



## **Annual Management Report of Fund Performance As at December 31, 2009 Integra Bond Fund**

This annual report of fund performance contains financial highlights but does not contain the complete annual financial statements for the investment fund. You may request a copy of the annual financial statements at no cost, by calling 1-800-363-2480, by writing to us at Integra Capital Limited ("Integra"), 2020 Winston Park Drive, Suite 200, Oakville ON L6H 6X7 or by visiting our website at [www.integra.com](http://www.integra.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or portfolio disclosure relation to the investment fund.

### **Management Discussion of Fund Performance Investment Objectives and Strategies**

The Integra Bond Fund seeks to provide conservative investors with a higher level of income than a money market fund provides, while still preserving investment capital. To meet this objective, the Fund invests primarily in a broad range of Canadian government and high quality corporate bonds with longer terms to maturity than those held in money market type funds. The Fund may hold up to 17.5% in cash or cash equivalents.

There are two investment sub-advisor's buying and selling securities held in the Fund. The first investment sub-advisor acquires fixed income securities which are included in the calculation of the DEX Bond Universe Index. The team may also invest excess cash in short-term securities. The manager's modified duration (sensitivity to interest rate movements) will not deviate by more than 0.15 years from that of the Index.

The second investment sub-advisor of the Fund focuses on four key strategies: duration, sector allocation, the analysis of individual corporate bonds and foreign-pay issues. The team's turnover is below average, with the investment decisions focused on producing superior long-term results. The team will construct a portfolio that reflects the outlook for interest rates, identifying under-valued sectors and individual securities.

The Fund will also take advantage of opportunities for incremental returns and risk diversification through consideration of foreign pay and foreign bonds. Such fixed income securities shall not exceed 17.5% of the total portfolio.

Securities lending transactions will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieve the Fund's objectives and to enhance the Fund's returns.

### **Risk**

Most of the Fund's assets will be invested in Canadian government and investment grade corporate bonds. As a result, the Fund is exposed to interest rate risk and credit risk. The Fund may invest in foreign fixed income securities and as such, it is susceptible to foreign security risk and currency risk.

The Fund may participate in securities lending. Accordingly, it may be subject to securities lending risks.

As at December 31, 2009, there was one substantial unitholder, the Integra Balanced Fund, holding approximately 70% of the outstanding units of the Fund. The Integra Balanced Fund may invest its assets directly in the Integra Bond Fund and the amount and timing of such purchases and redemptions may be material at any point in time. As a result, the Integra Bond Fund may have to alter its portfolio to accommodate large fluctuations in assets.

# **Integra Bond Fund**

## **Management Discussion of Fund Performance - *continued***

### **Results of Operations**

For the quarter, six-month and one-year periods ended December 31st, 2009, the Fund returned -0.08%, 2.8% and 6.3% respectively. In comparison, the Fund's benchmark (90% DEX Universe Bond Index plus 10% Dex 91-Day Government of Canada treasury Bill Total Return Index) returned -0.14%, 2.3% and 4.9% for the same periods.

Within the bond market there was a divergence of returns. The corporate sector performed exceedingly well as credit spreads narrowed dramatically in 2009. The corporate component of the DEX Universe Bond Index had a return of 16.3% during the year, versus 4.7% for provincial bonds and a negative 1.5% return for Government of Canada bonds. As investors renewed their appetite for risk, the worst performers the previous year, became the stars of 2009 and visa versa.

As a consequence of the collateral damage from the U.S. credit crisis created by imprudent lending policies, many regions around the world have plunged into recessions. The pain has spread to job markets and, in turn, to consumer spending as well as business investment. In response, central banks around the world aggressively reduced short-term interest rates during the second half of 2008. Short-term interest rates remained at historic lows throughout 2009.

Additionally, governments have expanded lending facilities to financial intermediaries and have made numerous investments, both equity and debt, in financial institutions in order to preserve confidence in financial systems.

During the latter portion of 2009, consumer spending data in Canada turned positive on a year-over year basis and is now back in the range of where it was mid-2007. However, while the pace of job losses has slowed, there was no net job creation during 2009.

