

Fund Review The market in many of the major world equity indices extended their year to date gains in July led by the S&P 500 index which increased by 1.3%. The TSX Total Return index has lagged since the October 2011 lows but we expect this to change in the coming quarters. For the month of July, the Fund returned (0.1%) as compared to the TSX Venture index which returned (0.7%).

Unfortunately, Canadian small caps as reflected by the TSX Venture index have continued to decline despite the recent strength in large cap equities. We remain very optimistic that the downtrend in small cap equities will reverse in the near term. It is encouraging to note that the TSX Venture index has traded sideways over the past 6 weeks. It is interesting to note that at the major bottom in 2008, a similar situation occurred where the TSX Venture index traded sideways for 5 weeks after a period of significant decline before a decisive turn to the upside which morphed into an uninterrupted bull run of almost 150% over a period of 16 months. We believe the recent environment for Canadian small cap equities is very similar to the situation in late 2008. During this period, investors had little regard for company fundamentals as liquidity was the primary driver as margin calls, mutual fund redemptions and a general reduction in exposure to the asset class dominated investment decisions.

In July, we added a small short position in a life sciences company which has soared almost 100% in the past 2 months creating what we believe is an overvalued situation with strong odds of correcting in the short term. Given our positive macro view, we are currently focused more on opportunities from the long side as we believe these offer superior risk/reward at the present time. We have purchased several private placements on very attractive terms including a full warrant, which doubles the upside potential. These attractive terms are a reflection of the poor market conditions as was the case in 2008. The portfolio remained fully invested in July with the sector allocations much the same as in previous months with 39% invested in technology, 12% in biotech, 29% in metals, 15% in energy and 5% in precious metals.

Outlook Investors have had an extreme risk aversion in recent months evidenced by the bubble occurring in government bonds as yields recently hit all time lows. In Germany, Switzerland and Denmark, short term yields are negative. We believe that the degree of negativity is unwarranted and that the ongoing improvement in the North American housing and labour markets, plus the likely containment of the European crisis will result in a re-acceleration of economic growth. In this context, with equity valuations at attractive levels as compared to bond yields, the risk/reward highly favours investment in equities. In addition, the current extreme negative investor sentiment is one of the best contrary indicators for future equity returns. Recent data suggests that investment strategists are the most bearish in 27 years. Extremes in sentiment such as this have historically been an exceptional contrary indicator.

We believe the underperformance of Canadian equities and particularly small cap equities will not persist. This has been largely a result of the high resource component of the Canadian indices. As the strength in large cap equities continues to contribute to improved investor sentiment, it is inevitable that small cap equities will begin to outperform.



Regards,



Steven Palmer, CFA
President and CEO

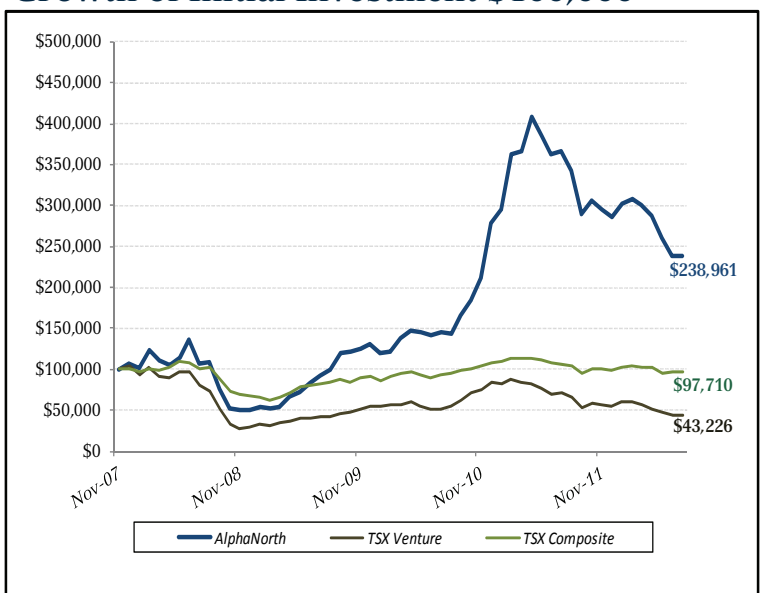
Monthly Performance*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2007												7.4%	7.4%
2008	(5.0%)	21.6%	(10.1%)	(5.6%)	8.1%	19.2%	(20.7%)	0.7%	(29.1%)	(31.9%)	(4.9%)	0.7%	(53.3%)
2009	9.0%	(3.5%)	4.0%	21.2%	9.0%	14.1%	11.5%	9.0%	19.1%	1.2%	4.1%	3.7%	160.6%
2010	(8.5%)	1.7%	14.0%	6.4%	(1.6%)	(2.7%)	2.6%	(0.4%)	14.2%	11.3%	15.4%	31.9%	113.6%
2011	5.8%	23.0%	0.9%	11.7%	(5.7%)	(5.7%)	1.0%	(6.5%)	(15.6%)	5.6%	(3.8%)	(2.9%)	2.4%
2012	5.6%	2.0%	(2.4%)	(3.9%)	(9.9%)	(7.9%)	(0.1%)						(16.4%)

