

Redwood Diversified Income Fund

Semi-Annual Financial Statements

June 30, 2011 (Unaudited)

*(These interim financial statements have not been reviewed by an auditor.)

Redwood Diversified Income Fund
Statements of Net Assets
As at June 30, 2011 (unaudited) and Decemehr 31, 2010

	2011	2010
Assets		
Investments, at fair value	\$ 29,240,864	\$ 26,286,508
Cash	0	660,804
Dividends and interest receivable	171,695	158,638
Subscriptions receivable	55,490	0
Receivable for investments sold	1,064,565	0
	<hr/> 30,532,614	<hr/> 27,105,950
Liabilities		
Bank indebtedness	307,452	0
Accrued expenses (Note 4)	123,548	79,519
Distributions payable (Note 7)	192,474	171,435
Redemptions payable	7,541	14,609
Payable for investments purchased	0	219,486
	<hr/> 631,015	<hr/> 485,049
Net assets (Note 3)	<hr/> \$ 29,901,599	<hr/> \$ 26,620,901
Net assets per series (Note 3)		
Series A	\$ 23,275,282	\$ 20,930,847
Series F	6,626,317	5,690,054
	<hr/> 29,901,599	<hr/> 26,620,901
Net assets per unit (Notes 3 and 6)		
Series A	\$ 9.87	\$ 9.84
Series F	\$ 7.80	\$ 7.80

Approved on behalf of the Trustee, Redwood Asset Management Inc.

Jonathan Clapham
 Director (*Signed*)

Peter Shippen
 Director (*signed*)

(See accompanying notes to financial statements)

Redwood Diversified Income Fund
Statements of Operations
For the Six Month ended June 30 (unaudited)

	2011	2010
Revenue		
Dividend	\$ 458,589	\$ 214,497
Early redemption fee	5,850	5,482
Interest	77,343	40,757
Other	191,061	407,522
	<u>732,843</u>	<u>260,736</u>
Expenses (Note 5)		
Administrative fees	26,256	75,568
Audit fees	26,691	0
Filing fees	18,118	0
Legal fees	1,371	0
Custodian fees	1,350	1,050
Management fees (Note 4)	321,756	234,988
Performance fees (Note 4)	58,360	9,016
	<u>453,902</u>	<u>320,622</u>
Expenses waived or absorbed by the Manager (Note 5)	(19,149)	0
Net expenses	<u>434,753</u>	<u>320,622</u>
Net investment gain (loss)	<u>298,090</u>	<u>(59,886)</u>
Realized and unrealized gain (loss) on investments		
Net realized gain on sale of investments	1,469,515	258,937
Transaction costs (Note 7)	(54,266)	(43,415)
Change in unrealized depreciation in value of investments	(632,739)	(885,019)
Net gain (loss) on investments	<u>782,510</u>	<u>(669,497)</u>
Increase (decrease) in net assets from operations	<u>\$ 1,080,600</u>	<u>\$ (729,383)</u>
Increase (decrease) in net assets from operations per series		
Series A	<u>\$ 813,813</u>	<u>\$ (291,316)</u>
Series F	<u>266,787</u>	<u>(30,545)</u>
	<u>\$ 1,080,600</u>	<u>\$ (321,861)</u>
Increase (decrease) in net assets from operations per unit		
Series A	<u>\$ 0.36</u>	<u>\$ (0.16)</u>
Series F	<u>\$ 0.34</u>	<u>\$ (0.05)</u>
Weighted average number of units outstanding		
Series A	<u>2,237,974</u>	<u>1,865,893</u>
Series F	<u>774,552</u>	<u>593,428</u>

(See accompanying notes to financial statements)

Redwood Diversified Income Fund
Statements of Changes in Net Assets
For the Six Months ended June 30 (unaudited)

