

Semi-annual Financial Statements

ARK STONECASTLE STABLE GROWTH CLASS

June 30, 2011 (unaudited)

Ark Stonecastle Stable Growth Class
Statement of Net Assets
As at June 30, 2011 (unaudited) and December 31, 2010

	<u>2011</u>	<u>2010</u>
Assets		
Investments, at fair value	\$ 8,936,967	\$ 9,072,934
Cash	3,328,960	817,266
Due from broker	482,088	0
Subscriptions receivable	0	200
Dividends and interest receivable	10,106	8,887
	<u>12,758,121</u>	<u>9,899,287</u>
Liabilities		
Accrued expenses	37,014	123,366
Distribution payable	2	24,918
Redemptions payable	12,230	0
Payable for investments purchased	447,394	0
	<u>496,640</u>	<u>148,284</u>
Total net assets and shareholders' equity	\$ 12,261,481	\$ 9,751,003

Net assets representing shareholders' equity for each series

Series A	\$ 9,402,157	\$ 6,869,251
Series F	<u>\$ 2,859,324</u>	<u>\$ 2,881,752</u>

Net assets per share (GAAP NAV) end of period

Series A	\$ 12.02	\$ 13.27
Series F	<u>\$ 12.04</u>	<u>\$ 13.44</u>

Net assets per share (Transactional NAV) end of period

Series A	\$ 12.24	\$ 13.30
Series F	<u>\$ 12.26</u>	<u>\$ 13.46</u>

Shares outstanding (Note 3)

Series A	782,208	517,489
Series F	<u>233,648</u>	<u>214,416</u>

(See accompanying notes to financial statements)

Approved on behalf of the Board of Redwood Asset Management Inc.

(signed) Peter Shippen

Director

(signed) Jonathon Clapham

Director

Ark Stonecastle Stable Growth Class
Statement of Operations
For the Six Month Ended June 30 (unaudited)

	2011	2010
Investment Income		
Income		
Dividend	\$ 36,904	\$ 13,122
Interest and other income	251	24,550
Early redemption fee	119	314
	<u>37,274</u>	<u>37,986</u>
Expenses (Note 5)		
Management fees	149,317	72,729
Administration fees	37,781	50,273
Audit fees	3,537	6,425
Custodial fees	7,092	10,180
Legal fees	7,426	0
Filing fees	5,305	0
Net expenses	<u>210,458</u>	<u>139,607</u>
Net investment loss	<u>(173,184)</u>	<u>(101,621)</u>
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on sale of investments	1,098,605	(10,248)
Transaction costs	(48,297)	(25,317)
Change in unrealized depreciation in value of investments	(2,185,285)	(512,683)
Net loss on investments	<u>(1,134,977)</u>	<u>(548,248)</u>
Decrease in net assets from operations	<u>\$ (1,308,161)</u>	<u>\$ (649,869)</u>
Decrease in net assets from operations, Series A	\$ (1,016,997)	\$ (468,818)
Decrease in net assets from operations per unit, Series A	<u>\$ (1.46)</u>	<u>\$ (1.10)</u>
Decrease in net assets from operations, Series F	\$ (291,164)	\$ (181,051)
Decrease in net assets from operations per unit, Series F	<u>\$ (1.30)</u>	<u>\$ (1.05)</u>

(see accompanying notes to financial statements)

Ark Stonecastle Stable Growth Class
Statement of Changes in Net Assets
For the Six Month Ended June 30 (unaudited)

	2011	2010
Net assets at the beginning of the period	\$ 9,751,003	\$ 4,778,819
Decrease in net assets from operations	(1,308,161)	(649,869)
Capital transactions		
Proceeds from the issuance of shares	4,086,619	2,958,709
Payment for redemption of shares	(292,806)	(302,333)
Securities issued on reinvestment of distributions	24,826	1,534
Net assets at the end of the period	\$ 12,261,481	\$ 6,786,860
Net assets at the beginning of the period, Series A	\$ 6,869,251	\$ 3,371,199
Decrease in net assets from operations, Series A	(1,016,997)	(468,818)
Capital transactions, Series A		
Proceeds from the issuance of shares	3,770,400	2,162,626
Payment for redemption of shares	(237,960)	(242,471)
Reinvested from distribution	17,463	1,082
Net assets at the end of the period, Series A	\$ 9,402,157	\$ 4,823,618
Net assets at the beginning of the period, Series F	\$ 2,881,752	\$ 1,407,620
Decrease in net assets from operations, Series F	(291,164)	(181,051)
Capital transactions, Series F		
Proceeds from the issuance of shares	316,219	796,083
Payment for redemption of shares	(54,846)	(59,862)
Reinvested from distribution	7,363	452
Net assets at the end of the period, Series F	\$ 2,859,324	\$ 1,963,242

