

Redwood Global Small Cap Fund

Semi-Annual Financial Statements

June 30, 2011 (Unaudited)

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

Redwood Global Small Cap Fund
Statements of Net Assets
As at June 30, 2011 (unaudited) and December 31, 2010

	2011	2010
Assets		
Investments	\$ 29,078,095	\$ 14,537,794
Cash	3,258,707	4,254,901
Dividends and interest receivable	23,220	0
Subscriptions receivable	270,943	350,530
Receivable for investments sold	2,101,289	667,133
	34,732,254	19,810,358
Liabilities		
Accrued expenses (Note 4)	64,033	1,169,198
Distributions payable	0	2,257,817
Redemptions payable	52,547	2,196
Payables for investments purchased	4,541,339	370,550
	4,657,919	3,799,761
Net assets (Note 3)	\$ 30,074,335	\$ 16,010,597
Net assets per series (Note 3)		
Series A	\$ 18,992,646	\$ 9,061,552
Series F	11,081,689	6,949,045
	\$ 30,074,335	\$ 16,010,597
Net assets per unit (Note 3 and 7)		
Series A	\$ 13.56	\$ 17.22
Series F	\$ 13.54	\$ 17.07

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

Jonathon Clapham
 Director (Signed)

Peter Shippen
 Director (Signed)

(See accompanying notes to financial statements)

Redwood Global Small Cap Fund
Statements of Operations
For the Six Months Ended June 30 (unaudited)

	2011	2010
Investment Income		
Income		
Dividend	\$ 50,796	\$ 1,634
Early redemption fee	65,730	4,922
Interest	77,770	(36)
	194,296	6,520
Expenses (Note 5)		
Management fees	323,796	58,843
Other administrative costs	26,092	17,948
Custody fees	10,350	6,300
Filing fees	18,988	0
Legal fees	1,371	0
Audit fees	20,511	0
Settlement fees	2,095	1,059
Performance fees	0	22,813
	403,203	106,963
Expenses waived or absorbed by the Manager	(4,415)	0
	398,788	106,963
Net investment loss	(204,492)	(100,443)
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on sale of investments	(1,971,126)	1,309,257
Transaction costs	(878,402)	(184,421)
Change in unrealized depreciation in value of investments	(5,723,522)	(1,136,697)
Net loss on investments	(8,573,050)	(11,861)
Decrease in net assets from operations	\$ (8,777,542)	\$ (112,304)
Decrease in net assets from operations per series		
Series A	\$ (5,735,411)	\$ (79,744)
Series F	(3,042,131)	(32,560)
	\$ (8,777,542)	\$ (112,304)
Decrease in net assets from operations per unit		
Series A	\$ (4.67)	\$ (0.30)
Series F	(4.14)	(0.12)
Weighted average number of units outstanding		
Series A	1,227,516	265,925
Series F	735,520	270,180

(see accompanying notes to financial statements)

Redwood Global Small Cap 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
Decrease in net assets from operations	\$ (5,735,411)	\$ (79,744)	\$ (3,042,131)	\$ (32,560)	\$ (8,777,542)	(112,304)
Capital transactions (Note 6)						
Issue of units	16,261,547	1,789,974	7,213,896	1,304,959	23,475,443	3,094,933
Redemptions of units	(1,884,886)	(929,586)	(1,007,093)	(88,109)	(2,891,979)	(1,017,695)
Distributions (Note 7)	955	0	1	0	956	0
Reinvested distributions	1,288,889	0	967,971	0	2,256,860	0
	15,666,505	860,388	7,174,775	1,216,850	22,841,280	2,077,238
Increase in net assets for the period	9,931,094	780,644	4,132,644	1,184,290	14,063,738	1,964,934
Net assets, beginning of period	9,061,552	2,167,150	6,949,045	2,731,848	16,010,597	4,898,998
Net assets, end of period	\$ 18,992,646	\$ 2,947,794	\$ 11,081,689	\$ 3,916,138	\$ 30,074,335	\$ 6,863,932

(See accompanying notes to financial statements)

Redwood Global Small Cap Fund

Statement of Investments

As at June 30, 2011 (unaudited)

