



**Tax Optimized Return  
Oriented Securities Trust**

**Semi - Annual Financial Statements**

**June 30, 2010**

## TAX OPTIMIZED RETURN ORIENTED SECURITIES TRUST

### CORPORATE INFORMATION

**Manager:**

Navina Asset Management Inc.  
220 Bay Street, Suite 1500  
Toronto, On M5J 2W4

**Custodian:**

State Street Trust Company Canada  
30 Adelaide Street East, Suite 1100  
Toronto, On M5C 3G6

**Transfer Agent:**

Computershare Trust Company of Canada  
100 University Avenue, 8th floor  
Toronto, Ontario  
M5J 2Y1

**Listed:**

The Toronto Stock Exchange

**Ticker Symbol:**

Return of Capital Securities – TO.UN  
Income Securities – TO.A

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Tax Optimized Return Oriented Securities Trust (the "Trust") contains financial highlights but does not contain the complete unaudited semi-annual or annual financial statements, which are bound with this management report of fund performance. You may request a copy of the Trust's quarterly portfolio disclosure, by calling 1.866.404.4999, by writing to us at 220 Bay Street, Suite 1500, Toronto, ON M5J 2W4 or by visiting our website at [www.navinaasset.com](http://www.navinaasset.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD LOOKING STATEMENTS

Included in this interim Management Report of Fund Performance are matters that constitute "forward-looking" information within the meaning of Canadian securities law. Such forward-looking statements may be identified by words such as "plans", "proposes", "estimates", "intends", "expects", "believes", "may" or words of a similar nature. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially include among others, regulatory risks, risk inherent in foreign operations, commodity prices and competition. These factors are largely outside the control of the Trust. All subsequent forward-looking statements attributable to the Trust or its agents are expressly qualified in their entirety by these cautionary comments. Except as otherwise required by applicable securities statutes or regulation, the Trust expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### *Investment Objective And Strategies*

The Trust's investment objectives are:

- (a) ROC Securities: (i) to provide ROC Holders with distributions, consisting primarily of returns of capital, targeted to yield 9.50% per annum on the subscription price of \$10.00; and (ii) to repay at least the original subscription price of the ROC Securities to ROC Holders on September 30, 2013; and
- (b) Income Securities: (i) to pay Income Holders interest of 11.00% per annum, subject to a maximum for any month of 54% of the Monthly Net Cashflow and (ii) to repay the principal amount of the Income Securities on September 30, 2013.

To achieve its investment objectives, the Trust invests in securities of income funds, including commodity-based trusts, operating business trusts, real estate investment trusts ("REITs") and power and pipeline trusts.

## *Results of Operations*

### *Net Asset Value*

For the period ended June 30, 2010, the Trust recorded an increase in net assets from operations per ROC Security and per Income Security of \$0.06. The net asset value per ROC Security and per Income Security was \$5.78 as at June 30, 2010 compared to \$5.84 as at December 31, 2009. As at June 30, 2010, the closing price on the Toronto Stock Exchange was \$5.52 for the ROC Security and \$5.40 for the Income Security.

### *Portfolio*

At June 30, 2010, the Trust held a diversified portfolio of 19 income funds and equities. The composition of the portfolio was approximately 24% in oil and gas income funds and equities, 33% in pipeline and power generation income funds and equities, 30% in business and industrial income funds and equities and 21% in real estate income trusts.

### *Liquidity and Capital Resources*

The Trust allows holders of ROC Securities to redeem annually on September 30 at a redemption price equal to the net asset value per ROC Security.

The Trust has a mandatory market purchase program under which the Trust, subject to certain exceptions, is obligated to purchase for cancellation any Income Security offered in the market if the offering price is less than 95% of the value equivalent to the net asset value per ROC Security. The maximum number of Income Securities to be purchased in any three-month period (commencing with the three-month period beginning November 1, 2003) will be 1.25% of the number of Income Securities outstanding at the beginning of such period.

### *Normal Course Issuer Bid*

The Trust under a normal course issuer bid through the facilities of the TSX, may purchase 228,205 Income Securities units and 94,956 ROC Securities. These purchases will be made in accordance with applicable regulations over a maximum period of 12 months ending September 30, 2010. During the six month ended June 30, 2010, the Trust purchased 21,100 ROC Securities valued at \$121,936 and 52,700 Income Securities valued at \$286,520 for cancellation.

### *Distributions and Interest Payments*

For the period ended June 30, 2010, the Trust made monthly interest payment to holders of Income Securities of \$0.04916 and monthly distribution to holders of ROC Securities of \$0.0425. Monthly interest payments totaling \$0.29 per Income Security was paid or payable on the Income Securities. Monthly distributions totaling \$0.26 per ROC Security were paid or payable on the ROC Securities.

### **Recent Developments**

Effective January 1, 2010 Lawrence Asset Management Inc. changed its name to Navina Asset Management Inc. ("NAMI"). NAMI is the trustee, manager and portfolio manager of the Trust (the "Manager").

