GUARDIAN INTERNATIONAL EQUITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2012

March 28, 2013

Independent Auditor's Report

To the Unitholders and Trustee of
Guardian International Equity Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at December 31, 2012, the statements of net assets as at December 31, 2012 and 2011 and the statements of operations and changes in net assets for the years then ended, and the related notes, which comprise 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 the 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.

Auditor's 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 auditor's 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 auditor considers 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2012 and 2011 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

Guardian International Equity Fund

Statements of Net Assets

As at December 31		**2012**		**2011**
Assets				
Investments, at fair value*	$	53,842,058	$	38,346,731
Cash and short-term securities		602,541		3,603,388
Subscriptions receivable		1,276		-
Interest and dividends receivable		148,036		85,190
		54,593,911		42,035,309
Liabilities				
Due to broker		-		703,865
Accrued expenses		35,900		9,344
		35,900		713,209
Net assets representing unitholders' equity (Note 4)	$	54,558,011	$	41,322,100
Net assets per Series I unit (Note 3)	$	6.37	$	5.58
*Investments, at average cost	$	45,949,065	$	39,034,204

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

Approved on behalf of the Manager,
Guardian Capital LP:

Per: **"George Mavroudis"**

Per: **"C. Verner Christensen"**

Guardian International Equity Fund

Statements of Operations

For the years ended December 31	2012	2011
Income:		
Dividends	$ 2,196,213	$ 2,094,100
Interest	15,578	25,018
Securities lending income (Note 11)	33,457	34,331
Foreign withholding tax	(225,928)	(217,963)
Total income	2,019,320	1,935,486
Operating Expenses (Note 5):		
Administration fee	115,587	93,052
Independent review committee costs	3,396	1,516
Interest charges	548	2,257
Total expenses	119,531	96,825
Net investment income	1,899,789	1,838,661
Realized loss on sale of investments	(2,316,544)	(6,726,186)
Realized (loss) gain on foreign currency transactions	(91,925)	127,949
Transaction costs (Note 7)	(103,252)	(204,075)
Change in unrealized appreciation (depreciation) in value of investments	8,580,448	(4,231,235)
Increase (decrease) in net assets from operations	$ 7,968,516	$ (9,194,886)
Increase (decrease) in net assets from operations per Series I unit	$ 1.01	$ (1.53)

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

Guardian International Equity Fund

Statements of Changes in Net Assets

For the years ended December 31	2012	2011
Net assets, beginning of year	$ 41,322,100	$ 29,466,717
Increase (decrease) in net assets from operations	7,968,516	(9,194,886)
Distributions to unitholders from:		
Net investment income	(1,829,047)	(1,780,601)
Capital transactions:		
Proceeds from sale of units	8,555,481	25,257,342
Reinvested distributions	1,829,047	1,780,601
Redemption of units	(3,288,086)	(4,207,073)
	7,096,442	22,830,870
Net assets, end of year	$ 54,558,011	$ 41,322,100

Change in Series I units		
Units issued and outstanding, beginning of year	7,401,799	4,045,432
Number of units issued	1,412,851	3,684,834
Number of units reinvested	286,685	318,534
	9,101,335	8,048,800
Number of units redeemed	(539,212)	(647,001)
Units issued and outstanding, end of year	8,562,123	7,401,799