	Number of Shares/ Par Value	Cost*	Fair Value
Fixed Income (1.7%)			
Canadian Bonds (1.7%)			
CanAm Coal Corp. 9.50% April 8, 2014	50,000 \$	500,000 \$	500,000
Total Fixed Income (1.7%)	\$	500,000 \$	500,000
Canadian Equities (85.7%)			
Materials (41.5%)			
3P International Energy Corporation	1,500,000 \$	673,207 \$	577,500
3P International Energy Corporation Warrants	1,000,000	-	-
Abacus Mining & Exploration Corporation Warrants	500,000	-	-
Alderon Resource Corporation	200,900	567,225	596,673
American Vanadium Corporation	260,000	351,000	358,800
American Vanadium Corporation Warrants	130,000	-	-
Axmin Inc. Warrants	1,100,000	-	-
Balmoral Resources Ltd.	425,000	609,458	378,250
Balmoral Resources Ltd. Warrants	62,500	-	-
Bayfield Ventures Corp.	600,000	515,520	450,000
Brigus Gold Corp. Warrants	60,000	-	-
CanAm Coal Corp. Warrants	83,300	-	-
Canfor Pulp Products Inc.	76,300	1,332,459	1,333,724
Capstone Mining Corporation	200,000	611,240	714,000
Chemtrade Logistics Income Fund	30,000	434,274	432,000
Constantine Metal Resources Ltd. Warrants	225,000	-	-
Dalradian Resources Inc. Warrants	20,000	-	1,000
EACOM Timber Corporation	486,000	257,506	143,370
EastCoal Inc.	1,355,000	573,500	880,750
EastCoal Inc. Warrants	755,000	-	286,900
Ethiopian Potash Corporation	122,100	97,325	100,122
Explor Resources Inc. Warrants	45,909	-	-
Foundation Resources Inc. Warrants	200,000	-	-
Frontier Rare Earth Warrants	37,500	-	7,125
Kilo Goldmines Ltd. Warrants	95,000	-	-
Kinross Gold Corporation Warrants Class C	1,143	-	1,303
Klondex Mines Ltd.	472,000	1,227,845	1,463,200
Levon Resources Ltd.	250,000	447,805	425,000
Lundin Mining Corporation	120,000	841,116	886,800
MacArthur Minerals Ltd. Warrants	50,000	-	-
Montero Mining and Exploration Ltd. Warrants	264,000	-	-
North American Tungsten Corporation Ltd. Warrants	150,000	-	6,000
Oceanic Iron Ore Corporation Warrants	200,000	-	-
Petaquilla Minerals Ltd. Warrants.	200,000	-	-
Prima Colombia Harwood Inc.	2,211,000	599,835	375,870
Prodigy Gold Inc.	1,400,000	877,460	756,000
Rio Alto Mining Ltd.	400,000	819,000	820,000
Rodinia Lithium Inc. Warrants	500,000	-	-
Rodinia Lithium Inc. Warrants	92,500	-	-
Roxgold Inc.	1,067,000	800,250	453,475
Roxgold Inc. Warrants	533,500	-	-
Silver Quest Resources Ltd.	25,000	26,750	16,750
Taseko Mines Limited	200,000	904,790	962,000
U308 Corporation Warrants	100,000	-	-
Ucore Rare Metals Inc. Warrants	87,500	-	4,375
Uranium North Resources Corp. Warrants	175,000	-	-
West African Iron Ore Corp. Warrants	275,000	-	-
West African Iron Ore Corporation	275,000	127,565	63,250
Windstorm Resources Inc. Warrants	312,500	-	-

