

LOM FIXED INCOME FUND LTD.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2006

# LOM FIXED INCOME FUND LTD.

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# Marcum & Kliegman (Cayman)

Certified Public Accountants & Consultants

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
LOM Fixed Income Fund Ltd.

We have audited the accompanying statement of assets and liabilities of LOM Fixed Income Fund Ltd. (the "Fund"), including the schedule of investments, as of December 31, 2006, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LOM Fixed Income Fund Ltd. as of December 31, 2006, and the results of its operations, changes in its net assets, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Marcum & Kliegman LLP*

October 22, 2007

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# LOM FIXED INCOME FUND LTD.

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 2006

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### ASSETS

Investments in securities, at fair value (cost of \$19,881,436)	\$19,653,694	
Cash and cash equivalents	394,368	
Accrued interest receivable	191,842	
Prepaid expenses	<u>3,472</u>	
 TOTAL ASSETS		\$20,243,376

### LIABILITIES

Accounts payable and accrued expenses	<u>46,691</u>
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NET ASSETS	<u>\$20,196,685</u>
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Number of shares in issue	<u>1,733,252.853</u>
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Net asset value per share	<u>\$11.65247</u>
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Approved by the Board of Directors:

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Director

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Director

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

# LOM FIXED INCOME FUND LTD.

## SCHEDULE OF INVESTMENTS

December 31, 2006

Principal Amount or Shares	Description	Cost	Percentage of Net Assets	Fair Value
<u>INVESTMENTS IN SECURITIES</u>				
<u>FIXED INCOME</u>				
<u>CORPORATE BONDS</u>				
United States Dollars				
200,000	Altria Group 5.625% 04Nov08	\$ 200,904	0.99%	\$ 200,800
450,000	(AIG) Intl Lease Finance Corp. 15Mar2009	460,209	2.28	460,184
350,000	BP Capital PLC 4.875% 22Feb08	349,300	1.72	348,313
450,000	General Elec Cap Corp. 4.875% 21Oct2010	446,819	2.21	445,725
425,000	Intl Bk Recon & Develop 2.75% 13Dec2007	413,585	2.06	415,183
260,000	Intl Lease FIN Corp. 4.35% 09/15/2008	256,097	1.27	255,814
112,500	National Westminster Bk 7.375% 10Jan2009	119,197	0.59	118,193
350,000	Merrill Lynch 6.375% 10/15/2008	356,864	1.77	356,580
415,000	Phillip Petro Co. 8.75% 05252010	461,248	2.28	459,945
400,000	Procter & Gamble Co. 3.5 12/15/2008	384,040	1.92	387,560
182,500	Simon Property Group LP 3.75% 30Jan2009	177,178	0.87	176,386
553,000	Toyota Mtr Credit Corp. 6.02% 30Jun2011	559,379	2.76	557,960
500,000	Wachovia Bank 4.375% 15Aug08	498,604	2.44	492,950
	Total Corporate Bonds	<u>4,683,424</u>	<u>23.16</u>	<u>4,675,593</u>
<u>GOVERNMENT OBLIGATIONS</u>				
United States Dollars				
185,000	Atlanta GA Dev 4.625% 01Jul07	185,000	0.91	183,810
653,000	Fannie Mae 3.85% 14Apr2009	637,080	3.15	636,740
425,000	Fannie Mae 5.2% 08Nov2010	423,891	2.09	422,790
425,000	Fannie Mae 5.375%	423,202	2.10	424,673
200,000	Fannie Mae Strnt 5% 27Feb2009	196,860	0.99	199,720
400,000	Freddie Mac 6.25% 05Mar12	404,172	1.98	400,576
650,000	Federal Home Loan Bk 3.75% 18Aug09	632,880	3.13	631,540
1,070,000	US Treasury Bond 4.875% 05152009	1,078,142	5.31	1,072,343
775,000	US Treasury Infl Index 2.375% 15Apr11	782,323	3.89	785,153
250,000	US Treasury Inflation Nts	317,975	1.58	318,098
262,500	US Treasury Inflation Nts 15Jan09	335,678	1.64	332,010
475,000	US Treasury N/B 4.625% 11/15/09	476,087	2.34	473,518
200,000	US Treasury NB 4.875% 15Aug09	201,102	0.99	200,594
1,085,000	US Treasury Note 3% 15Feb09	1,042,076	5.18	1,045,332
	Total Government Obligations	<u>\$ 7,136,468</u>	<u>35.28%</u>	<u>\$ 7,126,897</u>