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

Guardian International Equity Fund

Statement of Investment Portfolio
As at December 31, 2012

Number of Shares/Units	Security	Average Cost	Fair Value
	Common Stocks - 98.7%		
	Consumer Discretionary - 10.7%		
12,600	Bayerische Motoren Werke AG *	$ 1,010,572	$ 1,208,774
100,200	Compass Group PLC	944,659	1,175,771
24,800	Imperial Holdings Ltd.	477,406	564,625
6,500	Kia Motors Corp.	446,498	341,564
16,800	Next PLC	723,331	1,007,429
7,300	Volkswagen AG *	1,053,584	1,562,500
		4,656,050	5,860,663
	Consumer Staples - 10.0%		
9,600	Anheuser-Busch InBev NV	682,678	827,084
11,100	British American Tobacco PLC, ADR	989,393	1,119,814
9,500	Heineken NV	499,253	627,414
23,500	Imperial Tobacco Group PLC	867,962	901,813
19,600	Nestle SA	1,150,861	1,270,706
16,900	Suedzucker AG	550,323	687,186
		4,740,470	5,434,017
	Energy - 9.4%		
7,400	Lukoil OAO, ADR	462,655	487,404
31,200	Petroleum Geo-Services ASA	504,041	531,416
115,100	ProSafe SE *	816,352	969,516
32,000	Seadrill Ltd. *	1,094,277	1,172,535
35,600	Statoil ASA, ADR	865,034	888,299
33,300	TGS Nopec Geophysical Co ASA	914,466	1,081,345
		4,656,825	5,130,515
	Financials - 20.3%		
43,600	Australia & New Zealand Banking Group Ltd., ADR *	951,615	1,144,352
55,700	AXA SA	888,987	975,410
18,700	BNP Paribas SA	1,011,170	1,043,294
62,000	DBS Group Holdings Ltd.	684,802	748,985
9,100	Hannover Rueckversicherung AG	535,620	702,775
391,400	Legal & General Group PLC	862,771	922,357
33,900	SCOR SE *	819,319	908,278
11,000	Swiss Re AG	680,640	788,535
9,000	Westpac Banking Corp., ADR	1,005,166	1,233,968
165,000	Wharf Holdings Ltd.	985,824	1,276,025
5,000	Zurich Financial Services AG	1,102,798	1,323,290
		9,528,712	11,067,269
	Health Care - 8.2%		
11,900	Bayer AG *	895,461	1,123,187
10,400	Fresenius SE & Co., KGaA	1,169,488	1,191,173
6,700	Novo Nordisk A/S, ADR	669,074	1,088,737
38,700	Ramsay Health Care Ltd.	908,728	1,086,546
		3,642,751	4,489,643

** Denotes all or part of securities on loan.*
The accompanying notes are an integral part of these financial statements.

Guardian International Equity Fund

Statement of Investment Portfolio
As at December 31, 2012

Number of Shares/Units	Security	Average Cost	Fair Value
	Industrials - 14.2%		
45,900	Arcadis NV	$ 1,037,704	$ 1,068,009
13,900	Bilfinger Berger SE	1,175,748	1,329,292
32,500	Chicago Bridge & Iron Co NV *	1,288,846	1,499,250
20,800	Jardine Matheson Holdings Ltd.	906,223	1,284,053
120,300	Keppel Corp Ltd.	870,276	1,077,697
20,650	Keppel Corp Ltd., ADR	284,946	375,447
26,178	Metso OYJ	1,029,969	1,100,701
		6,593,712	7,734,449
	Information Technology - 7.0%		
17,402	ASML Holding NV *	753,840	1,116,215
15,900	Infosys Ltd., ADR *	719,684	669,360
27,500	Netease.com, ADR	1,220,343	1,164,818
600	Samsung Electronics Co., Ltd.	692,148	848,772
		3,386,015	3,799,165
	Materials - 6.1%		
18,300	BASF SE	1,375,591	1,712,359
7,500	BHP Billiton Ltd.	261,962	287,636
12,300	Kumba Iron Ore Ltd.	803,427	800,412
14,500	Southern Copper Corp. *	524,750	546,609
		2,965,730	3,347,016
	Royalty and Income Trust Units - 3.8%		
639,000	Suntec Real Estate Investment Trust	676,311	872,467
244,600	The Link REIT	816,869	1,217,606
		1,493,180	2,090,073
	Telecommunication Services - 5.0%		
29,000	BT Group PLC, ADR *	1,005,005	1,096,682
12,500	Telekomunikasi Indonesia Tbk PT, ADR *	482,255	459,639
253,500	Telstra Corp., Ltd.	870,155	1,145,162
		2,357,415	2,701,483
	Utilities - 4.0%		
119,000	National Grid PLC	1,216,203	1,353,039
14,600	National Grid PLC, ADR	779,070	834,726
		1,995,273	2,187,765
	Total Common Stocks	**46,016,133**	**53,842,058**
	Transaction Costs	**(67,068)**	**-**
	Total Investments - 98.7%	**45,949,065**	**53,842,058**
	Short-Term Securities - 0.9%		
48,305	Guardian Canadian Short-Term Investment Fund, Series I units	483,052	483,052
	Total Short-Term Securities	**483,052**	**483,052**
	Other Net Assets - 0.4%		**232,901**
	Total Net Assets - 100.0%		**$ 54,558,011**

** Denotes all or part of securities on loan.*
The accompanying notes are an integral part of these financial statements.