On June 7, 2010 Aston Hill Financial Inc. ("Aston Hill") and Navina Asset Management Inc ("NAMI") announced the execution of a share purchase agreement. Pursuant to the agreement Aston Hill acquired 100% of the common shares of NAMI. The acquisition was completed on August 6, 2010. This will result in a change of control of Navina.

### **Portfolio Commentary**

Income trusts and income-generating assets in general have staged a tremendous rally delivered phenomenal total returns to investors from their 2009 lows and in 2010 year-to-date. While this major move is unlikely to be repeated, we believe that income generating assets will continue to be an outperformer on a total-return and certainly on a risk-adjusted basis versus other asset classes. We expect income trusts to continue to perform accordingly, in their current and future incarnations.

Income trusts have been actively restructuring themselves to reflect new restrictions that come into effect in 2011. REITS remain largely unaffected although several real-estate related businesses will not qualify as REITS and will themselves need to restructure in the near future or shortly into 2011 depending on their own individual tax situations. While all trusts will become corporations, on an after-tax basis there will be no affect to taxable accounts. It is only the marginal buyer in tax-exempt accounts that will suffer the demise of these instruments or rather, their restructuring into taxable non-flow-thru entities. We therefore believe at this point in the process there will be no broad-based effect on valuations and trading prices and in fact, it may lead to wider acceptance particularly of the smaller capitalizations issuers.

TOROS is current reviewing its proscribed investment universe to best accommodate this change and continue to produce income for its various investors. In the meantime the portfolio continues to be invested into a diversified mix of REITS, oil and gas trusts, and assorted business trusts. We continue to have a skew towards smaller capitalizations business trusts where we believe there continues to be excess return potential.

### **Future accounting change**

The Canadian Accounting Standards Board has confirmed its plan to adopt all International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board by January 1, 2011. At June 30, 2010 the Manager's plan for conversion to IFRS includes discussions with the Trust's accountants and fund administrators on their process for conversion to IFRS. In addition, the Manager has reviewed the potential impact of IFRS on the Trust's NAV and financial statements. Based on this review, the Manager believes that the impact of IFRS will be primarily the disclosure and presentation of the Trust's financial statements, with no impact to the Trust's NAV.

In June 2010, the Canadian Accounting Standards Board ("AcSB") published for comments an exposure draft proposing that investment companies, which include investment funds, can defer adoption of IFRS by one year. Investments companies may continue to apply existing GAAP standards and must adopt IFRS for fiscal years beginning on or after January 1, 2012. The AcSB expects to finalize the proposed amendments in September 2010.

### **Related Party Transactions**

Navina Asset Management Inc. (the "Manager") is the trustee, manager and portfolio manager of the Trust.

The Manager is responsible for providing and arranging for the provision of administrative services required by the Trust and providing investment advisory and portfolio management services to the Trust.

## Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance for the years ended December 31. This information is derived from the Trust's audited annual financial statements and unaudited semi annual financial statements.

The Trust's Net Assets Per Roc Security And Income Security <sup>(1) (2)</sup>	2010	2009	2008	2007	2006	2005
<b>ROC Securities</b>						
Net Assets, beginning of year	\$5.82	\$4.78	\$9.20	\$10.27	\$12.09	\$11.48
<b>Increase (decrease) from operations:</b>						
Total revenue	0.25	(0.16)	3.29	3.04	1.08	1.02
Total expenses	(0.45)	(0.82)	(0.86)	(2.21)	(1.00)	(0.89)
Realized gains (losses) for the period	0.00	(1.49)	(0.91)	1.20	0.46	0.38
Unrealized gains (losses) for the period	0.26	2.99	(2.82)	(2.02)	(1.77)	0.61
<b>Total increase (decrease) from operations</b>	<b>0.06</b>	<b>0.52</b>	<b>(1.30)</b>	<b>0.01</b>	<b>(1.23)</b>	<b>1.12</b>
<b>Distributions<sup>(3)</sup></b>						
From capital gains	-	-	-	-	-	(0.16)
Return of capital	(0.26)	(0.51)	(0.91)	(0.95)	(0.95)	(0.79)
<b>Total annual distributions</b>	<b>(0.26)</b>	<b>(0.51)</b>	<b>(0.91)</b>	<b>(0.95)</b>	<b>(0.95)</b>	<b>(0.95)</b>
<b>Net Assets at December 31 of year shown</b>	<b>5.76</b>	<b>\$ 5.82</b>	<b>\$4.78</b>	<b>\$9.20</b>	<b>\$10.34</b>	<b>\$12.09</b>
<b>Income Securities</b>						
Net Assets, beginning of period	5.82	\$ 4.78	\$9.20	\$10.27	\$12.09	\$11.48
<b>Increase (decrease) from operations:</b>						
Total revenue	0.25	(0.16)	3.29	3.04	1.08	1.02
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<b>Distributions<sup>(3)</sup></b>						
From Income (excluding dividends)	(0.29)	(0.59)	(1.06)	(1.10)	(1.10)	(1.10)
<b>Total annual distributions</b>	<b>(0.29)</b>	<b>(0.59)</b>	<b>(1.06)</b>	<b>(1.10)</b>	<b>(1.10)</b>	<b>(1.10)</b>
<b>Net Assets at period shown</b>	<b>\$5.76</b>	<b>\$ 5.82</b>	<b>\$4.78</b>	<b>\$9.20</b>	<b>\$10.34</b>	<b>\$12.09</b>

(1) Net assets 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 securities outstanding over the financial period.

