



Redwood Diversified Income Fund

Interim Management Report of Fund Performance

This interim management report of fund performance contains financial highlights but does not contain either interim or annual financial statements of the investment fund. The interim financial statements are enclosed along with this report.

Security holders may contact Redwood Asset Management Inc. to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure by calling 1-877-313-7011, by writing to us at 120 Adelaide Street West, Suite 2400, P.O. Box 23, Toronto, ON M5H 1T1, or by visiting our website at www.redwoodasset.com or SEDAR at www.sedar.com.

Result of Operations

The Redwood Diversified Income Fund returned 3.89% for the series A and 4.50% for the F series during the first half of 2011, which was ahead of our benchmark which returned 0.42%. Investor sentiment fell sharply in Q2 with concerns of a Greek debt default and fears of a looming US recession, despite a second round of quantitative easing measures, which sent international equity markets down, including the TSX which declined 5.8%. In what was a stormy Q2, investor appetite for income generating assets provided modest shelter from stock price declines and the Fund outperformed the TSX by 3.32%.

Emphasis remains on income producing equities, high quality REITs, and former income trusts. Until bond yields become more attractive we believe better value resides in stable dividend paying equities. In most cases growth in earnings and dividends will also contribute to better returns.

Recent Developments

We are passing through another challenging and uncertain economic period. As you will have witnessed over the past few weeks and months governments in the United States and Europe have been struggling with debt and deficit issue. The root cause is chronic government over spending coupled with a reluctance to levy taxes and compounded by the aftermath of the credit crises and recession of 2008. Now government requires a combination of expenditure reduction and revenue increase to achieve fiscal balance. Both spending cuts and tax increases are resisted by many in democratic countries.

Asian economies lead by China and India continue to grow strongly. An important bright spot but in the short term not sufficient to support commodity prices. Both oil and copper have dropped sharply. This will hurt Canadian exports and the Canadian economy in the short term. Our medium term view of commodity prices remains very positive. We are fundamental value investors focused on individual companies with the ability to grow their businesses and earnings. While not immune to the swings of fear and greed in equity markets we try to stay focused on the realities of business fundamentals. Recent events favour equities over bonds as interest rates will remain lower longer in North America. We believe Canada and Canadian companies will continue to grow and prosper despite debt issues in Europe and the United States

Related Party Transactions

The Manager and the Fund's investment advisor, LDIC Inc. (the "Investment Advisor") are deemed to be related parties to the Fund. See "Management Fees".

As of June 30, 2011, Michael Decter, Portfolio Manager of the Fund, held a total of 58,361.4730 units of the Fund

Management Fees

All management fees are based on the NAV of a series of units, calculated on each Valuation Date and paid monthly.

The management fee for the fund is 2.25% for Series A and 1.25% for Series F. The breakdown of the services received in consideration of the management fee, as a percentage of the management fee is:

	Series A	Series F
Management of Fund	33.33%	60%
Advisor of Fund	22.22%	40%
Trail to Broker	44.45%	N/A

Financial Highlights (Unaudited)

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

Net Asset Value (NAV) per Unit Class A	Jun 2011	Dec 2010	Dec 2009	Dec 2008	Dec 2007	Dec 2006
Net asset value, beginning of year	\$ 9.84	\$ 9.22	\$ 7.12	\$ 12.12	\$ 11.57	\$ 11.38
Increase (decrease) from operations:						
Total revenue	0.25	0.60	0.58	0.46	0.41	0.61
Total expenses	-0.17	-0.31	-0.32	-0.42	-0.63	-0.33
Realized gains (losses)	0.49	0.39	-0.51	-1.77	0.54	0.09
Unrealized gains (losses)	-0.18	0.66	3.10	-2.66	0.93	0.35
Total increase (decrease) from operations(1)	0.39	1.34	2.85	-4.39	1.26	0.72
Distributions:						
From income (excluding dividends)	0.00	0.00	0.00	-0.03	0.00	-0.30
From dividends	-0.36	-0.72	-0.72	0.00	0.00	0.00
From capital gains	0.00	0.00	0.00	0.00	-0.14	0.00
Return of capital	0.00	0.00	0.00	-0.69	-0.58	-0.42
Total distributions(2)	-0.36	-0.72	-0.72	-0.72	-0.72	-0.72
Net asset value, end of year	\$ 9.87	\$ 9.84	\$ 9.22	\$ 7.12	\$ 12.12	\$ 11.57

Net Asset Value (NAV) per Unit Class F	Jun 2011	Dec 2010	Dec 2009	Dec 2008	Dec 2007	Dec 2006
Net asset value, beginning of year	\$ 7.80	\$ 7.37	\$ 5.79	\$ 9.92	\$ 10.00	
Increase (decrease) from operations:						
Total revenue	0.21	0.51	0.56	0.38	0.14	
Total expenses	-0.08	-0.16	-0.31	-0.34	-0.16	
Realized gains (losses)	0.41	0.33	-0.49	-1.45	0.10	
Unrealized gains (losses)	-0.18	0.47	2.60	-2.19	0.16	
Total increase (decrease) from operations(1)	0.36	1.15	2.36	-3.60	0.24	
Distributions:						
From income (excluding dividends)	0.00	0.00	0.00	-0.03	0.00	
From dividends	-0.36	-0.72	-0.72	0.00	0.00	
From capital gains	0.00	0.00	0.00	0.00	0.00	
Return of capital	0.00	0.00	0.00	-0.69	-0.24	
Total distributions(2)	-0.36	-0.72	-0.72	-0.72	-0.24	
Net asset value, end of year	\$ 7.80	\$ 7.80	\$ 7.37	\$ 5.79	\$ 9.92	

(1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

(2) Distributions were paid in cash/reinvested in additional units of the Fund, or both.