GUARDIAN INTERNATIONAL EQUITY FUND

NOTES TO FINANCIAL STATEMENTS

1. Formation of Fund:

Guardian International Equity Fund (the "Fund") was formed on January 3, 1997 and Guardian Capital LP (the 'Manager") is the Manager and trustee of the Fund. The primary objective of the Fund is the achievement of long-term growth of capital, primarily through investments in equity and equity-related securities of issuers outside North America. Pursuant to an amendment to the Fund's Declaration of Trust, effective March 30, 2012, the Fund was authorized to issue Series A units, in addition to the Series I units previously issued. No Series A units have been issued.

2. Significant accounting policies:

a) Basis of presentation:

These financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), include estimates and assumptions made by the Manager that may affect the reported amounts of assets, liabilities, income and expenses during the reporting year. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Fund.

b) Valuation of investments:

In accordance with Accounting Guideline 18 – Investment Companies, investments are categorized as held for trading, and are required to be recorded at fair value as defined in Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"). The fair values of investments as at the financial reporting date are determined as follows:

i) Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation date. Securities with no available bid prices are valued at the closing sale prices.
ii) Securities not listed upon a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner as may be established by the Manager.
iii) Short-term notes and bonds are valued at the average bid quotations from recognized investment dealers.
iv) Investment funds are valued at the closing net asset value per unit reported by the administrator of such funds.

c) Cash and short-term securities:

Cash includes cash on deposit with the custodian and is carried at the face amount thereof, which is its fair value. Short-term securities include highly liquid short-term investments with terms to maturity of less than 90 days, and the investment in Guardian Canadian Short-Term Investment Fund.

d) Investment transactions and income recognition:

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date. Discounts arising on the purchase of short-term notes are recognized as interest income over the term to maturity. Securities lending income is accrued daily over the period the securities are loaned. Distributions received from investment trust units are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature

2. Significant accounting policies (continued):

of those investments, actual allocations could vary from this information. Amounts recorded as a return of capital reduce the cost of investment in the trust unit. Realized gains (losses) from investment transactions and unrealized appreciation (depreciation) in value of investments are determined on an average cost basis. Brokerage commissions and other transaction costs are expensed in the year incurred, and are reported as “Transaction costs” in the Statements of Operations.

e) Translation of foreign currency transactions and balances:

The market values of investments and other assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on each valuation date. Purchases and sales of investments, income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in realized gain (loss) on sale of investments and unrealized gains (losses) are included in change in unrealized appreciation (depreciation) in value of investments.

f) Other assets and liabilities:

For the purposes of categorization in accordance with Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, “Financial Instruments – Disclosures”, accrued interest and dividends receivable on investments, amounts due from brokers, subscription receivable and other net assets are designated as loans and receivables, and recorded at cost or amortized cost. Similarly, amounts due to brokers, redemption payable, accrued expenses and other liabilities are designated as other financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short term nature.

g) Increase (decrease) in net assets from operations per unit:

Increase (decrease) in net assets from operations per unit is calculated as the increase (decrease) in net assets from operations of a series divided by the average number of units of the series outstanding during the year.

h) Comparative disclosure:

Certain disclosures for comparative periods have been amended to reflect the disclosures adopted in the current year.

3. Comparison of net asset value:

The value of the Fund's net assets of a series per unit for financial statement presentation purposes ("Net Assets per Unit") is calculated by dividing the net assets of the series, calculated in accordance with GAAP by using the bid prices for investments, by the total number of units of the series outstanding. For the net asset value per unit for the purpose of the issuance and redemption of units of a series ("Net Asset Value per Unit"), the series' net assets are valued using the closing traded prices for investments. This difference in the valuation of the series' investments account for the potential difference between Net Assets per Unit and Net Asset Value per Unit.