(2) This information is derived from the Trust's audited financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

(3) Distributions were paid in cash.

## Ratios and Supplemental Data

NET ASSET VALUE (000'S) <sup>(1)</sup>	2010	2009	2008	2007	2006	2005
ROC Securities	\$5,359	\$5,545	\$6,789	\$16,954	\$22,206	\$30,839
Income Securities	\$12,415	\$12,867	\$11,475	\$23,992	\$27,789	\$33,799
<b>Number of securities outstanding <sup>(1)</sup></b>						
ROC Securities	927,769	948,869	1,403,369	1,825,669	2,148,465	2,550,375
Income Securities	2,149,350	2,202,050	2,372,050	2,583,550	2,688,650	2,795,150
<b>Management expense ratio <sup>(2)</sup></b>						
ROC Securities	15.28%	16.49%	10.83%	9.33%	8.22%	7.41%
Income Securities	15.28%	16.49%	10.83%	9.33%	8.22%	7.41%
<b>Management expense ratio before waivers or absorptions</b>						
ROC Securities	15.28%	16.49%	10.83%	9.33%	8.22%	7.41%
Income Securities	15.28%	16.49%	10.83%	9.33%	8.22%	7.41%
<b>Portfolio turnover rate <sup>(3)</sup></b>						
ROC Securities	0.05%	60.78%	13.06%	42.33%	103.97%	176.77%
<b>Trading expense ratio <sup>(4)</sup></b>						
ROC Securities	0.00%	0.45%	0.14%	0.31%	0.43%	0.88%
<b>Closing market price <sup>(5)</sup></b>						
ROC Securities	\$5.52	\$ 5.01	\$3.39	\$8.50	\$9.45	\$11.10
Income Securities	\$5.40	\$ 5.00	\$3.40	\$7.98	\$9.75	\$11.20

(1) This information is provided as at December 31 of the years shown and for June 30, 2010 for the current period.

(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. For the purposes of calculating the management expense ratio, total expenses includes interest paid to the holders of Income Securities for each year.

(3) The Trust's portfolio turnover rate indicates how actively the Trust's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher the Trust's portfolio turnover rate in a year, the greater the trading costs payable by the Trust 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 the Trust.

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

(5) This is closing price as of June 30, 2010.

### Management fee

The Manager is paid an annual fee by the Trust that equals 1.10% of the net asset value, calculated daily and paid monthly in arrears, plus applicable taxes. The Trust also pays to the Manager a service fee equal to 0.40% per annum of the aggregate net asset value per ROC Security of the ROC Securities held at the end of each calendar quarter by clients of dealers, and 0.40% of the aggregate value of the Income Securities (assuming the value of one Income Security is equal to the cost to redeem an Income Security determined as at the immediately preceding Valuation Date as if the Trust exercised its redemption right on such date and elected to deliver a Proportionate Interest in the Net Portfolio Securities or a cash payment equal to the value thereof), plus applicable taxes, for services rendered to the Trust. The service fee is used by the Manager to pay service fees to dealers based on the number of ROC Securities and Income Securities held by the clients of such dealers.

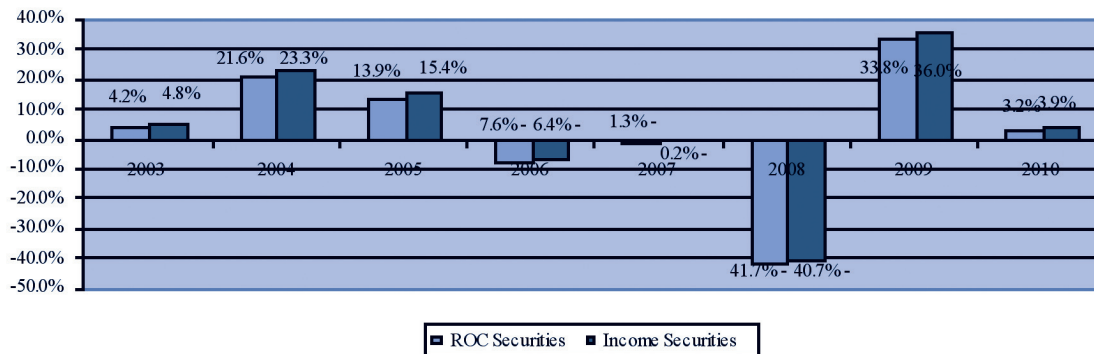
### PAST PERFORMANCE

#### General

The performance information shown assumes that all distributions made by the Trust in the period shown were reinvested in additional securities of the Trust. The performance information does not take into account sales, redemption, distributions or other optional charges that would have reduced returns or performance. How the Trust 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 Trust's performance for each of the periods shown, and illustrates how the Trust's performance has changed from year to year since its inception on October 17, 2003. The bar chart shows, in percentage terms, how much an investment in the Trust's units made on the first day of each financial year would have grown or decreased by the last day of each financial period.