	Series A		Series F		Total	
	2011	2010	2011	2010	2011	2010
Increase (decrease) in net assets from operations	\$ 813,813	\$ (291,316)	\$ 266,787	\$ (30,545)	\$ 1,080,600	\$ (321,861)
Capital transactions (Note 6)						
Issue of units	3,893,962	3,891,638	880,896	344,533	4,774,858	4,236,171
Redemptions of units	(2,008,242)	(1,851,213)	(100,238)	(110,894)	(2,108,480)	(1,962,107)
Reinvested distributions	455,328	379,202	170,102	111,367	625,430	490,569
	2,341,048	2,419,627	950,760	\$ 345,006	\$ 3,291,808	\$ 2,764,633
Distributions to unitholders (Note 8)						
From net investment income	(810,426)	(677,559)	(281,284)	(214,734)	(1,091,710)	(892,293)
	(810,426)	(677,559)	(281,284)	(214,734)	(1,091,710)	(892,293)
Increase (decrease) in net assets for the year	2,344,435	1,450,752	936,263	99,727	3,280,698	1,550,479
Net assets, beginning of period	20,930,847	15,351,884	5,690,054	4,179,307	26,620,901	19,531,191
Net assets, end of period	\$ 23,275,282	\$ 16,802,636	\$ 6,626,317	\$ 4,279,034	\$ 29,901,599	\$ 21,081,670

(See accompanying notes to financial statements)

Redwood Diversified Income Fund**Statement of Investments****As at June 30, 2011 (unaudited)**

	Shares, Warrants, or Par Value	Cost*	Fair Value
Fixed Income (7.9%)			
Canadian Bonds (6.9%)			
Canacol Energy Ltd. 8.00% June 30, 2015	650,000 \$	824,375 \$	734,500
Macro Enterprises Inc. 7.50%, March 1, 2012	150,000	150,000	150,000
Russel Metals Inc. 7.75%, September 30, 2016	1,000,000	1,000,000	1,175,000
Total Canadian bonds		1,974,375	2,059,500
Foreign Bonds (1.0%)			
Neo Materials Technologies Inc., 5.00% December 31, 2017	300,000	292,949	290,477
Total Fixed Income		2,267,324	2,349,977
Canadian Equities (89.9%)			
Common Stocks (66.4%)			
Energy (35.8%)			
Baytex Energy Corporation	20,000	1,009,754	1,049,400
Black Diamond Group Ltd	43,400	908,168	1,366,666
Capital Power Corporation	29,900	784,481	747,201
Cathedral Energy Services Ltd.	75,000	511,000	535,500
Crescent Point Energy Corp.	33,000	1,020,640	1,465,860
Enerplus Corporation	18,000	573,475	547,920
Husky Energy Inc.	40,000	1,082,000	1,050,400
Inter Pipeline Fund Class A	95,200	903,000	1,507,968
Keyera Corporation	25,296	428,849	1,105,182
Provident Energy Ltd.	155,000	1,320,380	1,333,000
		8,541,747	10,709,097
Materials (6.7%)			
Canfor Pulp Products Inc.	51,500	695,567	900,220
Chemtrade Logistics Income Fund	53,000	729,980	763,200
First Metals Inc. Warrants July 31, 2012	30,000	12	0
Supremex Inc.	150,000	417,750	328,500
		1,843,309	1,991,920
Industrials (9.2%)			
Cineplex Inc.	40,000	743,122	1,064,400
TransCanada Corporation	20,000	729,388	844,400
Vicwest Inc.	65,000	1,050,745	838,500
		2,523,255	2,747,300
Financials (1.9%)			
Brookfield Office Properties Inc.	30,000	342,730	557,700
Utilities (12.9%)			
Algonquin Power & Utilities Corp.	176,000	961,143	1,004,960
Capstone Infrastructure Corp.	60,000	456,000	469,200
Just Energy Group Inc.	73,000	855,587	1,036,600
Northland Power Inc. Cumulative Preferred Shares Series 1	20,000	500,000	508,000
Veresen Inc.	60,000	576,600	832,800
		3,349,330	3,851,560
Total Common Stock		16,600,370	19,857,577
Income Trusts (23.5%)			
Financials (19.7%)			
Allied Properties Real Estate Trust	30,000 \$	603,249 \$	713,100
Artis Real Estate Investment Trust	50,000	535,694	700,000
Calloway Real Estate Investment Trust	40,000	785,737	1,006,000
Extendicare Real Estate Investment Trust	76,000	800,623	788,120
H&R Real Estate Investment Trust	49,000	926,531	1,056,440