A comparison of the Net Asset Value per Unit and the Net Assets per Unit is as follows:

	Net Asset Value per Unit	Net Assets per Unit
As at December 31, 2012		
Series I	**$6.38**	**$6.37**
As at December 31, 2011		
Series I	**$5.59**	**$5.58**

4. Unitholders' equity:

Unitholders' equity includes the amounts representing the net assets of the Fund, which includes any undistributed net income and realized gain (loss) on sale of investments, and unrealized appreciation (depreciation) in value of investments. The Fund is authorized to issue Series I and Series A units. An unlimited number of the Fund's units of each series may be issued, which are redeemable at Net Asset Value Per Unit for the series at the unitholder's option in accordance with the provisions of the Declaration of Trust. There are certain minimum purchase amounts for Series A units. The net asset value of the Fund attributable to Series A units are subject to a management fee charged to the Fund and payable to the Manager. There are no restrictions or special capital requirements on subscriptions and redemptions of Series I units. The changes in the number of issued units are disclosed in the Statements of Changes in Net Assets. In accordance with the Fund's investment objectives and the risk management policies stated in Note 9, the Fund invests the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions.

5. Operating expenses:

The Manager charges to the Fund a fixed annual management fee of 1.95% of the average daily net asset value of the Fund attributable to Series A units of the Fund, which is accrued daily and paid at the end of the month. The Manager also charges to the Fund a fixed administration fee of 0.22% of the average daily net asset value of the Fund, in return for the payment by the Manager of certain variable operating expenses of the Fund, including audit, custody, transfer agency, fund accounting, filing, securityholder reporting, legal, other related expenses and HST on these expenses. The Fund's expenses consist of the management fee, the administration fee, interest costs, fees and expenses of the Independent Review Committee, any new costs related to regulatory or legal requirements imposed upon the Fund, the HST on all of these expenses and any income taxes to which the Fund may be subject.

6. Income taxes:

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and, as such, is not subject to income taxes on its net taxable capital gains and its net income for the year if it allocates such gains and income (less any applicable losses carried forward) to unitholders. The taxable income of the Fund is allocated and distributed annually to unitholders so as to eliminate any income taxes otherwise payable by the Fund. The distributions are automatically reinvested in additional units of the Fund. As at December 31, 2012, capital losses in the amount of $12,191,285 were available to be carried forward and applied against future capital gains. There were no non-capital losses to be carried forward as at December 31, 2012.

7. Transaction Costs:

Total transaction costs (brokerage commissions) paid to dealers in connection with the portfolio transactions of the Fund for the year ended December 31, 2012 amounted to $103,252 (December 31, 2011 – $204,075). There were no soft dollar transactions for the years ended December 31, 2012 and 2011.

8. Concentration of unitholders:

As at December 31, 2012, one unitholder held 8,168,409 units of the Fund, representing 95% (December 31, 2011 – 6,924,049 units, 94%) of the net assets of the Fund. The investment activities of this unitholder could have a material impact on the Fund.

9. Financial risk management:

The Fund's financial instruments principally consist of investments. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and the markets in which it invests. The most significant risks include market risk which includes currency risk, interest rate risk, other price risk and concentration risk, liquidity risk and credit risk. These risks and related risk management practices employed by the Fund are discussed below:

a) Market risk

(i) Currency risk

The Fund holds assets that are valued in currencies other than the Canadian dollar, which is the Fund's functional currency. It is therefore exposed to currency risk, as the value of the assets valued in other currencies will fluctuate due to changes in exchange rates. The following table summarizes the Fund's exposure to currency risks:

	Currency exposure (in Canadian $)			
As at December 31, 2012	**USD**	**GBP**	**Other**	**Total**
Assets				
Cash	$ 65,285	$ -	$ -	$ 65,285
Other net assets	49,577	36,337	22,335	108,249
Total assets	114,862	36,337	22,335	173,534
Net currency exposure	**$ 114,862**	**$ 36,337**	**$ 22,335**	**$ 173,534**

	Currency exposure (in Canadian $)			
As at December 31, 2011	**USD**	**GBP**	**Other**	**Total**
Assets				
Cash	$ (5,835)	$ -	$ -	$ (5,835)
Other net assets (liabilities)	(696,955)	6,441	22,528	(667,986)
Total assets	(702,790)	6,441	22,528	(673,821)
Net currency exposure	**$ (702,790)**	**$ 6,441**	**$ 22,528**	**$ (673,821)**

At December 31, 2012, if the value of the other currencies in which the Fund is invested increased or decreased by 5% in relation to the Canadian dollar, with all other variables held constant, this would have increased or decreased the net assets of the Fund by approximately $9,000, or 0.0% of the Fund's net assets (December 31, 2011 - $34,000, 0.1%).