(1)The annual returns for 2003 are for the period from October 17, 2003 to December 31, 2003.

(2)The annual returns for the Income Securities, which are direct debt obligations of the Trust with a maturity date of September 30, 2013, represents the annual interest paid at the rate of 11% per annum, based on the original investment amount. The annual returns do not consider the right of the Trust to redeem the Income Securities, or the right of the holder of Income Securities to exchange Income Securities, on or after September 16, 2013, for an amount generally equivalent to the net asset value of the ROC Security.

## SUMMARY OF INVESTMENT PORTFOLIO

### Portfolio Composition

	% OF NET ASSET VALUE <sup>(1)</sup>
Oil and gas income funds and equities	24.4
Business and industrial income funds and equities	29.8
Real estate investment trusts	20.7
Pipeline and power generation income funds	32.5
Cash	3.3
Other net assets	(10.7)
Net asset value	100.0

(1) For the purposes of the Portfolio Composition percentage of net assets calculations, net assets consist of all the Trust's assets less all of the Trust's liabilities, excluding the Income Securities.

### Holdings

	% OF NET ASSET VALUE <sup>(1)</sup>
Vermilion Energy Trust	11.4
IESI-BFC Ltd.	9.4
AltaGas Income Trust	7.8
Allied Properties Real Estate Investment Trust	7.7
Cominar Real Estate Investment Trust	7.6
Northland Power Income Fund	7.2
Bonterra Energy Corp.	6.8
Morneau Sobeco Income Fund	6.8
Macquarie Power & Infrastructure Income Fund	6.7
Pembina Pipeline Income Fund	6.5
Altus Group Income Fund	4.5
Atlantic Power Corporation	4.2
Brookfield Real Estate Services Fund	4.0
Crescent Point Energy Corp.	3.7
Colabor Group, Inc.	3.6
The Data Group Income Fund	2.8
Armtec Infrastructure Income Fund	2.7
Labrador Iron Ore Royalty Income Fund	2.5
Extendicare Real Estate Investment Trust	1.5

(1) For the purposes of the Holdings percentage of net asset value calculations, net asset value consist of all the Trust's assets less all of the Trust's liabilities, excluding the Income Securities.

The summary of investment portfolio may change due to ongoing portfolio transactions of the Trust. Quarterly updates are available within 60 days of each quarter end by visiting [www.navinaasset.com](http://www.navinaasset.com) or contacting the Trust at 1.866.404.4999.

***Manager's comments on unaudited interim financial statements***

These interim financial statements of the Tax Optimized Return Oriented Securities Trust (the "Trust") for the period ended June 30, 2010 have been prepared by the Manager. These interim financial statements have not been reviewed by Ernst & Young LLP, the independent external auditors of the Trust.

## TAX OPTIMIZED RETURN ORIENTED SECURITIES TRUST

Statements of Net Assets - As at June 30, 2010 (unaudited) and 2009 (audited)

	2010 \$	2009 \$
<b>Assets</b>		
Investments, at fair value	19,040,816	18,107,464
Cash and cash equivalents	588,768	1,622,547
Distributions and interest receivable	132,422	147,614
Prepaid expenses	1,232	7,785
<b>Total Assets</b>	<b>19,763,238</b>	19,885,410
<b>Liabilities</b>		
Accounts payable and accrued liabilities	107,351	128,657
Interest payable to Income Securities	1,934,533	1,419,302
Income Securities [note 4]	12,378,264	12,815,304
<b>Total Liabilities</b>	<b>14,420,148</b>	14,363,263
<b>Net Assets</b>	<b>5,343,090</b>	5,522,147
<b>Net Assets of ROC Securities</b> [note 6]	<b>5,343,090</b>	5,522,147
<b>Net Assets of Income Securities</b> [note 6]	<b>12,378,264</b>	12,815,304
<b>Number of ROC Securities outstanding</b> [note 5]	<b>927,769</b>	948,869
<b>Number of Income Securities outstanding</b> [note 4]	<b>2,149,350</b>	2,202,050
<b>Net Assets per ROC Security and Income Security</b> [note 6 and 10]	<b>\$5.76</b>	\$5.82

See accompanying notes to financial statements.