The U.S. economy's recovery is somewhat more muted due to the high debt levels and continued weakness in the housing market. The softness in the U.S. coupled with the recent strength of the loonie hurts Canadian exports.

The Fund outperformed its benchmark in 2009, by being over-weight corporate and provincial bonds but without taking undue risk. The Fund's duration (sensitivity to changes in interest rates) was slightly longer than that of the benchmark. Thus, the portfolio was more sensitive to falling interest rates (bond prices move inversely with changes in interest rates).

The Fund experienced net redemptions of \$11.1 million during 2009 as investors shifted money to more risky investments.

Fund expenses vary period over period mainly as the result of changes in average Net Asset Values and investment activity. Custodial fees increased year over year due to more transactions occurring within the Fund. Additionally, Operating expenses were higher during 2009. This is partially due to a variance between the estimated amount of expense accrued in the latter portion of 2008 versus the actual expense that was incurred during that period.

### **Recent Developments**

The most likely scenario for the global economy is a slow, prolonged recovery. The North American labour market remains weak and thus consumer spending is soft. The U.S. housing market continues to suffer from high debt levels and the excessive inventory of vacant houses. Additionally, small and mid-sized businesses are still having difficulty gaining access to credit despite all of the efforts by governments to get banks to ease their lending policies. This sector of the economy will be the critical source of new jobs.

Risks to this forecast include an unforeseen shock to the financial system. Nonetheless, we have witnessed recent surprises out of Greece and Dubai, but the markets have not reacted in a severe manner.

Additionally, the major central banks around the world need to properly time the removal of the abundant liquidity that has been pumped into the monetary system over the past two years. A premature tightening of monetary policy could quickly reverse the economic gains made during the latter stages of 2009.

The duration of the Fund at the end of December was 5.94 years versus the DEX Bond Universe Index of 5.91 years. The Fund's yield at year-end was 3.4% as compared to the DEX Bond Universe's 3.3%.

there is good incentive to own corporate debt issued by companies that will survive the financial and economic crisis. Provincial bond spreads also widened as ongoing credit concerns have impacted all sectors of the non-federal bond market.

The duration of the Fund at the end of December was 6.21 years versus the Dex Bond Universe of 6.18 years. The Fund's yield at year-end was 3.9% as compared to the Dex Bond Universe's 3.7%.

## **Caution Regarding Forward-looking Statements**

This report may contain forward-looking statements about the Fund, including its strategies and expected performance. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to potential future events or market and economic conditions.

In addition, any statement that may be made concerning future performance, strategies or prospects and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to risks, uncertainties and assumptions about the Fund and capital market and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results may differ materially from those expressed or implied in any forward-looking statements made by the Fund. A wide range of factors may contribute to these variances, including general economic, geopolitical and market influences in Canada or globally, interest rates and currencies, capital markets, technology innovations, regulations and catastrophic events.

Investors are encouraged to consider these and other factors including their own investment objectives carefully before making any investment decisions and are urged to avoid placing undue reliance on forward-looking statements.

Additionally, investors should be aware that the Fund has no specific intention to update any forward-looking statements whether as a result of new information and future events, prior to the release of the next Management Report on Fund Performance.

## **Related Party Transactions**

### **Manager and Transfer Agent**

The Fund is managed by Integra. Integra provides or arranges for the provision of all general management and administrative services rendered by the Fund in its day-to-day operations, including providing or arranging the provision of investment advice and record-keeping services for the Fund.

As a result of providing investment advisory and management services, Integra is entitled to receive a monthly fee from investors in the Fund.

## Integra Bond Fund

### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years. This information is derived from the Fund's audited annual financial statements.

