments due to increases in the value of the Canadian dollar. However, credit and market risks associated with foreign exchange forward contracts potentially expose the Fund to losses.

In order to minimize the possibility of loss arising from credit risk, the Fund deals only with financial institutions whose debt is rated a minimum of A by two of the three rating agencies, DBRS, S&P or Moody's.

Currency risks relate to the possibility that foreign exchange forward contracts change in value due to fluctuations in currency prices. The foreign exchange forward contracts are marked-to-market daily and the resulting unrealized gains or losses are recognized in the statement of net assets.

The result of employing foreign exchange forward contracts is that the foreign exchange gains and losses in the securities portfolio move substantially in opposite directions from the gains and losses in the hedging portfolio.

As at December 31, 2010, the Fund held one foreign exchange forward contract:

Currency to purchase	Amount \$	Market value to purchase \$	Currency to deliver	Amount \$	Market value to deliver \$	Unrealized Gain \$	Expiry date
CAD	2,405,721	2,356,028	USD	2,365,000	2,365,000	49,693	Jan 11
Net unrealized gain on foreign exchange forward contract						49,693	

As at December 31, 2009, the Fund held one foreign exchange forward contract:

Currency to purchase	Amount \$	Market value to purchase \$	Currency to deliver	Amount \$	Market value to deliver \$	Unrealized Gain \$	Expiry date
CAD	3,870,387	3,826,385	USD	3,650,000	3,650,000	44,002	Feb 10
Net unrealized gain on foreign exchange forward contract						44,002	

5. EXPENSES

Each series of the Fund is allocated its own expenses and its proportionate share of the Fund's expenses that are common to all series. Expenses may include legal fees, audit fees, custodial fees, taxes and servicing costs. The Fund Manager may absorb some or all of these expenses. The absorbed expenses are reflected in the statement of operations. The Fund Manager may cease to absorb expenses at any time.

For Series A, the management fee is 1.75% plus GST/HST and it is charged directly to the Fund. For Series O, the Fund Manager receives no management fees directly from the Fund for management of the Fund, but instead charges management fees directly to unitholders. As such, the management fee is not an expense of the Fund.

6. TRANSACTION COSTS

The total brokerage fees and commissions paid on the purchase and sale of investments for the year ended December 31, 2010 amounted to \$19,421 (December 31, 2009 – \$32,997). The Fund recognizes that it has a duty to its clients to seek the most favourable execution terms that are reasonably available given the circumstances of each trade. While the ability to trade at the best price is normally the most important consideration in determining best execution consideration is also given to the full range and quality of a broker's services in placing brokerage including, among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness. The Fund Manager does not use any of the commission dollars to pay for any of the services required for the operation of the Fund or the firm ("soft dollars").

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's investment activities expose it to various types of risks associated with the financial instruments in which it invests directly. In addition to the risks of investing in equity and bond markets generally, the Fund is also subject to other risks, including the following:

Currency risk

The Fund invests in securities denominated in currencies other than its reporting currency, the Canadian dollar. Consequently, the Fund is exposed to risks that the exchange rate of the Canadian dollar relative to the other currencies may change in a manner which has an adverse effect on the reported value of that portion of the Fund's assets.

The table below indicates the currencies to which the Fund had significant exposure at period end, on both its trading monetary assets and liabilities as well as the underlying principal amount of foreign exchange forward contracts.

December 31, 2010:

	Currency risk exposed holdings	Forward foreign exchange contracts	Total Exposure	As a % of Net Assets
U.S. Dollar	13,571,292	(2,356,028)	11,215,264	24.59%
Japanese Yen	1,206,208	-	1,206,208	2.64%
British Pound	1,007,142	-	1,007,142	2.21%
Euro	812,084	-	812,084	1.78%

December 31, 2009:

	Currency risk exposed holdings	Forward foreign exchange contracts	Total Exposure	As a % of Net Assets
U.S. Dollar	11,826,185	(3,826,385)	7,999,800	18.95%
British Pounds	1,067,271		1,067,271	2.53%
Euro	791,480		791,480	1.87%
Japanese Yen	633,698		633,698	1.50%

As at December 31, 2010, had the Canadian dollar strengthened or weakened by 5% (December 31, 2009 – 5%), in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by \$712,035 (December 31, 2009 - \$524,612). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

The Fund invests in interest-bearing securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the sale of securities.

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

December 31, 2010:

	Less than 1 year	1-3 years	3-5 years	> 5 years	Total
Bonds	1,339,497	2,116,888	2,819,205	10,483,927	16,759,517

December 31, 2009:

	Less than 1 year	1-3 years	3-5 years	> 5 years	Total
Bonds	692,705	4,081,301	1,747,572	8,635,826	15,157,404

As at December 31, 2010, had the prevailing interest rates raised or lowered by 1% (December 31, 2009 – 1%), with all other variables held constant, net assets would have decreased or increased, respectively, by \$1,100,424 (December 31, 2009 - \$985,454).

Credit risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of counterparty on its obligation to the Fund. Credit risk is managed by dealing with counterparties the Fund believes to be creditworthy and by regular monitoring of credit exposures.

See note 4 for counterparty exposure from foreign exchange forward contracts.

The Fund manages credit risk within its debt portfolio by: complementing the research of rating agencies by its own internal analysis, diversifying the portfolio by issuer, controlling exposure to individual issues and maintaining exposure across industry sectors.