## TAX OPTIMIZED RETURN ORIENTED SECURITIES TRUST

Statements of Operations - For the period ended June 30, 2010 and 2009 (unaudited)

	2010 \$	2009 \$
<b>Revenue</b>		
Interest	477,817	215,280
Dividends	159,116	626,563
Change in fair value of Income Securities [note 2]	(89,960)	(781,207)
Gain on purchase of Income Securities for cancellation	240,480	416,287
	<b>787,453</b>	476,923
<b>Expenses</b>		
Management fees [note 7]	143,456	134,783
Interest and bank charges	-	10,219
General and administrative	66,127	67,238
Audit fees	17,260	19,910
Custodian fees	2,525	2,867
Unitholder reporting fees	14,498	15,305
Legal fees	2,032	6,068
Independent review committee fees	6,016	6,094
Interest on Income Securities [note 4]	1,157,015	1,287,505
	<b>1,408,929</b>	1,549,989
<b>Net investment income</b>	<b>(621,476)</b>	(1,073,066)
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain (loss) on sale of investments	10,180	(4,555,004)
Transaction costs [note 2]	-	(46,093)
Change in unrealized appreciation (depreciation) of investments	793,896	6,272,904
	<b>804,076</b>	1,671,807
<b>Increase (decrease) in Net Assets from operations</b>	<b>182,600</b>	598,741
<b>Increase (decrease) in Net Assets from operations per ROC Security and Income Security</b>	<b>0.06</b>	0.16

See accompanying notes to financial statements.

## TAX OPTIMIZED RETURN ORIENTED SECURITIES TRUST

Statements of Changes in Net Assets - For the period ended June 30, 2010 and 2009 (unaudited)

	2010 \$	2009 \$
<b>Investment operations</b>		
Net investment loss	(621,476)	(1,073,066)
Net realized and unrealized gain on investments	804,076	1,671,807
	<b>182,600</b>	598,741
<b>Capital transactions</b> [note 5]		
Purchases of ROC securities for cancellation	(121,936)	(70,060)
	<b>(121,936)</b>	(70,060)
<b>Distributions to ROC Securityholders</b> [note 5]		
Return of capital	(239,721)	(349,500)
<b>Net decrease (increase) in Net Assets during the period</b>	<b>(179,057)</b>	179,181
<b>Net Assets, beginning of period</b>	<b>5,522,147</b>	6,712,723
<b>Net Assets, end of period</b>	<b>5,343,090</b>	6,891,904

See accompanying notes to financial statements.

## TAX OPTIMIZED RETURN ORIENTED SECURITIES TRUST

Statements of Cash Flows - For the period ended June 30 (unaudited)

	2010 \$	2009 \$
<b>Operating Activities</b>		
Increase in Net Assets from operations	182,600	598,741
Items not affecting cash:		
Change in fair value of Income Securities	89,960	781,207
Net realized loss (gain) on sale of investments	(10,180)	4,555,004
Change in unrealized (appreciation) depreciation on investments	(793,896)	(6,272,904)
	(714,116)	(936,693)
Net change in non-cash working capital balances	515,671	640,063
	(15,845)	302,111
<b>Financing activities</b>		
Distributions to ROC Securityholders	(239,721)	(349,500)
Purchase of ROC Securities for cancellation	(121,936)	(70,060)
Purchase of Income Securities for cancellation	(527,000)	(654,000)
	(888,657)	(1,073,560)
<b>Investing activities</b>		
Proceeds on sale of investments	9,039	6,320,036
Purchases of investments	(138,316)	(6,292,954)
	(129,277)	27,082
Net decrease in cash and cash equivalents during the period	(1,033,779)	(744,367)
<b>Cash and cash equivalents, beginning of period</b>	<b>1,622,547</b>	2,866,330
<b>Cash and cash equivalents, end of period</b>	<b>588,768</b>	2,121,963

See accompanying notes to financial statements.

## TAX OPTIMIZED RETURN ORIENTED SECURITIES TRUST

Statement of Investment Portfolio - As at June 30, 2010 (unaudited)