Ratios and Supplemental Data (Unaudited)

For the periods ended	June 2011	Dec 2010	Dec 2009	Dec 2008	Dec 2007	Dec 2006
Net assets Class A (000's) (1)	\$ 23,275	\$ 20,931	\$ 15,358	\$ 9,982	\$ 22,111	\$ 21,035
Number of units outstanding	2,358,734	2,128,171	1,665,136	1,392,316	1,810,220	1,817,570
Management expense ratio (2)	3.30%	3.16%	4.02%	3.24%	4.24%	2.77%
Management expense ratio before waivers or absorptions	3.44%	3.16%	4.43%	3.25%	4.29%	3.05%
Portfolio turnover rate (3)	90.80%	91.7%	136.70%	189.92%	149.48%	153.44%
Trading expense ratio (4)	0.38%	0.39%	0.59%	0.95%	0.83%	0.84%
Net assets Class F (000's) (1)	\$ 6,626	\$ 5,690	\$ 4,181	\$ 1,188	\$ 4,202	
Number of units outstanding	849,162	729,087	567,222	204,121	420,117	
Management expense ratio (2)	2.11%	2.02%	4.72%	3.32%	4.05%	
Management expense ratio before waivers or absorptions	2.25%	2.02%	5.19%	3.33%	4.10%	
Portfolio turnover rate (3)	90.80%	91.7%	136.70%	189.82%	149.48%	
Trading expense ratio (4)	0.38%	0.39%	0.59%	0.95%	0.83%	

(1) This information is provided as at period end of the year shown.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Past Performance

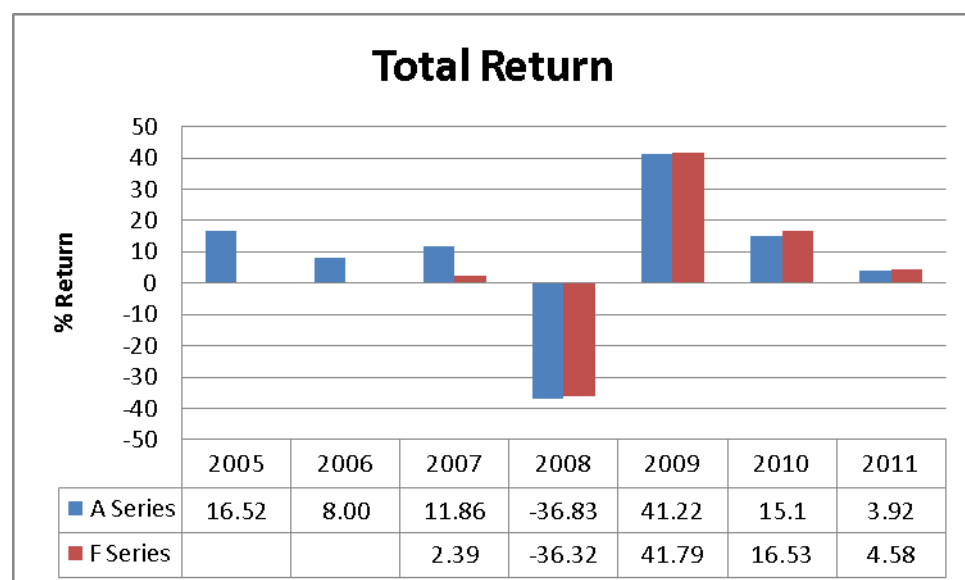
The performance information shown assumes that all distributions made by the investment fund in the periods shown were reinvested in additional securities of the investment fund.

How the investment fund has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The bar chart shows the investment fund's performance for each of the years shown, and illustrates how the investment fund's performance has changed from the end of the 2005 financial year to June 30, 2011.

The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each period.



**Actual returns are net of all fees including performance fees*

Summary of Investment Portfolio (Period Ended June 30, 2011)

Asset Mix

Subgroups	% of Net Asset Value
Energy	35.81%
Materials	6.66%
Industrials	9.19%
Financials	21.54%
Utilities	16.73%
Fixed Income	7.86%
Cash & Cash Equivalent	-1.03%

Top 25 Positions

	Security Name	% of Net Assets
1.	Inter Pipeline Fund	5.05
2.	Crescent Point Energy Trust	4.92
3.	Black Diamond Group	4.57
4.	Provident Energy Ltd.	4.47
5.	Russel Metals (bond)	3.93
6.	Brookfield Renewable Power Fund	3.85
7.	Keyera Corporation	3.70
8.	Cineplex Inc.	3.57
9.	H&R Real Estate Investment Trust	3.55
10.	Baytex Energy Corp.	3.53
11.	Husky Energy Inc.	3.52
12.	Just Energy Group	3.47
13.	Calloway Real Estate Investment Trust	3.37
14.	Algonquin Power & Utilities Corp.	3.36
15.	Pure Industrial REIT	3.30
16.	Canfor Pulp Products Inc.	3.01
17.	TransCanada Corp.	2.83
18.	Vicwest Inc.	2.80
19.	Veresen Inc.	2.79
20.	Extendicare REIT	2.65
21.	Chemtrade Logistics Income Fund	2.56
22.	Capital Power Corp.	2.50
23.	Canacol Energy (bond)	2.50
24.	Allied Properties REIT	2.39
25.	Primaris Retail REIT	2.11

The top 25 positions consist of long positions only.

Percentage of Long Positions

100%

Total Net Asset Value

Total Net Asset Value of the Fund as at June 30, 2011 was \$29,901,599.

*Summary of Investment Portfolio may change due to ongoing portfolio transactions of the investment fund. A quarterly update is available.

Corporate Information

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