		12,695,130	12,494,237
Energy (28.8%)			
Black Diamond Group Ltd	17,500 \$	476,340 \$	551,075
Brownstone Energy Inc.	380,000	423,858	300,200
Brownstone Energy Inc. Warrants	190,000	-	-
Compass Petroleum Ltd.	392,100	818,160	619,518
Donnybrook Energy Inc.	1,100,000	646,786	544,500
Gallic Energy Ltd.	1,000,000	422,178	290,000
Gallic Energy Ltd. Warrants April 13, 2013	500,000	-	-
Grande Cache Coal Corporation	60,000	523,664	525,600
Ithaca Energy Inc.	995,800	2,377,897	2,061,306
Paramax Resources Ltd. Warrants	237,500	-	-
Parkland Fuel Corp	38,000	467,335	471,200
Quetzal Energy Ltd.	5,000,000	618,571	400,000
RMS Systems Inc.	1,100,000	790,695	1,100,000
Second Wave Petroleum, Inc.	410,000	1,078,685	1,061,900
SkyWest Energy Corp.	550,000	241,560	258,500
Spartan Oil Corp.	184,700	477,444	483,914
Tuscany International Drilling Inc. Warrants	65,000	-	2,275
		9,363,172	8,669,988
Financials (8.0%)			
Xnergy Ltd.	550,000	2,182,884	2,387,000
Information Technology (5.8%)			
Cortex Business Solutions Inc.	3,000,000	1,416,600	1,050,000
Zarlink Semiconductor Inc.	300,000	739,360	702,000
Cortex Business Solutions Inc. Warrants	1,000,000	-	-
		2,155,960	1,752,000
Industrials (1.6%)			
Bennett Environmental Inc. Warrants	22,000	-	2,200
Chorus Aviation Inc. Class B	95,000	485,536	481,650
		485,536	483,850
Total Canadian Equities		26,882,681	25,787,075
Foreign Equities (9.3%)			
Materials (9.3%)			
FAR Ltd.	4,000,000	470,726	476,003
African Petroleum Corporation Ltd.	1,030,000	983,347	948,592
Iberian Minerals Corp.	1,095,000	983,000	974,550
Rio Novo Gold Inc. Warrants	37,500	-	16,875
Talon Metals Corp. Warrants	75,000	-	-
EMED Mining Public Limited	2,500,000	383,800	375,000
Total Foreign Equities		2,820,873	2,791,020
Total Investment Portfolio (96.7%)		30,203,553	29,078,095
Cash (10.8%)		3,258,707	3,258,707
Other Assets (net) (-7.5%)		(2,262,467)	(2,262,467)
Net Assets (100.0%)		\$ 31,199,793	\$ 30,074,335

*Cost includes transaction costs

See accompanying notes

Redwood Global Small Cap Fund
Notes to Financial Statements
June 30, 2011 (unaudited) and December 31, 2010

1. FORMATION OF THE FUND

The Redwood Global Small Cap Fund (the "Fund") is an open ended mutual fund trust governed by the laws of Ontario pursuant to an amended and restated declaration of trust (the "Declaration of Trust") dated May 21, 2008. 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 achieve long term capital growth by investing primarily in securities of small cap issuers in Canada and around the world.

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) 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 can 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, either 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.

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 for each series is calculated on the last business day of each week (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 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 outstanding during the period of that series.

Redwood Global Small Cap 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 Assets
December 31, 2010 - Series A	\$ 9,131,714	\$ (70,162)	\$ 9,061,552
December 31, 2010 - Series F	7,002,834	(53,789)	6,949,045
	\$ 16,134,548	\$ (123,951)	\$ 16,010,597
June 30, 2011 - Series A	\$ 19,298,131	\$ (305,485)	\$ 18,992,646
June 30, 2011 - Series F	11,259,962	(178,273)	11,081,689
	\$ 30,558,093	\$ (483,758)	\$ 30,074,335

Redwood Global Small Cap Fund
Notes to Financial Statements
June 30, 2011 (unaudited) and December 31, 2010

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

	Per Unit		
	Net Asset Value	S.3855 Adjustment	Net Assets
December 31, 2010 - Series A	\$ 17.35	\$ (0.13)	\$ 17.22
December 31, 2010 - Series F	\$ 17.20	\$ (0.13)	\$ 17.07
June 30, 2011 - Series A	\$ 13.78	\$ (0.22)	\$ 13.56
June 30, 2011 - Series F	\$ 13.75	\$ (0.21)	\$ 13.54

4. MANAGEMENT AND PERFORMANCE FEES AND RELATED PARTY TRANSACTIONS

In accordance with a management agreement dated May 21, 2008, the Manager is entitled to a weekly management fee for Series A and F equal to 1/365 of 2.25% and 1.25%, respectively, of the net asset value ("NAV") of each series 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 \$52,668 (2010 - \$28,783) of management fee payable to the Manager.

In addition to the management fee, the Manager is entitled to a performance fee. 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 Small Cap Index and (b) 20% of the return of the MSCI World Small Cap 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.