SHARES OR UNITS HELD	SECURITY	AVERAGE COST \$	FAIR VALUE \$
<b>Pipeline And Power Generation Income Funds and Equities</b>			
75,000	AltaGas Income Trust	1,835,064	1,383,750
60,000	Atlantic Power Corporation	643,120	740,400
171,386	Macquarie Power & Infrastructure Income Fund	1,323,740	1,182,563
93,700	Northland Power Income Fund	999,667	1,286,501
65,000	Pembina Pipeline Income Fund	899,356	1,160,900
		<b>5,700,947</b>	<b>5,754,114</b>
<b>Business And Industrial Income Funds and Equities</b>			
64,000	Altus Group Income Fund	474,534	796,800
26,100	Armtec Infrastructure Income Fund	427,213	484,155
53,600	Colabor Group, Inc.	561,776	644,272
78,700	IESI-BFC Ltd.	1,601,003	1,670,801
128,800	Morneau Sobeco Income Fund	1,055,016	1,193,976
68,500	The Data Group Income Fund	624,807	495,255
		<b>4,744,349</b>	<b>5,285,259</b>
<b>Oil And Gas Income Funds and Equities</b>			
35,000	Bonterra Energy Corp.	862,695	1,215,900
17,800	Crescent Point Energy Corp.	483,272	661,448
10,300	Labrador Iron Ore Royalty Income Fund	278,358	439,810
60,000	Vermilion Energy Trust	931,095	2,011,800
		<b>2,555,420</b>	<b>4,328,958</b>
<b>Real Estate Investment Trusts</b>			
70,000	Allied Properties Real Estate Investment Trust	1,314,254	1,372,000
58,000	Brookfield Real Estate Services Fund	492,878	696,000
72,700	Cominar Real Estate Investment Trust	1,059,119	1,348,585
30,000	Extencicare Real Estate Investment Trust	273,207	255,900
		<b>3,139,458</b>	<b>3,672,485</b>
<b>Total investments</b>		<b>16,140,174</b>	<b>19,040,816</b>

See accompanying notes to financial statements.

### 1. THE TRUST

Tax Optimized Return Oriented Securities Trust (the "Trust") is a trust created under the laws of the Province of Ontario pursuant to a Declaration of Trust dated as of September 29, 2003 ("Declaration of Trust"). Effective January 12, 2010 Lawrence Asset Management Inc. changed its name to Navina Asset Management Inc. ("NAMI"). NAMI is the trustee, manager and portfolio manager of the Trust (the "Manager").

The Trust commenced operations on October 17, 2003 and will terminate and be wound up on September 30, 2013, unless terminated earlier or extended in accordance with the provisions of the Declaration of Trust.

The Trust invests in a diversified portfolio of securities consisting primarily of Canadian income trusts.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies:

#### Transaction costs

Portfolio transaction costs are expensed. Average costs recorded in the Statement of Operations are net of 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.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term, interest-bearing notes with a term to maturity of less than three months from the date of purchase.

#### Valuation of investments

The investments are deemed to be classified as held for trading in accordance with Section 3855. Short-term investments are recorded at fair value using market quotations. Investments are recorded at bid price on the valuation date as quoted on the recognized stock exchange on which the securities are listed or principally traded. Listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Manager and other assets for which no transaction market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a transaction market, unless a different fair market value is determined to be appropriate by the Manager.

#### Other assets and liabilities

The Trust has classified Income Securities as held-for-trading, which are measured at fair value. Changes in fair value are reflected in the Statements of Operations. Cash is carried at cost, which approximates fair value. The Trust's other financial assets, which may include distributions and interest receivable, prepaid expenses and amounts due from brokers are designated as loans and receivables, and carried at cost or amortized cost. The Trust's other financial liabilities which may include accounts payable, interest payable amounts due to brokers and payable for redemption of shares are designated as such and are carried at cost or amortized cost. Cost or amortized cost for these financial assets and liabilities approximates its fair value.

#### Investment transactions and income

Investment transactions are accounted for on a trade date basis.

Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Distributions that are a return of capital are recorded on the ex-dividend date as a reduction of the adjusted cost of the related investment.

Realized gains and losses on the sale of investments and unrealized appreciation or depreciation of investments are determined based on an average adjusted cost.

#### Measurement uncertainty

Allocations of distributions received from income trusts among dividends, interest and other income, or return of capital are based on estimates of the categorization of distributions provided by those income trusts. These allocations may change once final categorizations of the distributions are received from the respective income trusts.

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenue and expenses during the reporting year. Actual results could differ from those estimates. These estimates are reviewed periodically by management and, as adjustments become necessary, they are reported in the statement of operations in the year in which they become known.

**3. FINANCIAL INSTRUMENT RISK**

The Trust is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. These risks and related risk management practices employed by the Trust are discussed below:

**Interest rate risk**

The majority of the Trust's financial assets and liabilities are non-interest bearing. As a result, the Trust is not subject to a significant amount of interest rate risk due to fluctuations in the prevailing level of market interest rates. Excess cash amounts are invested in short-term securities.

**Credit risk**

The Trust's only credit risks arise from short-term debt securities. The Trust limits its exposure to credit loss by placing its cash and short-term investments in securities that have high credit quality. The Manager performs ongoing credit risk evaluation of counterparties.

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

**Liquidity risk**

Liquidity risk is the possibility that investments in a Trust cannot be readily converted into cash when required. The Trust endeavors to maintain sufficient liquidity to meet expenses and redemption of Units. However, unexpectedly heavy demand for redemptions of Units could result in the Trust having to dispose of investments at a time when it is not optimal to do so in order to meet such redemption requests.

**Currency Risk**

Currency risk arises from the financial instruments that are denominated in a currency other than the Canadian dollar, which is the Trust's functional currency. The value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Trust is not subject to such risk.