(see accompanying notes to financial statements)

Ark Stonecastle Stable Growth Class
Statement of Investment Portfolio
As at June 30, 2011 (unaudited)

SECURITY	SHARES HELD	COST	FAIR VALUE
CANADIAN EQUITIES (69.9%)			
CANADIAN COMMON STOCKS (68.3%)			
Energy (25.2%)			
Bellatrix Exploration Ltd.	58,600	\$ 206,510	\$ 266,044
BlackPearl Resources Inc.	44,000	355,633	299,200
Calfrac Well Services Ltd.	11,800	392,268	374,650
Canyon Services Group Inc.	29,400	184,301	391,314
Essential Energy Services Ltd.	192,425	377,688	406,017
Geodrill Ltd	112,800	396,506	265,080
Horizon North Logistics Inc.	84,100	383,516	374,245
Open Range Energy Corporation	82,000	382,846	391,960
Petroamerica Oil Corp. Warrants	180,050	0	0
Petrodorado Energy Ltd.	25,000	16,250	7,500
Porto Energy Corporation	40,000	40,000	31,200
Spartan Oil Corp. Warrants	3,400	-	4,114
Total Energy Services Inc.	19,000	174,504	272,650
		<u>2,910,021</u>	<u>3,083,974</u>
Materials (23.2%)			
5N Plus Inc.	43,300	400,404	389,267
Alacer Gold Corp.	32,600	250,917	262,104
Avion Gold Corp	52,200	98,580	101,268
Canfor Corporation	2,200	23,705	23,144
Copper Mountain Mining Corporation	46,400	359,006	346,608
First Majestic Silver Corp.	20,800	243,892	369,616
Kiska Metals Corporation Warrants	7,450	0	1,192
Lundin Mining Corporation	8,400	59,772	62,076
Neo Material Technologies Incorporated	35,800	167,884	331,508
Petroamerica Oil Corporation	360,100	72,020	55,816
Sabina Gold & Silver Corporation	44,900	333,620	264,910
Tembec Inc	74,000	350,866	317,460
West Fraser Timber Co. Ltd.	6,200	276,141	324,136
		<u>2,636,805</u>	<u>2,849,105</u>
Industrials (2.7%)			
Bombardier Inc. Class B	47,000	333,563	325,240
Consumer Discretionary (2.8%)			
Swisher Hygiene Inc.	64,600	397,513	348,194

Ark Stonecastle Stable Growth Class**Statement of Investment Portfolio**

As at June 30, 2011 (unaudited)

SECURITY	SHARES HELD	COST	FAIR VALUE
Financials (8.6%)			
Extencicare Real Estate Investment Trust	23,200	\$ 283,678	\$ 240,584
GMP Capital, Inc.	22,300	348,677	284,325
Intact Financial Corp.	5,100	271,246	282,081
Sprott Inc.	33,600	301,470	248,304
		<u>1,205,072</u>	<u>1,055,294</u>
Information Technology (2.5%)			
Zarlink Semiconductor Inc.	131,300	<u>244,690</u>	<u>307,242</u>
Telecommunication Services (3.3%)			
Wi-Lan Inc.	52,000	<u>320,004</u>	<u>403,520</u>
TOTAL CANADIAN COMMON STOCKS		<u>8,047,668</u>	<u>8,372,568</u>
INCOME TRUSTS (1.6%)			
Income Trust - Financials (1.6%)			
RioCan Real Estate Investment Trust	7,700	<u>201,036</u>	<u>199,199</u>
TOTAL INCOME TRUSTS		<u>201,036</u>	<u>199,199</u>
TOTAL CANADIAN EQUITIES		<u>8,248,703</u>	<u>8,571,767</u>
US EQUITIES (3.0%)			
Materials (3.0%)			
Domtar Corporation	4,000	\$ <u>298,424</u>	\$ <u>365,200</u>
TOTAL US EQUITIES		<u>298,424</u>	<u>365,200</u>
TOTAL COST AND FAIR VALUE OF INVESTMENTS (72.9%)		8,547,127	8,936,967
Cash (27.1%)		3,328,960	3,328,960
Other Assets less Other Liabilities (0.0%)		(4,446)	(4,446)
NET ASSETS (100.0%)		<u>\$ 11,871,641</u>	<u>\$ 12,261,481</u>