<b>Integra Bond Fund</b>					
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net Asset Value, Beginning of Year	\$16.21	\$15.96	\$16.03	\$16.18	\$16.64
Adjustment for New Accounting Standards	(0.02)	(0.01)	—	—	—
Net Assets, Beginning of Year	\$16.19	\$15.95	\$16.03	—	—
<b>Increase (Decrease) From Operations:</b>					
Total revenue	0.72	0.78	0.75	0.76	0.78
Total expenses	(0.03)	(0.03)	(0.04)	(0.04)	(0.04)
Realized gains (losses) for the year	0.35	0.20	(0.16)	0.04	0.32
Unrealized gains (losses) for the year	-	0.29	0.02	(0.11)	(0.34)
<b>Total Increase (Decrease) From Operations</b> <sup>(1)</sup>	\$1.04	\$1.24	\$0.57	\$0.65	\$0.72
<b>Distributions:</b>					
From income (excluding dividends)	(0.79)	(0.76)	(0.72)	(0.73)	(0.83)
From dividends	—	—	—	—	—
From capital gains	(0.19)	(0.05)	—	(0.07)	(0.31)
Return of capital	—	—	—	—	—
<b>Total Annual Distributions</b> <sup>(2)</sup>	(\$0.98)	(\$0.81)	(\$0.72)	(\$0.80)	(\$1.14)
<b>Net Asset Value, End of Year</b>	\$16.25	\$16.19	\$15.95	\$16.03	\$16.18
Ratios and Supplemental Data (Based on Trading NAV)					
Net asset values (000's)	\$ 115,897	\$125,713	\$73,635	\$85,270	\$84,258
Number of units outstanding	7,121,189	7,759,276	4,613,730	5,318,237	5,207,851
Management expense ratio (%)	1.55%	1.58%	1.62%	1.64%	1.61%
Management expense ratio before waivers or absorptions (%)	1.55%	1.58%	1.62%	1.64%	1.61%
Portfolio turnover rate (%) <sup>(3)</sup>	308.59%	174.13%	286.30%	184.73%	110.37%
Trading expense ratio (%) <sup>(4)</sup>	—	—	—	—	—

#### Supplementary information to the Financial Highlights calculations are based on the following:

1. Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the year.
2. Distributions were paid in cash/reinvested in additional units of the Fund, or both.
3. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
4. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the year.

### Management Fees

The Fund pays no management fees to Integra. For management services provided to them by Integra, clients of Integra will pay an investment management fee directly to Integra, as set out in their agreement with Integra. The amount of the investment management fee is negotiable between the client and Integra.

\*The maximum annual management fee before GST (expressed as a % of assets under management by Integra) payable by the client to Integra for the Integra Bond Fund is 1.30%. Accordingly, the Management Expense Ratio includes this maximum annual management fee.

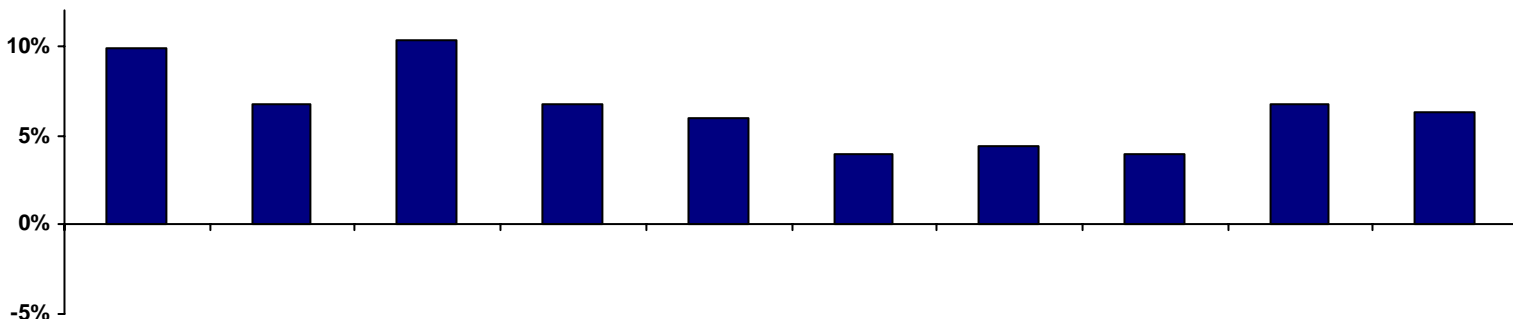
## Integra Bond Fund Past Performance

**Fund Inception** - November 27, 1996 (Prior to this date, the Fund was a non-public mutual fund)

### Year-by-Year Returns

The following bar chart shows the investment fund's annual performance for each of the years shown, and illustrates how the investment fund's performance was changed from year to year. In percentage terms, the bar chart shows how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
9.87%	6.76%	10.27%	6.76%	5.99%	3.93%	4.35%	3.98%	6.76%	6.29%