Primaris Retail Real Estate Investment Trust	30,000	580,865	630,300
Pure Industrial Real Estate Trust Units	235,000	679,815	989,350
		4,912,513	5,883,310
Utilities (3.8%)			
Brookfield Renewable Power Fund	50,000	955,399	1,150,000
Total Income Trusts		5,867,912	7,033,310
TOTAL INVESTMENT PORTFOLIO (97.8%)		24,842,866	29,240,864
Cash (-1.0%)		-307,452	-307,452
Other Assets less Other Liabilities (3.2%)		968,187	968,187
NET ASSETS (100.0%)		\$ 25,503,601	\$ 29,901,599

* Cost includes transaction costs

Redwood Diversified Income Fund
Notes to Financial Statements
June 30, 2011 (unaudited) and December 31, 2010

1. FORMATION OF THE FUND

The Redwood Diversified Income Fund (the "Fund") is an open ended mutual fund trust established under the laws of the Province of Ontario by a Declaration of Trust dated June 30, 2004, as amended and restated on October 8, 2004. Redwood Asset Management Inc., (the "Manager"), is the trustee and manager of the Fund and LDIC Inc. is the portfolio advisor of the Fund. The custodian of the Fund is RBC Dominion Securities Inc.

The investment objective of the Fund is to provide a consistent stream of income with potential for capital appreciation by investing in Canadian income producing securities and Canadian equities.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles within the framework of the significant accounting policies summarized below:

Valuation of Investments

- (a) 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.
- (b) Securities not listed upon a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner established by the Manager.
- (c) Short-term notes, treasury bills and bonds are valued at the average bid quotations from recognized investment dealers.
- (d) Warrants which do not have a quoted bid price are carried at the difference between the exercise price and the quoted bid price of the underlying security if the exercise price is lower than the quoted bid price.

Fair Value

Financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, whether directly or indirectly.

Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

The breakdown of the Fund into the three - level hierarchy is provided in Note 11.

Redwood Diversified Income Fund
Notes to Financial Statements
June 30, 2011 (unaudited) and December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs are expensed and are included 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 transaction costs.

Investment Transactions and Income Recognition

Investment transactions are accounted for on a trade date basis. Interest income is accrued daily. Dividend income is recorded on the ex-dividend date. Realized gains and losses on investments, and unrealized appreciation and depreciation on investments, are calculated on an average cost basis.

Valuation of Fund Units for Transaction Purposes

Net asset value per unit of each series is calculated daily (unless such day is not a business day, in which case the last business day prior to such day is used) (each a "valuation day") by dividing the net asset value of each series by the outstanding units of that series. The net asset value of each series is computed by calculating the fair value of the assets less liabilities of the series.

In addition, at the reporting period date for financial statement purposes, only the net assets are determined in accordance with CICA Handbook Section 3855. A reconciliation between the net asset value and the net assets for each series is described in Note 3.

Other Assets and Liabilities

Assets and liabilities, other than investments, are reported at cost, which, due to their short-term nature, approximates fair value.

Increase (Decrease) in Net Assets from Operations Per Unit

Increase (decrease) in net assets from operations per unit is based on the increase (decrease) in net assets from operations attributable to each series of the Fund divided by the weighted average number of units of that series outstanding during the year.

Redwood Diversified Income Fund
Notes to Financial Statements
June 30, 2011 (unaudited) and December 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. Foreign exchange gains and losses on the sale of investments are included in "Net realized gain (loss) on sale of investments." Unrealized foreign exchange gains and losses are included in "Change in unrealized appreciation (depreciation) in value of investments."

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amount of income and expenses during the year. Significant estimates include the valuation of investments. Actual results could differ from those estimates.

3. RECONCILIATION OF NET ASSET VALUE

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the net asset value and the net assets of an investment fund is required for all financial reporting periods. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires the use of bid prices (for investments held) and ask prices (for investments sold short) for the fair valuation of investments, rather than closing sale prices as currently used for the purpose of determining net asset value. These changes account for the difference between net asset value and net assets.