The Fund assesses the performance fees at the unitholder level, rather than at the Fund level, where each individual purchase of units is used for the purposes of calculating performance fees. Accordingly, performance fees only arise on those units whose NAV at the end of the fiscal year exceeds the target NAV as at the last performance fee payment date or, in the absence of such, the NAV at the purchase date. The Simplified Prospectus definition of the performance fees will be updated by the Manager to better reflect the calculation used by the Manager.

Included in accrued expenses at June 30, 2011 is \$ nil (2010 - \$1,140,413) of performance fee payable to the Manager.

Also included in accrued expenses at June 30, 2011 is \$ 11,365 (2010 - \$ nil) of administration fee payable to the Manager.

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

Redwood Global Small Cap Fund
Notes to Financial Statements
June 30, 2011 (unaudited) and December 31, 2010

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 related 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 Simplified Prospectus dated June 16, 2010.

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: (a) 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 (b) any other group of investors for whom the Manager does not incur distribution costs. Series F units are designed for 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 weekly basis.

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

	2011	2010
Units outstanding, beginning of period	526,368	188,722
Issued during the period	994,493	429,216
Redemptions during the period	(120,467)	(91,571)
Units outstanding, end of period	1,400,394	526,368

Redwood Global Small Cap Fund
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June 30, 2011 (unaudited) and December 31, 2010

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	407,049	235,276
Issued during the period	475,813	218,693
Redemptions during the period	(64,137)	(46,920)
Units outstanding, end of period	818,725	407,049

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

8. DISTRIBUTIONS OF THE FUND

Distributions of net investment income, net realized capital gains and return of capital are made annually on the last business day of each calendar year to unitholders of record of Series A, F and O units as of the close of business on the second last business day of the year. At the Manager's discretion, other distributions may be made from time to time in any calendar 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 six months of purchase, the Fund may charge a short term trading fee of up to 5% of the value of the units redeemed. This fee is paid to the Fund.

10. TAXATION OF THE FUND

The Fund is an open-ended unit 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 their unitholders as of the end of the calendar year. In accordance with the terms of the Declaration of Trust all of the net 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 non-capital of approximately \$27,150 available to the Fund for carry forward which can be applied to future years. Non-capital losses may be offset against net income and capital gains for a restricted period of time, expiring between 2028 and 2029.

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.

Redwood Global Small Cap Fund
Notes to Financial Statements
June 30, 2011 (unaudited) and December 31, 2010

11. FINANCIAL INSTRUMENTS

Fair Value

Financial instruments consist of cash, dividends and interest receivable, subscriptions receivable and accrued expenses. There are no significant differences between the carrying values of these instruments and their fair values. Investments are carried at their fair value 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
Canadian equities	\$25,478,172	\$ 308,903	\$ -	\$25,787,075
Foreign equities	2,774,145	16,875	-	2,791,020
Canadian bonds	-	500,000	-	500,000
	\$28,252,317	\$ 825,778	\$ -	\$29,078,095

December 31, 2010

	Level 1	Level 2	Level 3	Total
Canadian equities	\$13,192,310	\$ 713,375	\$ -	\$13,905,685
Foreign equities	339,749	-	-	339,749
Canadian bonds	-	292,360	-	292,360
	\$13,532,059	\$ 1,005,735	\$ -	\$14,537,794

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

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.

11. FINANCIAL INSTRUMENTS (Cont'd)

(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 invest in debt instruments and therefore, had 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 administration fees, performance fees and management fees. These financial liabilities are all current and due within 30 days.

(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.

11. FINANCIAL INSTRUMENTS (Cont'd)

(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. At June 30, 2011, approximately 95% of the Fund's net assets are subject to other price risk (2010 – 89%)

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 \$1,314,354 (2010 - \$712,000) respectively. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

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.

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13. ECONOMIC DEPENDENCE

As at June 30, 2011, 13% (2010 - 9%) of Series A units and nil % (2010 - 27%) of Series F units outstanding are held by one investor, an employee of the portfolio advisor of the Fund.

14. 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

15. 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.

In September 2010, the AcSB deferred the adoption of IFRS for the investment fund by one year. In January 2011, AcSB extended by one year the deferral of the adoption of IFRS now becomes effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager does not expect that the Net Assets or Net Assets Value per unit will be affected by the changeover to IFRS. Currently, the Manager expects that the effect of IFRS on the Fund's financial statements will result in additional disclosures and potentially different presentation of unitholder interests and certain other items.