(See accompanying notes to financial statements)

Ark StoneCastle Stable Growth Class

Notes to Financial Statements

June 30, 2011 (unaudited) and December 31, 2010

1. Basis of presentation

Ark StoneCastle Stable Growth Class (the "Fund") is a class of shares of Ark Mutual Funds Ltd. (the "Corporation"), a mutual fund corporation under the laws of Ontario on November 1, 2007 and authorized to issue an unlimited number of common shares and an unlimited number of classes on non-voting redeemable mutual fund shares in multiple series.

The custodian of the Fund is CIBC Mellon Trust Company ("Custodian"). Redwood Asset Management Inc. ("Manager") is the manager of the Fund. StoneCastle Investment Management Inc. is the portfolio advisor of the Fund. The Fund was established on August 7, 2009 and commenced operations on August 13, 2009.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Most significant estimates include valuation of investments and accrued liabilities. Actual results could vary from these estimates.

(a) Valuation of Investments

Section 3855, "Financial Instruments – Recognition and Measurement" of the CICA Handbook establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 14.2 of National Instrument 81-106 ("NI 81-106"), issued by the Canadian Securities Administrators requires a fund to calculate the net asset value ("NAV") using the fair value of a fund's assets and liabilities, other than for financial reporting purposes.

The differences between this net asset value per share (the "Transactional NAV") and the net assets per share (the "GAAP NAV") on the Statements of Net Assets is due to different pricing methodologies used to calculate the GAAP NAV for financial reporting and the Transactional NAV for fund pricing purposes. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices for investments held to be used in the fair valuation of investments for financial statements, rather than the use of closing sale prices currently used for the purpose of determining Transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques.

The fair value of investments as at the financial reporting period end is determined as follows:

Ark StoneCastle Stable Growth Class

Notes to Financial Statements

June 30, 2011 (unaudited) and December 31, 2010

- (i) Securities listed upon a recognized public stock exchange are valued at their bid prices for long positions on the valuation date. Securities with no available bid or ask prices are valued at their closing prices.
- (ii) Securities not listed upon a recognized public stock exchange are valued using valuation techniques, using observable market inputs, on such basis and in such manner established by the Manager. The current value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. These estimated fair values may differ from values that would have been realized had a ready market for these holdings existed, and the differences could be material.
- (iii) Short-term notes, treasury bills, bonds, and other debt instruments are valued at the bid quotations from recognized investment dealers.
- (iv) All other financial assets and liabilities such as subscriptions receivable, dividends receivable, redemptions payable and accrued expenses, are recorded at amortized cost using the effective interest method, which approximates fair value due to the short term nature of the investments.

(b) Transaction costs

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities are expensed, and are included in "Transaction costs" in the Statements of Operations.

(c) Share valuation and valuation date

Shares are issued and redeemed on a continuing basis at the transactional NAV per unit which is determined for each series of shares of the Fund on each day that the Toronto Stock Exchange is open for business. The value of each share of a series of shares of the Fund is determined by dividing the aggregate market value of the net assets of that series of shares of the Fund by the total number of shares of that series of shares of the Fund outstanding at the close of business on the valuation day.

(d) Investment transactions

Investment transactions are accounted for on the trade date.