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

# LOM FIXED INCOME FUND LTD.

## SCHEDULE OF INVESTMENTS, Continued

December 31, 2006

Principal Amount or Shares	Description	Cost	Percentage of Net Assets	Fair Value
<u>INVESTMENTS IN SECURITIES, Continued</u>				
<u>FIXED INCOME, Continued</u>				
<u>MORTGAGE SECURITIES</u>				
United States Dollars				
203,208	ABN Amro 2003/7 A2 (amac 2003-7 A2)	\$ 205,531	0.99%	\$ 199,144
306,466	Balta 2005-4 23A1 5.3831% 25May35	301,554	1.51	304,934
271,423	Bank of America 2004 F 2A7	272,977	1.31	264,976
400,000	CFLX 2005 2 5A3	402,165	1.96	396,000
168,189	CSFB 2003-21 3A1	171,150	0.83	167,611
400,000	CSFB 2005-3 3A32	406,541	1.98	399,500
415,580	Chase Mortgage Finance 5.5% 25Nov35	413,413	2.05	412,725
121,246	Countrywide Asset Backed 25Feb36 5/5%	121,246	0.60	121,246
398,130	FHRR R007 AC Freddie Mac 5.875% 15May2016	400,181	1.98	399,375
379,554	FNBR2006-B1 AB 6% 25Jun16	382,616	1.88	380,503
316,678	FNW 2001-W2 AF6 6.589% 25Oct31	316,017	1.56	315,690
98,376	Fannie Mae 1999 18 A	98,212	0.49	98,468
232,599	Fannie Mae 2003-67 VQ	244,250	1.17	235,653
746,324	Fannie Mae 2005-12 JR	53,540	0.11	22,860
182,470	Fannie Mae 2005-5 PK	176,900	0.89	180,076
146,400	Freddie Mac 1050 HZ	147,229	0.73	147,864
81,652	Freddie Mac 2143 CD	83,829	0.41	81,627
280,385	Freddie Mac 2557 OE	281,816	1.37	277,495
288,944	Freddie Mac 2594 YA	286,761	1.35	271,608
793,263	Freddie Mac 2760 LI	86,125	0.16	32,968
552,902	Freddie Mac 2852 TI	45,619	0.01	1,619
400,000	Freddie Mac FHR 2626 NI 5% 15Jun23	52,213	0.20	41,124
1,727,228	GNR 2006-56 AI 5.5% 11/20/29	210,797	1.05	211,050
305,354	GSR 2005-7F 2A1	303,446	1.50	303,256
217,638	Master Alt 2003-4 2A1	222,694	1.09	219,270
239,565	Master Asset Sec 2002-8 1A2	241,386	1.17	237,169
300,000	MLMI 2004 Opt1 M1 6.08% 25Jun35	301,225	1.49	301,500
37,033	Residential Acc Loans 5.92% 25Jul32 (RALI 2002-Q)	37,025	0.18	37,218
260,192	Residential Asset Sec 2003-A13	259,445	1.28	259,380
35,420	SASC 2003-26A 3A3	35,468	0.17	35,232
297,724	Washington Mutual 2003 AR3 A5	300,545	1.45	293,630
146,668	Wells Fargo 2003-1 1A2 (4.5%)	147,416	0.70	140,984
24,463	Wells Fargo 2003-1 1A8 (8.5%)	26,306	0.12	24,523
295,000	Wells Fargo 2004-S A7 3.5404% 25Sep34	280,416	1.42	285,690
355,000	Wells Fargo 2005-AR10 2A15	345,490	1.71	345,040
	Total Mortgage Securities	<u>\$ 7,661,544</u>	<u>36.87%</u>	<u>\$ 7,447,008</u>