As at December 31, 2010 and 2009, the Fund invested in debt securities with the following credit:

Bond Ratings	Percentage of Net Assets	
	2010	2009
AAA	13.98%	13.99%
AA	8.85%	9.64%
A	9.43%	7.82%
BBB	4.49%	4.24%
Total	36.75%	35.69%

Other market risk

Other market 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 and 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. This risk is managed

through careful selection of securities and other financial instruments within specified limits. The Fund's overall market positions are monitored on a daily basis.

As at December 31, 2010, a 5% change in stock prices would have changed the Fund's net assets by \$1,369,274 (December 31, 2009 – \$1,289,745) with all other factors held constant. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

The impact on the net assets of the Fund as at December 31, 2010 due to a 5% (December 31, 2009 – 5%), increase or decrease in the Fund's benchmark index components (TSX, MSCIWorld and DEX Universe Bond Indices), with all other variables held constant, would be \$2,079,005 (December 31, 2009 - \$1,858,617). This calculation is based on the beta of each of the Fund's asset classes relative to the asset class's comparative index, over the past 36 months. In practice, the actual results may differ from the sensitivity analysis indicated above and the difference could be material.

Liquidity risk

The Fund is exposed to daily cash redemptions of securities. It therefore invests its assets in investments that are traded in an active market and can be readily disposed of. The Fund's listed securities are considered readily realizable.

The Fund's liquidity position is monitored on a daily basis.

Fair Value Hierarchy

Canadian Institute of Chartered Accountants handbook section 3862 , Financial Instruments – Disclosures establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs are summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and,
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. There were no transfers during 2010 (2009 – nil).

The following is a summary of the inputs used as of December 31, 2010 in valuing the Fund's investments carried at fair values:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total
Equities	\$ 27,106,632	\$ 278,845	\$ -	\$ 27,385,477
Bonds	-	16,759,517	-	16,759,517
Total Investments	\$ 27,106,632	\$ 17,038,362	\$ -	\$ 44,144,994
Derivatives	-	49,693	-	49,693
				<u><u>\$ 44,194,687</u></u>

The following is a summary of the inputs used as of December 31, 2009 in valuing the Fund's investments carried at fair values:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total
Equities	\$ 25,794,903	\$ -	\$ -	\$ 25,794,903
Short-term Investments	-	599,843	-	599,843
Bonds	-	15,157,404	-	15,157,404
Total Investments	\$ 25,794,903	\$ 15,757,247	\$ -	\$ 41,552,150
Derivatives	-	44,002	-	44,002
				<u><u>\$ 41,596,152</u></u>

8. COMPARISON OF NET ASSET VALUE AND NET ASSETS

National Instrument 81-106 ("NI 81-106"), Investment Fund Continuous Disclosure, issued by the Canadian Securities Administrators ("CSA") requires investment funds to value their investments using fair value measures as defined in NI 81-106. NI 81-106 requires that fair value be based on bid prices for financial reporting purposes (referred to as "Net Assets"), whereas unit pricing for subscriptions and redemptions from the Fund are based on closing prices (referred to as "Net Asset Value"). Consequently, the method by which the Net Asset Value is calculated for subscription and redemption purposes will be different from the Net Assets calculated for financial reporting purposes. In accordance with NI 81-106, a comparison of Net Assets, calculated in accordance with Canadian GAAP of an investment fund, and Net Asset Value, calculated in accordance with the Fund Manager's fair value policies and procedures for unit pricing, are as follows:

As at December 31, 2010:

	Net Asset Value per unit	Net Assets per unit
Lincluden Balanced Fund – Series A	\$12.59	\$12.57
Lincluden Balanced Fund – Series O	\$13.07	\$13.05

As at December 31, 2009:

	Net Asset Value per unit	Net Assets per unit
Lincluden Balanced Fund – Series A	\$11.96	\$11.92
Lincluden Balanced Fund – Series O	\$12.41	\$12.37

9. CAPITAL MANAGEMENT

The capital of the Fund is represented by issued redeemable units with no par value. The units of the Fund are entitled to distributions, if any, and any redemptions are based on the Fund's Net Asset Value per unit. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the Statement of Changes in Net Assets. The Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

10. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which include investment funds and other reporting issuers. Under the previous transition rules for publicly accountable enterprises the Fund would adopt IFRS for its fiscal period beginning January 1, 2011.

On January 12, 2011, the Canadian Accounting Standards Board amended the requirement to prepare financial statements in accordance with IFRS as issued by the International Accounting Standards Board, permitting investment companies, which include investment funds, to defer adoption of IFRS to fiscal years beginning on or after January 1, 2013. The Fund has elected to defer adoption of IFRS to January 1, 2013.

In preparing to meet the requirements, the Fund Manager has taken the following steps in managing the transition to IFRS:

- Established a working group to identify key differences between Canadian GAAP and IFRS and to coordinate the implementation of the transition plan,
- Identified areas where changes in disclosure will be required under IFRS standards,

- Evaluated current information technology and reporting systems for readiness in IFRS implementation and,
- Assessed the likely impacts on business activity and operational areas such as internal controls, staffing and training requirements.

The major changes identified for IFRS financial statements include the addition of a Statement of Cash Flows and the classification of unitholders' equity (puttable instruments) as a liability within the Statement of Net Assets, unless certain conditions are met.

Based on the current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is expected to have no impact on the calculation of Net Assets or Net Asset Value. IFRS is expected to affect the overall presentation of financial statements and result in additional disclosure in the accompanying notes. However, the Fund Manager's assessment may change if new standards are issued or if the interpretations of current standards are revised.