(e) Revenue Recognition

- (i) Interest income is recorded on the accrual basis.
- (ii) Dividend income is recorded on the ex-dividend date and is net of withholding taxes.
- (iii) Realized gains and losses on investments and unrealized appreciation (depreciation) in the fair value of investments are calculated with reference to the average cost of the related investments.
- (iv) Income received from income trusts is recorded on the ex-dividend date. In case of return of capital, the amount received are recorded as reduction of cost.
- (v) Interest and dividend income, realized gain (loss) and unrealized gain (loss) are allocated among the share classes on a pro-rata basis.

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Notes to Financial Statements

June 30, 2011 (unaudited) and December 31, 2010

(f) Foreign exchange

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

- (i) Market value of investments, other assets and liabilities at the rate of exchange prevailing on June 30, 2011.
- (ii) Value of investment transactions, income and expenses at the rates prevailing on the respective dates of such transactions.
- (iii) Realized and unrealized foreign exchange gains and losses related to investment transactions are included in "Net realized gain (loss) on sale of investments" and "Change in unrealized appreciation (depreciation) on investments".

(g) Increase/ (decrease) in net assets from operations per share

Net increase/ (decrease) in net assets from operations per share in the Statement of Operations represents the net increase/ (decrease) in net assets from operations for the period, divided by the average shares outstanding during the period.

(h) Capital management

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures", requires that the Fund discloses information about its objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of any non-compliance. The Fund considers its net asset to be its capital. The relevant capital movements are disclosed in the Statement of Changes in Net Assets. The Fund manages its capital in accordance with the investment objectives and strategy as disclosed in the Fund's offering documents. The Fund has no externally imposed capital requirements.

(i) Financial instrument disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures requires use of the three-level hierarchy that reflects the significance of the input used when assessing the fair value of financial assets and liabilities and is presented below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: 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); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

See note 7 for further details.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash with bank, money market fund and short-term investments with original terms of approximately 90 days or less. Cash and cash equivalents are carried at cost which approximates their fair value.

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Notes to Financial Statements

June 30, 2011 (unaudited) and December 31, 2010

3. Shares

The authorized capital of the Corporation consists of an unlimited number of common shares and 1,000 classes of Fund shares, issued in series.

The Fund, a class of shares of the Corporation currently has two series of shares – Series A and

The Fund		Number of shares beginning of period	Purchase/ reinvestment during period	Redemptions during period	Number of shares end of period
Series A	2011	517,489	283,029	18,310	782,208
	2010	310,667	257,900	51,078	517,489
Series F	2011	214,416	23,417	4,185	233,648
	2010	129,413	106,932	21,929	214,416

Series F.

4. Management fees and other expenses

The Fund pays the Manager an annual management fee of up to 2.5% in the case of Series A shares and up to 1.5% in the case of Series F, subject to GST or HST, to cover management expenses. The management fee is calculated and accrued daily and is paid on the last day of each month based on the average daily net asset value of the Fund. The management fee for Series I shares is negotiated by the investor and may be paid by the Fund or directly by the investor.

The Fund will pay the Manager annually an incentive fee, subject to GST or HST, equal to a percentage of the average net asset value of the applicable series of the Fund. Such percentage will be equal to 10% of the difference by which the return in the net asset value per share of the applicable Series of the Fund from January 1 to December 31 exceeds the percentage return of the S&P/TSX Composite Index.

In addition to the management fee, the Fund pays its own operating expenses. Operating expenses include, but are not limited to, brokerage commissions and fees, taxes, audit and legal fees, safekeeping, trustee and custodial fees, interest expenses, operating and administrative costs, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses. Operating expenses and other costs of a Fund are subject to applicable taxes.

The Manager has the discretion, from time to time, to waive or absorb expenses associated with the Fund. The amounts of the absorbed or waived expenses are reported in the Statements of Operations.

5. Income taxes

The Corporation computes its net income (loss) and net capital gains (losses) for income tax purposes as a single entity. Therefore, net losses of one Fund may be used to offset net gains of another Fund to reduce the total net income or net gain of the Corporation as a whole. It is assumed that the Fund will continuously qualify as a “mutual fund corporation” and as a “financial intermediary” as defined in the Income Tax Act (Canada) and will not qualify as an “investment corporation” under the Act.