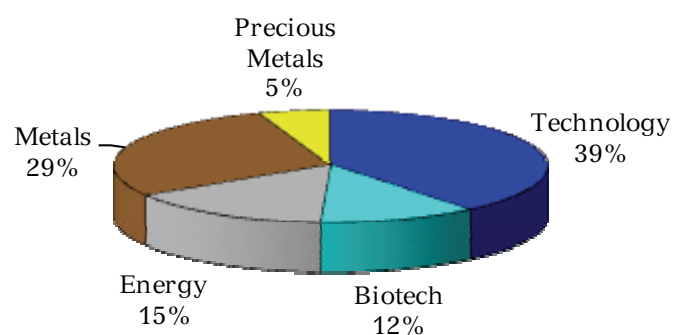
Performance Analysis

	AlphaNorth Partners Fund	S&P/TSX Venture	S&P/TSX Composite TRI
Returns *			
1 Month	(0.1%)	(0.7%)	0.8%
YTD	(16.4%)	(20.3%)	(0.7%)
1 Year	(34.9%)	(40.2%)	(7.2%)
2 Year	28.5%	(9.0%)	2.6%
3 Year	37.4%	0.1%	5.5%
Since Inception (annualized)	20.5%	(16.5%)	(0.5%)
Since Inception (cumulative)	139.0%	(56.8%)	(2.3%)
Best Month	31.9%	11.4%	11.5%
Worst Month	(31.9%)	(35.3%)	(16.7%)
Advancing Months	58.9%	47.3%	53.6%
Standard Deviation	41.3%	35.0%	17.5%
Sharpe Ratio	0.47	(0.50)	(0.09)
Beta		0.96	1.74

Growth of Initial Investment \$100,000



Sector Allocation



Fund Information

Lead Manager	Steven Palmer
Inception	December 1, 2007
Fund Type	Alternative Strategies (Long biased small cap)
Fund Status	Closed to new investors
Fund Codes	Class A— AAM100 Class D— AAM200
Assets	~\$70 million
Eligibility	Accredited Investors only
Fund Details	Management Fee Class A- 2%, Class D- 2.5% 20% Performance Fee RRSP eligible High water mark (no reset) Monthly valuation \$150k minimum investment
Sub/Redemption	Monthly, 90 day notice
Lock-up	None
Redemption Fee	Class A—none; Class D—3% yr 1, 1.5% yr 2
Auditor	Deloitte
Administration	Harmonic Fund Services
Prime Broker	Scotia Capital
Legal	Stikeman/Maples & Calder

Investment Strategy

The AlphaNorth Partners Fund (the “Fund”) is a long biased small cap hedge fund focusing primarily on Canadian companies. The Fund’s investment objective is to maximize returns over the long term through superior selection of principally Canadian securities. AlphaNorth believes that superior long term investment returns are achievable by exploiting inefficiencies in the Canadian small cap universe through careful security selection on both a long and short basis. Fundamental analysis of companies is used in combination with technical analysis techniques, which has proven to be successful, to assist in the timing of buy/sell decisions. The firm combines both a bottom-up and top-down strategy in the selection of investments offering the best risk/reward characteristics.

Company Profile

Founded in 2007, AlphaNorth Asset Management’s goal is to achieve superior long term returns for investors. Our value added approach combines the successful track record and investment experience of Steven Palmer and Joey Javier who have worked together as a team since 1998 in the investment industry. Presently, AlphaNorth manages the AlphaNorth Partners Fund, a long biased small cap focused hedge fund, the AlphaNorth 2011 Flow-Through LP, the AlphaNorth 2012 Flow-Through LP, the AlphaNorth Rollover Fund and the AlphaNorth Growth Fund.

Key Personnel:

Steven Palmer is the President and CEO of AlphaNorth Asset Management. Mr. Palmer started his career in the investment industry in 1995 on the sell side of the business before transitioning to the buy side in 1997. Most recently, from July 1998 to August 2007 he was employed as Vice President - Canadian Equities at one of the world’s largest financial institutions where he managed the Canadian equity assets of approximately \$350 million. Mr. Palmer managed a pooled fund focused on small capitalization companies from inception in 1998 to August 2007 achieving returns that were ranked #1 in performance by a major fund ranking service in their small cap pooled fund category (35.8% annualized over 9 years as compared to 10.0% for the S&P/TSX Composite and 13.0% for the BMO Weighted Small Cap Total Return Index) over the same period. Mr. Palmer also managed a large cap fund which was ranked in the first quartile for the following time periods: one year, two year, 3 year, 4 year, 5 year and 10 year. Mr. Palmer earned a BA in Economics from the University of Western Ontario and is a CFA.

Joey Javier is Vice President and Secretary of AlphaNorth Asset Management. Mr. Javier started his career in the investment industry in 1997 as an Equity Trader for one of the world’s largest financial institutions where he worked together with Mr. Palmer as the equity team. Mr. Javier was responsible for all equity and money market trading as well as back-up for the fixed income portfolio manager. Mr. Javier has a BA in Economics from York University.

Disclaimer

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