9. Financial risk management (continued):

(ii) Interest rate risk

The Fund is exposed to interest rate risk through its investments in short-term securities. The most significant of these investments is the investment in Guardian Canadian Short-Term Investment Fund. Because of the short-term nature of its investments, this risk is not considered to be significant to the Fund.

(iii) Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to market fluctuations and the risks inherent in financial markets. The Manager moderates this risk through a careful selection of securities within specified limits, and through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a daily basis, and positions are maintained within established ranges. At December 31, 2012 and 2011, the overall equity investment exposure was as follows:

As at December 31, 2012	**Fair value**	**% of net assets**
Common stocks	$ 53,842,058	98.7%

As at December 31, 2011	**Fair value**	**% of net assets**
Common stocks	$ 38,346,731	92.8%

At December 31, 2012, if the prices on the stock exchanges for the equities held by the Fund increased or decreased by 5%, with all other variables held constant, this would have increased or decreased the net assets of the Fund by approximately $2,692,000, or 4.9% of the Fund's net asset (December 31, 2011 - $1,917,000, 4.6%). In practice, the actual trading results could differ, and the difference could be material.

(iv) Concentration risk

The Fund is exposed to the possible risk inherent in the concentration of the investment portfolio in a small number of industries or investment sectors. The Manager moderates this risk through a careful selection of securities in several investment sectors. At December 31, 2012, the percentages of the Fund's total net assets invested in each investment sector were as follows:

Sector	**2012**	**2011**
Consumer discretionary	10.7%	7.5%
Consumer staples	10.0%	12.7%
Energy	9.4%	10.6%
Financials	20.3%	15.6%
Health care	8.2%	7.4%
Industrials	14.2%	17.9%
Information technology	7.0%	3.9%
Materials	6.1%	9.0%
Royalty and income trust units	3.8%	2.2%
Telecommunication services	5.0%	6.0%
Utilities	4.0%	-
Short-term securities	0.9%	7.4%
Other net assets (liabilities)	0.4%	(0.2%)
Total net assets	100.0%	100.0%

9. Financial risk management (continued):

Country	2012	2011
Australia	9.0%	7.8%
Austria	-	0.7%
Belgium	1.5%	-
Bermuda	4.5%	4.5%
Brazil	-	6.8%
China	2.1%	3.8%
Cyprus	1.8%	1.8%
Denmark	2.0%	2.4%
Finland	2.0%	2.3%
France	5.4%	4.7%
Germany	17.5%	11.0%
Hong Kong	4.6%	2.2%
India	1.2%	1.9%
Indonesia	0.8%	-
Japan	-	2.9%
Netherlands	7.9%	6.3%
New Zealand	-	2.0%
Norway	4.6%	2.2%
Russia	0.9%	1.4%
Singapore	5.6%	5.9%
South Africa	2.5%	-
South Korea	2.2%	-
Spain	-	1.9%
Switzerland	6.2%	4.3%
United Kingdom	15.4%	16.0%
United States of America	1.0%	-
Short-term securities	0.9%	7.4%
Other net assets (liabilities)	0.4%	(0.2%)
	100.0%	100.0%

b) Liquidity risk

The Fund is exposed to daily cash needs related to the redemption of units, and to the discharge of financial obligations related to the daily operations of the Fund. The ability to meet these needs is managed by retaining sufficient cash and short-term securities within the Fund, and by investing in securities which are considered readily realizable and highly liquid. All liabilities of the Fund are short-term in nature and are due within 60 days.

c) Credit risk

The Fund is exposed to credit risk through its investments in short-term securities. The most significant of these investments is the investment in Guardian Canadian Short-Term Investment Fund – 0.9% of total net assets (December 31, 2011 – 7.4%), which held short-term securities which had credit ratings of R-1 High and R-1 Mid as of December 31, 2012 and 2011.

10. Fair value disclosure:

Classification for fair value measurements

The Fund's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy. Fair values based on quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3), are provided in the following table, as at December 31, 2012 and 2011. During the years ended December 31, 2012 and 2011, there were no securities classified as Level 3.