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

# LOM FIXED INCOME FUND LTD.

## SCHEDULE OF INVESTMENTS, Continued

December 31, 2006

Principal Amount or Shares	Description	Cost	Percentage of Net Assets	Fair Value
<u>INVESTMENTS IN SECURITIES, Continued</u>				
<u>INVESTMENT FUNDS</u>				
	Europe			
40,704,488	Baring Directional Fund USD	\$ 400,000	2.00%	\$ 404,196
	<b>TOTAL INVESTMENTS IN SECURITIES</b>	<u>\$19,881,436</u>	<u>97.31%</u>	<u>\$ 19,653,694</u>

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

# LOM FIXED INCOME FUND LTD.

## STATEMENT OF OPERATIONS

For the Year Ended December 31, 2006

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### INVESTMENT INCOME

Interest \$ 1,190,991

### EXPENSES

Management fees \$ 196,500

Administration fees 12,143

Custodian fees 9,686

Professional fees 27,197

Miscellaneous 6,639

TOTAL EXPENSES 252,165

NET INVESTMENT INCOME 938,826

### REALIZED AND UNREALIZED LOSS ON INVESTMENTS

Net realized loss on sale of investments (1,031,612)

Net change in unrealized depreciation of investments 752,655

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS (278,957)

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS \$ 659,869

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

# LOM FIXED INCOME FUND LTD.

## STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended December 31, 2006

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### INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS

Net investment income	\$ 938,826
Net realized loss on sale of investments	(1,031,612)
Net change in unrealized depreciation of investments	<u>752,655</u>

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS \$ 659,869

### INCREASE (DECREASE) IN NET ASSETS FROM CAPITAL SHARE TRANSACTIONS

Proceeds from issuance of 201,178.653 shares	2,289,314
Payment on redemption of 164,698.712 shares	<u>(1,876,066)</u>

NET INCREASE IN NET ASSETS RESULTING FROM CAPITAL SHARE TRANSACTIONS 413,248

NET INCREASE IN NET ASSETS 1,073,117

NET ASSETS - Beginning 19,123,568

NET ASSETS - Ending \$20,196,685

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

# LOM FIXED INCOME FUND LTD.

## STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006

### CASH FLOWS FROM OPERATING ACTIVITIES

Net increase in net assets resulting from operations		\$ 659,869
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchase of investment securities	\$(38,277,112)	
Proceeds from sale of investment securities	36,545,437	
Net realized loss on sale of investments	1,031,612	
Net change in unrealized depreciation of investments	(752,655)	
Changes in operating assets and liabilities:		
Prepaid expenses	(3,472)	
Accrued interest receivable	13,203	
Accounts payable and accrued expenses	<u>(26,561)</u>	
 TOTAL ADJUSTMENTS		<u>(1,469,548)</u>
 NET CASH USED IN OPERATING ACTIVITIES		(809,679)

### CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of shares	2,289,314	
Payments on redemption of shares	<u>(1,876,066)</u>	
 NET CASH PROVIDED BY FINANCING ACTIVITIES		<u>413,248</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS		(396,431)
 <u>CASH AND CASH EQUIVALENTS - Beginning</u>		<u>790,799</u>
 <u>CASH AND CASH EQUIVALENTS - Ending</u>		<u>\$ 394,368</u>

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

# LOM FIXED INCOME FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - Organization and Operations

LOM Fixed Income Fund Ltd. (the "Fund") is an open-ended investment company which was incorporated as an exempt company under the laws of the Cayman Islands on March 13, 2000. The Fund is registered as a regulated mutual fund pursuant to Section 4(3) of the Mutual Funds Law with the Cayman Islands Monetary Authority. The Fund is listed on the Bermuda Stock Exchange.

The Fund's investment objective is to achieve above-average total returns while employing an absolute return mandate. The Fund will seek to achieve its investment objective by selective investment in fixed income securities and open and closed-ended mutual funds.

Dundee Leeds Management Services (Cayman) Ltd. (the "Administrator") acts as Administrator, Registrar and Transfer agent for the Fund. LOM Asset Management Ltd. ("LOMAM") (a related party to the Fund) acts as Investment Manager and owns 100% of the Management Shares (Note 3). Lines Overseas Management Ltd. (a related party to the Fund) also acts as paying agent and custodian to the Fund.