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Notes to Financial Statements

June 30, 2011 (unaudited) and December 31, 2010

All income of the Corporation, including taxable capital gains net of allowable capital losses, will be subject to tax at normal corporate rates. Taxes payable on net realized capital gains are refundable on a formula basis when shares are redeemed or the Corporation elects to pay capital gains dividends. Dividends received by the Corporation on taxable dividends from taxable Canadian corporations are subject to a 33% tax which is refundable on payment of sufficient taxable dividends by the Corporation. Taxes payable by the Corporation on income from other sources (such as interest, foreign income and distributions of income from royalty trusts and exchange traded funds) are not refundable. Due to deductible expenses and to tax refunds available to the Corporation upon the payment of capital gains dividends and taxable dividends, the Corporation is not expected to have any material net income tax liability in any year.

6. Financial risk management

The Fund financial instruments consist of cash and investments. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments, and markets in which it invests. These risks include market risk, currency risk, interest rate risk, credit risk and liquidity risk. The value of investments within a Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Fund. The level of risk depends on the fund's investment objectives and the type of securities it invests in. These risks and related risk management practices employed by the Fund are discussed below:

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through diversification of the investment funds. The Investment Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

The Fund's market risk is affected by three main components: changes in actual market prices, interest rates and foreign currency movements. If the equity prices on the exchanges had increased (decreased) by 5% at June 30, 2011 and December 31, 2010, with all other variables held constant, this would have approximately increased (decreased) net assets as follows:

	2011		2010	
	5% Increase	5% Decrease	5% Increase	5% Decrease
Ark StoneCastle Stable Growth Series A	\$12.62	\$11.42	\$13.93	\$12.61
Ark StoneCastle Stable Growth Series F	\$12.85	\$11.63	\$14.11	\$12.77

In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Ark StoneCastle Stable Growth Class

Notes to Financial Statements

June 30, 2011 (unaudited) and December 31, 2010

(b) Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The Statement of Investment Portfolio identifies all investments denominated in foreign currencies. Equities in foreign markets and foreign bonds are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value.

The Fund invested primarily in Canadian securities. As at June 30, 2011, the Fund did not have significant exposure to currency risk.

(c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Other assets and liabilities are short-term in nature and/or non-interest bearing. As a result, the Fund is not subject to a significant amount of interest rate risk due to fluctuations in the prevailing level of market interest rates.

(d) Credit risk

The Fund's main credit risk concentration is spread between short-term debt securities. The Fund limits its exposure to credit loss by placing its cash and cash equivalents and fixed income securities with high credit quality. To maximize the credit quality of its investments, the Fund managers perform ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information.

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. As at June 30, 2011 and December 31, 2010, the Fund had no significant investments in debt instruments.

(e) Liquidity risk

The Fund is exposed to daily cash redemptions of redeemable shares. The shares of the Funds are redeemed on demand at the current Transactional NAV per unit at the option of the shareholder. Liquidity risk is managed by investing the majority of the Fund assets in investments that are traded in an active market and can be readily disposed. In addition, the Funds aim to retain sufficient cash and cash equivalent positions to maintain liquidity. Accrued liabilities are generally payable within 90 days.

7. Fair value hierarchy

The valuation of the Fund's financial assets under the Section 3862 hierarchy as of June 30, 2011 and December 31, 2010 as follows:

Ark StoneCastle Stable Growth Class

Notes to Financial Statements

June 30, 2011 (unaudited) and December 31, 2010

	Fair Values as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash	\$ 3,328,960	\$ -	\$ -	\$ 3,328,960
Equities and income trusts	8,936,967	-	-	8,936,967
	<u>\$ 12,265,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,265,927</u>

There were no transfers between any levels during the year.

	Fair Values as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash	\$ 817,266	\$ -	\$ -	\$ 817,266
Equities and income trusts	9,072,934	-	-	9,072,934
	<u>\$ 9,890,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,890,200</u>

There were no transfers between any levels during the year.

8. Other related party transactions:

Related parties owned 1,015 (2010 – 940) of Class A shares and nil (2010 – nil) of Class F shares of Ark StoneCastle Stable Growth Class. The related parties are the Manager, Redwood Asset Management Inc., shareholders of the Manager and individuals related to the shareholders of the Manager, Redwood Asset Management Inc.

9. Future changes in accounting standards

International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises, which include investment funds and other reporting issuers.

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.