### Annualized Returns

This table shows the fund's historical annualized returns for the period ending December 31, 2009

Annualized Returns	Past 1 year	Past 3 years	Past 5 years	Past 10 Years
Integra Bond Fund	6.29%	5.67%	5.05%	6.48%
Benchmark	4.93%	4.93%	4.98%	6.34%

### Benchmark

The Bond Benchmark reflects the market sectors in which the Fund invests and was created by using the assumptions that a portfolio was invested as to 90% in the securities in the Dex Bond Universe Index and as to 10% in the securities in the Dex 91-day Treasury Bill Total Return Index.

90.0%	Dex Bond Universe Index
10.0%	Dex 91-day Treasury Bill Total Return Index.

# Integra Bond Fund

## Summary of Investment Portfolio as at

### Asset Mix

	% of Fund's Net Asset Values
Bonds	95.37%
Cash and Cash Equivalents	3.54%
Other Assets, Net of Liabilities	1.09%

### Sector Mix

	% of Fund's Net Asset Values
Government of Canada	35.21%
Provincial Government	24.54%
Municipal Government	1.88%
Corporate	31.91%
Foreign	1.82%

### Top 25 Issuers

	(excluding cash equivalents)	% of Fund's Net Asset Values
1	Canada Housing Trust No. 1, 4.550%, 2012/12/15	15.97%
2	Province of Quebec, 4.500%, 2018/12/01	3.98%
3	Canada Housing Trust No. 1, Series '28', 3.150%, 2014/06/15	3.16%
4	Government of Canada, 5.000%, 2037/06/01	3.15%
5	Financement-Quebec, 5.000%, 2012/11/01	3.02%
6	Province of Manitoba, 5.700%, 2037/03/05	2.13%
7	Province of Ontario, Series 'KJ', 7.600%, 2027/06/02	1.97%
8	Government of Canada, 5.750%, 2029/06/01	1.77%
9	Province of Ontario, 4.200%, 2018/03/08	1.73%
10	Government of Canada, Series 'YU24', 2.000%, 2014/12/01	1.42%
11	Province of Ontario, 4.700%, 2037/06/02	1.40%
12	Canada Housing Trust, Series '23', 4.100%, 2018/12/15	1.34%
13	Government of Canada, 5.750%, 2033/06/01	1.13%
14	Government of Canada, Series 'YY46', 1.250%, 2011/12/01	1.11%
15	Cards II Trust, Class '4A', Series '2005-5', 3.870%, 2010/10/15	0.97%
16	Province of Ontario, 4.500%, 2015/03/08	0.97%
17	Bank of Montreal, Callable, 5.050%, 2013/09/03	0.93%
18	Bank of Nova Scotia, Callable, 6.65%, 2021/01/22	0.88%
19	Government of Canada, Series 'YR94', 3.750%, 2019/06/01	0.84%
20	TransCanada PipeLines Ltd., Variable Rate, Callable, Retractable, 7.34%, 2028/07/18	0.83%
21	Master Credit Card Trust, Class 'A', Series '2006-2', 4.440%, 2011/11/21	0.81%
22	Government of Canada, 3.500%, 2013/06/01	0.77%
23	Rogers Communications Inc., Callable, 5.800%, 2016/05/26	0.73%
24	Canada Housing Trust No. 1, Series '16', 4.000%, 2012/06/15	0.72%
25	Bank of Nova Scotia, Variable Rate, Callable, 6.00%, 2018/10/03	0.71%

Total Fund Net Asset Values \$ 115,897,257

The summary of investment portfolio may change due to ongoing portfolio transactions of the investment fund. The most recent annual report, semi-annual report or quarterly report is available at no cost, by calling 1-800-363-2480, by writing to us at Integra Capital Limited, 2020 Winston Park Drive, Suite 200, Oakville, ON, L6H 6X7 or by visiting our website at [www.integra.com](http://www.integra.com).



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