The reconciliation between net asset value and net assets is as follows:

	Total		
	Net Asset Value	S.3855 Adjustment	Net Asset
December 31, 2010 - Series A	\$ 20,984,455	\$ (53,608)	\$ 20,930,847
December 31, 2010 - Series F	5,704,650	(14,596)	5,690,054
	\$ 26,689,105	\$ (68,204)	\$ 26,620,901
June 30, 2011 - Series A	\$ 23,321,274	\$ (45,992)	\$ 23,275,282
June 30, 2011 - Series F	6,639,432	(13,115)	6,626,317
	\$ 29,960,706	\$ (59,107)	\$ 29,901,599

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3. RECONCILIATION OF NET ASSET VALUE (Cont'd)

	Per Unit		
	Net Asset Value	S.3855 Adjustment	Net Asset
December 31, 2010 - Series A	\$ 9.86	\$ (0.02)	\$ 9.84
December 31, 2010 - Series F	\$ 7.82	\$ (0.02)	\$ 7.80
June 30, 2011 - Series A	\$ 9.89	\$ (0.02)	\$ 9.87
June 30, 2011 - Series F	\$ 7.82	\$ (0.02)	\$ 7.80

4. MANAGEMENT AND PERFORMANCE FEES AND RELATED PARTY TRANSACTIONS

In accordance with a management agreement dated September 10, 2008, the Manager is entitled to a weekly management fee for Series A and F units equal to 1/365 of 2.25% and 1/365 of 1.25%, respectively, of the net asset value ("NAV") of each series of units, calculated on the close of each business day. The Fund does not pay a management fee in respect of Series O units, if any, as each Series O unitholder pays a negotiated management fee directly to the Manager.

Included in accrued expenses at June 30, 2011 is \$55,499 (2010 - \$53,154) of management fee payable to the Manager.

In addition to the management fee, the Manager is entitled to a performance fee from Series A and F units. Performance fees for Series O units, if any, are paid directly by the unitholders, where applicable. The Simplified Prospectus outlines that the performance fee is calculated as 20% of the amount by which each series' NAV at the end of the fiscal year, prior to distributions, exceeds each series' target NAV. The target NAV shall be calculated by multiplying each series' NAV, net of performance fees paid, as at the last performance fee payment date, by the sum of one plus the return of the Fund's "benchmark" over the same period. The "benchmark" for the Fund is calculated as follows: (a) 80% of the return of the S&P/TSX Composite Total Return Index and (b) 20% of the return of the DEX Universe Bond Index (formerly the Scotia Capital Universal Bond Index). Performance fees are accrued weekly such that NAV per series unit on each valuation day will reflect any performance fees payable as at the end of such period. The performance fee is calculated and paid at the end of each fiscal year.

Included in accrued expenses at June 30, 2011 is \$58,361 (2010 - \$15,293) of performance fee payable to the Manager.

Also included in accrued expenses at June 30, 2011 is \$9,689 (2010 - \$11,071) of administration fee payable to the Manager.

These transactions are measured at the exchange amounts, and occur within the normal course of operations.

Redwood Diversified Income Fund
Notes to Financial Statements
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5. EXPENSES OF THE FUND

The Fund is responsible for the payment of all direct expenses related to its operations, such as brokerage commissions and fees, taxes, audit and legal fees, safekeeping and custodial fees and other expenses. Each series of units of the Fund is responsible for the operating expenses that relate specifically to that series. The Manager pays all Series O operating expenses.

Certain administration and custodian fees incurred with the Fund's trustee have been absorbed by the Manager. These expenses are noted on the Statements of Operations.

6. BROKERAGE COMMISSIONS ON SECURITIES TRANSACTIONS

No soft dollar services were included in the Transaction costs on the Statement of Operations.

7. UNITHOLDERS' EQUITY

Each unitholder in the Fund acquires units that represent an undivided interest in the net assets of the Fund. The Fund is permitted to have an unlimited number of series of units and may issue an unlimited number of units in each series. The Fund may issue fractional units so that subscription funds may be fully invested. As of June 30, 2011, the Fund was authorized to issue Series A, F and O units in accordance with the June 16, 2010 Simplified Prospectus.

Series A units of the Fund are available to all investors. Series O units are special purpose securities not sold to the general public. Each unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions made by the Fund. Units may be transferred from one fund to another within the group of funds managed by the Manager or redeemed at the option of the unitholder.

Series F units of the Fund are available to investors who: (i) participate in a dealer sponsored "fee for service" or wrap program and who periodically pay their dealer an asset based fee rather than commissions on each transaction; and (ii) any other groups of investors for whom the Manager does not incur distribution costs. Series F units are designed for the investors participating in programs that already charge a fee for the advice they are receiving and do not require the Manager to incur distribution costs in the form of trailer commissions to dealers.

Units of the Fund are issued and redeemed at the net asset value per unit, which is determined at the close of business on a daily basis.