Certain directors of the Fund are also principals, directors and officers of companies affiliated with LOMAM.

### NOTE 2 - Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

#### Investment Transactions and Valuation

Investment transactions are accounted for on a trade date basis. Investments in fixed income securities are valued at the closing market price on the principal exchanges on which they are traded on the valuation day. Securities for which no sale was reported on the valuation day are valued at the closing market bid price. Broker quotes are used to value certain securities when the Investment Manager believes these quotes are representative of fair value. Investments in other investment companies are valued at the net asset value or bid prices of the fund, as published or otherwise reported by the fund. The other investment companies in which the Fund invests will generally value securities traded on a national securities exchange or reported on a national market at the last reported sales price on the day of the valuation or the last quoted bid price, if no sale was reported on the valuation date.

Realized and unrealized gains and losses on investments are calculated using the average cost method and are recorded in the accompanying statement of operations.

# LOM FIXED INCOME FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - Summary of Significant Accounting Policies, continued

#### Income Recognition

Interest income is recognized on an accrual basis.

#### Foreign Currency Translation

The Fund's functional currency is U.S. dollars. Bermuda dollars trade at par with U.S. dollar. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized gain or loss on sale of investments and net change in unrealized depreciation on investments.

Realized and unrealized foreign exchange gains and losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and changes in the fair values of assets and liabilities, other than investments in securities, resulting from changes in exchange rates.

#### Cash and Cash Equivalents

The Fund considers all short-term investments with original maturities of three months or less to be cash equivalents.

Cash and cash equivalents include an investment in LOM Money Market Fund Ltd., a related party investment company by virtue of a common investment manager and directors. Such investments generally have no usage and withdrawal restrictions. At December 31, 2006, the fair value of the investment was \$358,282 (representing 3,129.674 shares) in the US Dollar Class of LOM Money Market Fund Ltd.

#### Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

# LOM FIXED INCOME FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - Summary of Significant Accounting Policies, continued

#### Recently Issued Accounting Pronouncements

##### Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Statements No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Investment Manager has evaluated the impact of the adoption of SFAS 157 on the Fund and does not expect the adoption to have any material impact on the Fund’s financial statements.

##### Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 provides guidance on how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken (including whether an entity is taxable in a particular jurisdiction) in the course of preparing the Fund’s tax returns to determine whether the tax positions are “more likely than not” of being sustained by the applicable taxing authority. Tax positions not deemed to meet this threshold would be required to be recorded on the financial statements. The Interpretation is effective for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the date of effectiveness. The Investment Manager is in the process of evaluating the impact of the application of FIN 48 to the Fund and does not expect the application to have a material impact on the Fund’s financial statements.

### NOTE 3 - Capital Stock

The Fund has an authorized share capital stock of \$50,000 divided into 49,999,000 non-voting redeemable Participating Shares (the “Shares”) of a par value of \$0.001 each and 1,000 Management Shares of a par value of \$0.001 each. Participating Shares are offered for sale to investors with rights to participate in the profits of the Fund but no voting rights.

Management Shares have voting rights but no right to participate in the profits of the Fund, and no dividends may be declared on the Management Shares. Except for repayment of amounts paid in for the Management Shares, LOMAM may not receive any distribution of assets of the Fund in liquidation or dissolution of the Fund.

The Investment Manager owns 100% of the Management Shares.

# LOM FIXED INCOME FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 - Capital Stock, continued

Shares are subscribed for and redeemed on each Dealing Day at a value calculated at close of business on each Dealing Day. The Dealing Day is the last business day of each week, or such other days as the Directors may determine. The minimum initial subscription is \$50,000.

At December 31, 2006, LOM Nominees Ltd. ("LOM Nominees") is the registered holder of all the shares of the Fund. During the year ended December 31, 2006, LOM Nominees bought 201,178.653 and sold 164,698.712 shares of the Fund.

### NOTE 4 - Related Party Transactions

#### Management Fee

The Investment Manager is entitled to receive an annual fee of 1% of the Fund's net asset value, accrued weekly and payable quarterly.