**Other price risk**

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The investments of a fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The Manager moderates this risk through portfolio diversification and careful selection of securities. The Manager monitors the Trust's overall market positions on a daily basis with investment positions maintained within established ranges.

As at June 30, 2010, had the fair values of the portfolio investments increased or decreased by 5%, with all other variables held constant, this would have increased or decreased net assets by approximately \$952,041 (2009 - \$905,373).

## NOTES TO FINANCIAL STATEMENTS (continued)

### Portfolio concentration risk

Portfolio concentration risk is the risk associated with the exposure to any one or more particular country, asset class or security. The Manager believes that there is no significant concentration risk of the Trust due to diversification by asset class and security. The following is a summary of portfolio concentration as of June 30, 2010 and December 31, 2009:

	2010	2009
<b>ASSET CLASS</b>		
Oil & Gas Income Fund	22.7%	23.8%
Pipeline & Power Generation Income Funds	30.2%	29.7%
Business & Industrial Income Funds and Equities	27.8%	27.6%
Real Estate Investment Trusts	19.3%	18.9%
<b>SECURITIES</b>		
Average position size	5.3%	5.6%
Largest position size	10.6%	10.7%

### Fair value measurements

The following is a summary of the inputs used as of June 30, 2010 and December 31, 2009 in valuing the Trust's investments and derivatives carried at fair values:

June 30, 2010	Level One	Level Two	Level Three	Totals
<b>Financial Assets</b>				
<b>Equities</b>				
COMMON STOCK	4,932,821	0	0	4,932,821
INCOME TRUSTS	10,435,510	0	0	10,435,510
REAL ESTATE INVESTMENT TRUSTS	3,672,485	0	0	3,672,485
TOTAL EQUITIES	19,040,816	0	0	19,040,816
<b>TOTAL FINANCIAL ASSETS</b>	<b>19,040,816</b>	<b>0</b>	<b>0</b>	<b>19,040,816</b>

December 31, 2009	Level One	Level Two	Level Three	Totals
<b>Financial Assets</b>				
<b>Equities</b>				
COMMON STOCK	4,516,125	0	0	4,516,125
INCOME TRUSTS	10,842,183	0	0	10,842,183
REAL ESTATE INVESTMENT TRUSTS	2,749,156	0	0	2,749,156
TOTAL EQUITIES	18,107,464	0	0	18,107,464
<b>TOTAL FINANCIAL ASSETS</b>	<b>18,107,464</b>	<b>0</b>	<b>0</b>	<b>18,107,464</b>

During the period ended June 30, 2010, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) was not required as no investments or derivatives were considered Level 3.

**4. INCOME SECURITIES**

The Income Securities are direct debt obligations of the Trust. The payment of the principal of, and interest on, the Income Securities will be subordinated in right of payment as set forth in the Trust Indenture to the prior payment in full of any amounts payable under the loan facility entered into by the Trust, but will rank in priority to the ROC Securities (as defined in note 5 below) upon (i) any event of default pursuant to the Trust Indenture; (ii) the maturity of the Income Securities; or (iii) the termination of the Trust prior to September 30, 2013.

The Income Securities will mature on September 30, 2013 (the "Maturity Date"). The Income Securities bear interest at the rate of 11% per annum, which interest will be paid monthly in arrears. The Trust may elect to defer payment of interest on the Income Securities on a pro rata basis to the extent of any shortfall from the stipulated rate of 11% per annum. Deferred interest, if any, will accrue if, in a subsequent month, 54% of the Monthly Net Cash flow exceeds the interest payable in respect of such month, the surplus amount will be applied by the Trust towards the payment of the deferred interest until all of such interest is paid. On the Maturity Date, the Trust will repay any Income Securities then outstanding by paying the principal amount of such Income Securities plus accrued and unpaid interest in cash. On December 4, 2008, the Trust reduced the monthly interest payment to holders of Income Securities to 5.9% per annum.

The Trust has a mandatory market purchase program under which the Trust will, subject to certain exceptions contained in the Trust Indenture and compliance with any applicable regulatory requirements, be obligated to purchase for cancellation any Income Securities offered in the market at the then prevailing market price if, at any time, the price at which Income Securities are then offered for sale is less than 95% of the cost to redeem an Income Security determined as at the immediately preceding Valuation Date (as defined in Note 6 below) as if the Trust exercised its redemption right on such date and elected to deliver a Proportionate Interest (as defined below) in securities in the Portfolio (other than securities required to satisfy the liabilities of the Trust excluding the obligation to pay principal and interest on the Income Securities) (the "Net Portfolio Securities") or a cash payment equal to the value thereof. The maximum number of Income Securities to be purchased in any three-month period (commencing with the three-month period that began on November 1, 2003) will be 1.25% of the number of Income Securities outstanding at the beginning of such period. A Proportionate Interest is a fraction, the numerator of which is one and the denominator of which is the total number of outstanding ROC Securities and Income Securities subject to adjustment in certain events, such as the subdivision or certain consolidations of ROC Securities.