During the periods ended June 30, 2011 and December 31, 2010, the following activity took place with respect to Series A units:

Redwood Diversified Income Fund
Notes to Financial Statements
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	2011	2010
Units outstanding, beginning of period	2,128,172	1,665,136
Issued during the period	385,226	772,379
Reinvested during the period	44,974	80,198
Redemptions during the period	(199,638)	(389,541)
Units outstanding, end of period	2,358,734	2,128,172

During the periods ended June 30, 2011 and December 31, 2010, the following activity took place with respect to Series F units:

	2011	2010
Units outstanding, beginning of period	729,087	567,222
Issued during the period	111,777	166,151
Reinvested during the period	20,995	31,600
Redemptions during the period	(12,697)	(35,885)
Units outstanding, end of period	849,162	729,087

At June 30, 2011 and December 31, 2010, no Series O units were issued or outstanding.

8. DISTRIBUTIONS OF THE FUND

Series A and Series F unitholders receive monthly distributions equal to \$0.06 per unit of the Fund. The Fund has not established a fixed monthly distribution in respect of the Series O units. Any excess net investment income and net realized capital gains will be distributed to all unitholders on the last business day of each calendar year to unitholders of record as at the close of business on the second last business day of the year.

Distributions are automatically reinvested in units of the Fund unless a unitholder has requested in writing that his or her distribution be made in cash.

9. REDEMPTION OF UNITS OF THE FUND

If unitholders redeem units within 180 days of acquisition the Fund may charge a short term trading fee of 5% of the net asset value of the units redeemed. This fee is paid to the Fund.

Redwood Diversified Income Fund
Notes to Financial Statements
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10. TAXATION OF THE FUND

The Fund is a mutual fund trust within the meaning of the Income Tax Act (Canada) (the "Act"). The Fund is subject to tax on its net taxable income, including net realized capital gains, for the calendar year which is not paid or payable to its unitholders as of the end of the calendar year. In accordance with the terms of the Declaration of Trust, all of the net investment income and net taxable capital gains will be paid or payable to unitholders in the taxation year so that no income tax will be payable by the Fund. Losses incurred by the Fund cannot be allocated to unitholders, but may be carried forward and applied to reduce future year's taxable income. Occasionally, more income is distributed than earned by the Fund. This distribution is called a return of capital and is not taxable to the unitholder.

As at December 31, 2010, there are net capital losses of approximately \$2,026,665 available to the Fund for carry forward to future years. Capital losses may be carried forward indefinitely and used to reduce future capital gains.

Under the Act, the Fund may also be liable for alternative minimum tax. As at December 31, 2010, the Manager has estimated that this liability is not significant to the Fund.

11. FINANCIAL INSTRUMENTS

Fair Value

Financial instruments consist of cash, dividends and interest receivable, subscriptions receivable, accrued expenses and distributions payable. There are no significant differences between the carrying values of these instruments and their fair values. Investments are carried at their fair values as described in Note 2.

The following table presents the Fund's financial instruments measured at fair value classified by the fair value hierarchy set out in CICA Section 3862:

June 30, 2011

	Level 1	Level 2	Level 3	Total
Fixed income	\$ -	\$ 2,349,977	\$ -	\$ 2,349,977
Canadian equities	26,890,887	-	-	23,695,617
	\$ 26,890,887	\$ 2,349,977	\$ -	\$ 29,240,864

December 31, 2010

	Level 1	Level 2	Level 3	Total
Fixed income	\$ -	\$ 2,590,891	\$ -	\$ 2,590,891
Canadian equities	26,890,887	-	-	26,890,887
	\$ 23,695,617	\$ 2,590,891	\$ -	\$ 26,286,508

There have been no transfers between level 1 and level 2 during the period ended June 30, 2011 and December 31, 2010.

11. FINANCIAL INSTRUMENTS (cont'd)

Risk Management and Disclosures

The Fund's activities expose it to a variety of financial risks that are associated with its investment strategies, financial instruments and the markets in which it invests. The level of risk depends on the Fund's investment objectives and the types of securities it invests in. The value of investments within the Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market and company news related to specific securities within the Fund. Significant risks that are relevant to the Fund and the related risk management practices employed by the Fund are summarized in the Simplified Prospectus and are discussed below.

(a) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with a fund.