Management fees for the year ended December 31, 2006 totaled \$196,500 of which \$15,940 is payable at December 31, 2006.

#### Custodian Fee

Under the Custody Agreement dated March 31, 2000, the Custodian is entitled to receive a fee of 0.05% per annum of the net asset value of the Fund, calculated and payable on a weekly basis, subject to a minimum of \$3,000 per year. During 2006, the Custodian charged the Fund fees totaling \$9,686.

### NOTE 5 - Administration Fees

Effective January 1, 2006, the Fund entered into an agreement with Dundee Leeds Management Services (Cayman) Ltd. to serve as the Fund's Administrator, Registrar and Transfer agent. The agreement calls for annual administrative fees of the higher of 0.05% per annum of the net asset value of the Fund or \$115,000 per annum, allocated to the Fund and the Fund's related party investment companies pro-rata based on the net asset value of each investment company in relation to the combined net asset value. During 2006, the Administrator charged the Fund fees totaling \$12,143.

# LOM FIXED INCOME FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6 - Taxation

Under current Cayman Islands law the Fund is not required to pay taxes in the Cayman Islands on income, profits or capital gains. The Fund obtained an exemption from the Cayman Islands authorities on March 14, 2000 from such taxes for a period of 20 years. The Fund is also not subject to income taxes under current Bermuda law.

It is Management's belief that the Fund is not engaged in a United States trade or business and is not subject to United States income or withholding taxes in respect of the profits and losses of the Fund other than the 30% withholding tax on US source dividends. As a result, Management has made no provision for income taxes in these financial statements.

### NOTE 7 - Derivative Financial Instruments and Risk Management

The Fund does buy or hold mortgage back securities. Some of the other investment companies in which the Fund invests are dealing or trading in these instruments as their principal investment activity or use these instruments as part of their investment strategy. This may result in market or credit risks to the other investment companies in excess of the amount invested in these instruments. However, the Fund's risk is limited to the net asset value of its investments in the other investment companies.

### NOTE 8 - Fair Value of Financial Instruments

In addition to the fair values of investments as disclosed in the schedule of investments, the fair values of the Fund's other financial instruments, including cash and cash equivalents, accrued interest and accounts payable and accrued expenses approximate their carrying values due to the short term maturity of these financial instruments.

### NOTE 9 - Guarantees

In the normal course of its operations, the Fund enters into contracts that contain indemnifications and warranties. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

# LOM FIXED INCOME FUND LTD.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 10 - Financial Highlights

Financial highlights for the year ended December 31, 2006 are as follows:

#### Per Share Operating Performance:

Net asset value per share, beginning of year	\$11.270
Net investment income	0.545
Net realized and unrealized loss on investments	<u>(0.162)</u>
Net asset value per share, end of year	<u>\$11.653</u>
Total Return	3.39%
<u>Ratio to Average Net Assets:</u>	
Total expenses	1.29%
Net investment income	4.79%

Financial highlights are calculated for the class of shares taken as a whole. An individual shareholder's return and ratios may vary based on the timing of capital transactions.

Total return is computed using a time-weighted methodology whereby the returns for the individual accounting periods are geometrically linked. The ratios are computed using a weighted-average of the net assets for the year ended December 31, 2006.

### NOTE 11 - Financial Instruments

#### Credit and Liquidity Risk

The Fund is potentially subject to both credit and liquidity risk, principally with LOM Money Market Fund and investments in securities. The Fund's credit risk is the replacement cost at the then estimated fair value of the instrument. Credit risk arises because the possibility that promised cash flows on securities held by the fund (such as other funds, deposits and bonds) will not be paid in full. Credit risk is risk due to uncertainty in a counterparty's (also called an obligor's or credit's) ability to meet its obligations. As the Fund places its cash with LOM Money Market Fund, management believes that the risk of incurring losses with these LOM Mutual Funds is remote and that such losses, if any, would not be material.

### NOTE 12 - Subsequent Events

As of December 31, 2007, the Administrator, Dundee Leeds Management Service (Cayman) Ltd., will be terminated and the Fund has appointed Bermuda Commercial Bank Ltd. to take over as the new Administrator.