	Financial Assets at fair value as at December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Common stocks	$ 53,842,058	$ -	$ -	$ 53,842,058
Short-term securities	483,052	-	-	483,052
Total investments and short-term securities	**$ 54,325,110**	**$ -**	**$ -**	**$ 54,325,110**

	Financial Assets at fair value as at December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Common stocks	$ 38,346,731	$ -	$ -	$ 38,346,731
Short-term securities	3,073,609	-	-	3,073,609
Total investments and short-term securities	**$ 41,420,340**	**$ -**	**$ -**	**$ 41,420,340**

Significant transfers between Levels 1 and 2

There were no significant transfers between Levels 1 and 2 for the year ended December 31, 2012.

The following were the transfers between Levels 1 and 2 for the year ended December 31, 2011 due to increased activity in the market for these equities:

	December 31, 2011	
	Transfer from Level 1 to Level 2	**Transfer from Level 2 to Level 1**
Common stocks	$ -	$ 1,104,515

11. Securities lending:

The Fund has entered into a securities lending agreement with its custodian, RBC Investor Services (credit rating: AA-). The Fund will receive collateral of at least 105% of the value of the securities on loan. Collateral will generally comprise obligations guaranteed by the Government of Canada or a province thereof, or other governments with appropriate credit ratings. In the event that any of the loaned securities are not returned to RBC Investor Services, RBC Investor Services may, at its option, either restore to the Fund securities identical to the loaned securities or pay to the Fund the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned ("Valuation Date"). If the collateral is not sufficient to allow RBC Investor Services to pay such market value to the Fund, RBC Investor Services shall indemnify the Fund for the difference between the fair value of the securities and the value of such collateral on the Valuation Date.

At December 31, 2012, the Fund has loaned approximately $5,715,500 (December 31, 2011 – $5,604,873) in securities and received approximately $6,001,279 (December 31, 2011 – $5,885,121) in collateral. The Fund recognized $33,457 securities lending income for the year ended December 31, 2012 (December 31, 2011 – $34,331). Securities loaned in the program earn securities lending income at market rates. The securities lending arrangements are revolving, and can be terminated at any time by the borrowers, RBC Investor Services or the Fund.

12. Related party unitholders:

As at December 31, 2012, affiliates of the Manager held 22,803 units of the Fund, representing 0.3% (December 31, 2011 – 26,906 units, 0.4%) of the net assets of the Fund.

13. Future changes in accounting standards:

International Financial Reporting Standards (IFRS) have replaced Canadian GAAP for publicly accountable enterprises in Canada, which include investment funds. However, because of decisions made by the Canadian Accounting Standards Board, the adoption of IFRS by investment funds has been deferred, the latest deferral being to January 1, 2014.

The Manager has carried out an assessment of the impact on the Fund of the conversion to IFRS. Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, and the standards that are in effect at December 31, 2012, the Manager does not anticipate that there will be any changes to the calculation of the Fund's Net Asset Value or Net Asset Value per Unit, which is used for the issuance and redemption of Fund units. The Manager has, however, identified the following areas in which there may be changes in the presentation of the Fund's financial statements:

a) International Accounting Standards 32, "Financial Instruments: Presentation", allows puttable (redeemable) instruments to be classified as equity, only if certain conditions are met. The manager is currently assessing whether the Fund's units, which are redeemable, meet the definition to be classified as equity, or will be required to be classified as a liability on the Fund's Statement of Net Assets.

b) IFRS 13, "Fair Value Measurements", provides guidance on the measurement of fair value and allows for the use of closing traded prices to value investments. Under Canadian GAAP, the fair value of investments for financial statement purposes is currently required to be measured at closing bid prices for long positions and closing asked prices for short positions. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of closing traded prices is appropriate in valuing the Fund's investments. This change will result in the elimination of the difference between the Fund's Net Assets per Unit and Net Asset Value per Unit, as disclosed in note 3 above.

c) A Statement of Cash Flow will be required for IFRS reporting purposes.

d) There will also likely be requirements for additional note disclosures and modifications to existing financial statement presentation.

The Manager's current assessment of the effect of IFRS may change if new standards are issued or if the interpretations of current standards are revised.