Where a Fund invests in debt instruments, this represents the main concentration of credit risk. The fair value of debt instruments includes consideration of the credit worthiness of the issuer and, accordingly, represents the maximum credit risk exposure of a fund.

As at June 30, 2011 and December 31, 2010, the Fund did not have any significant investments in debt instruments and therefore, no significant exposure to credit risk.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment, and payment is made on a purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligation.

The Fund limits its exposure to credit loss by placing its cash with high credit quality institutions. The carrying amounts of other assets also represent the maximum credit risk exposure as they will be settled in the short-term.

(b) Liquidity Risk

Liquidity risk is defined as the risk that a fund may encounter difficulties in meeting the obligations associated with its financial liabilities on time or at a reasonable price.

The Fund is exposed to daily cash redemptions of redeemable units. The units of the Fund are issued and redeemed on demand at the then current net asset value per unit at the option of the holder. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed of. In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. Accordingly, the Fund's liquidity risk is considered minimal.

In addition, the Fund has financial liabilities outstanding including accrued expenses and distributions payable. These financial liabilities are all current and due within 30 days.

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11. FINANCIAL INSTRUMENTS (cont'd)

(c) Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or the fair values of financial instruments.

Interest rate risk arises when a fund invests in interest-bearing financial instruments. A 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. There is minimal sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates.

The majority of the Fund's financial assets and liabilities are 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 as at June 30, 2011 and December 31, 2010.

(d) Currency Risk

Currency risk corresponds to the risk that the fair value or future cash flows of a financial instrument, denominated in a currency other than the Canadian dollar, which is the Fund's functional currency, will fluctuate because of changes in foreign exchange rates.

Changes in the value of the Canadian dollar compared to foreign currencies will affect the value, in Canadian dollar terms, of any foreign securities held in the Fund. These fluctuations may reduce, or even eliminate, any return the Fund has earned on foreign securities. Currency exposure may increase the volatility of foreign investments relative to Canadian investments and can also affect the relative competitive position of companies held by the Fund.

As at June 30, 2011 and December 31, 2010, the Fund did not have any significant exposure to currency risk.

(e) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The Manager moderates this risk through a careful selection of securities within the parameters of the Fund's investment strategies and through diversification of the investment portfolios.

Management's best estimate of the effect on net assets as at June 30, 2011, due to a reasonably possible increase or decrease of 5% in the equity markets, with all other variables held constant, would approximately amount to an increase or decrease of \$1,495,080 (2010 - \$1,331,045) respectively. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

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12. CAPITAL MANAGEMENT

Units issued and outstanding represent the capital of the Fund. The Fund has no restrictions or specific capital requirements and is authorized to issue an unlimited number of units of each class, as described in Note 6. Restrictions and specific requirements on capital for each class are only applicable for minimum subscriptions as outlined in the Simplified Prospectus. The Statements of Changes in Net Assets and Note 6 outline the relevant changes in the Fund's units for the year. In accordance with the Fund's investment objective, portfolio management of the Fund's capital will encompass appropriate investing of subscriptions and the maintenance of sufficient liquidity levels for capital redemptions.

13. STATEMENT OF PORTFOLIO TRANSACTIONS

In accordance with Regulations under the Securities Act (Ontario), an unaudited Statement of Portfolio Transactions for the period ended June 30, 2011 will be provided without charge by writing to the Manager at:

Redwood Asset Management Inc.
120 Adelaide Street West
Suite 2400, P.O. Box 23
Toronto, ON M5H 1T1

14. INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008 the Canadian Accounting Standards Board ("AcSB") has confirmed that use of the International Financial Reporting Standards ("IFRS") will be required in 2011 for all publicly accountable profit-oriented enterprises. The IFRS will replace Canadian Generally Accepted Accounting Principles ("GAAP"). IFRS becomes effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

As of December 31, 2009 the manager has initiated the process of developing a changeover plan to IFRS to meet the CICA deadline and reporting requirements. The key components of these designated reporting changes will include identifying and assessing differences between the required applicable IFRS standards with current internal accounting policies and procedures. Once the evaluation of the changeover to the the overall operations is complete, the required adopted standards will be implemented. These designated changes will be reflected in the December 31, 2010 financial statements and beyond.

15. COMPARATIVE FIGURES

Prior year figures have been reclassified to conform with current year's financial statement presentation. Net assets as previously reported has not been impacted.