On or after September 16, 2013 and prior to the Maturity Date, each Income Security will be exchangeable at the option of the holder of Income Securities ("Income Holder"), for a Proportionate Interest in the Net Portfolio Securities (the "Exchange Value"); provided that, if the Net Portfolio Securities include securities that are foreign property within the meaning of the Income Tax Act, then an Income Holder will only be entitled to receive a cash payment equal to the value of a Proportionate Interest in such securities. At the option of the Trust, the Exchange Value may be satisfied by a cash payment.

The Income Securities may be redeemed by the Trust on or after September 16, 2013 and prior to the Maturity Date for cash payment equal to their principal amount and accrued unpaid interest (the "Redemption Value"). At the option of the Trust, the Redemption Value may be satisfied in respect of each Income Security by (a) delivery of a Proportionate Interest in the Net Portfolio Securities, or (b) a cash payment equal to the value thereof. If the Trust exercises this option, the value received on redemption of an Income Security will generally be equivalent to the Net Asset Value per ROC Security.

The Trust under a normal course issuer bid through the facilities of the TSX, may purchase 228,205 Income Securities. These purchases will be made in accordance with applicable regulations over a maximum period of 12 months ending September 30, 2010. For the 6 months ended June 30, 2010, the Trust purchased 52,700 Income Securities (2009 - 65,400) valued at \$286,520 for cancellation (2009 - \$237,713).

Unit transactions for the 6 months ended June 30, 2010 and 2009 for the Income Securities are as follows:

	2010	2009
Units, beginning of year	2,202,050	2,372,050
Units redeemed	(52,700)	(170,000)
Units, end of year	2,149,350	2,202,050

**5. RETURN OF CAPITAL SECURITIES**

The Trust is authorized to issue an unlimited number of Return of Capital Securities (“ROC Securities”) of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust.

Each holder of a ROC Security (“ROC Holder”) is entitled to one vote for each ROC Security held and is entitled to participate equally with respect to any and all distributions made by the Trust to ROC Holders, including distributions of return of capital and distributions of net income and net realized capital gains, if any. On termination or liquidation of the Trust, ROC Holders of record are entitled to receive on a pro rata basis all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

ROC Securities may be redeemed annually as at September 30, subject to certain conditions, for a redemption price equal to the Net Asset Value per ROC Security (as defined in Note 6 below). The Trust has retained a recirculation agent who will use commercially reasonable efforts to find purchasers for any ROC Securities properly surrendered for redemption by a ROC Holder, provided that such ROC Holder has not withheld consent thereto. On September 30, 2009, the Trust received redemption notices for 431,800 (2008 - 368,500) ROC Securities, which were redeemed for \$2,297,176 (2008 - \$2,723,215) at a redemption price equal to the Net Asset Value of \$5.32 per ROC Security (2008 - \$7.39).

The Trust has a mandatory market purchase program under which the Trust will, subject to certain exceptions contained in the Declaration of Trust and compliance with applicable regulatory requirements, be obligated to purchase for cancellation any ROC Securities offered in the market at the then prevailing market price if, the price at which ROC Securities are then offered for sale is less than 95% of the Net Asset Value per ROC Security determined as at the immediately preceding Valuation Date (as defined in Note 6 below). The maximum number of ROC Securities to be purchased in any three-month period (commencing with the three month-period that began on November 1, 2003) will be 1.25% of the number of ROC Securities outstanding at the beginning of such period.

The Trust may suspend the redemption of ROC Securities or the payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges on which more than 50% of the assets (by value) in the Trust’s portfolio of investments are listed and traded, or (b) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Manager to determine the value of the assets of the Trust.

The Trust under a normal course issuer bid through the facilities of the TSX, may purchase 94,956 ROC Securities. These purchases will be

made in accordance with applicable regulations over a maximum period of 12 months ending September 30, 2010. For the 6 months ended June 30, 2010, the Trust purchased 21,100 ROC Securities valued at \$121,936 for cancellation.

Unit transactions for the 6 months ended June 30, 2010 and 2009 for the ROC Securities are as follows:

	<b>2010</b>	<b>2009</b>
Units, beginning of year	948,869	1,403,369
Units redeemed	(21,100)	(454,500)
Units, end of year	927,769	948,869

The ROC Security is considered to be the source of capital for the Fund. The Fund’s objectives are managing capital to safeguard the Fund’s ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, to provide an adequate return to unitholders commensurate with the level of risk while maximizing the distributions to shareholders.

The Fund does not have any externally imposed capital requirements, the Fund Manager believes that the current level of distributions, capital and capital structure is sufficient to sustain ongoing operations. The Fund Manager actively monitors the cash position and financial performance of the Fund to ensure there are resources to meet distributions and redemptions.

**6. NET ASSET VALUE OF THE TRUST AND NET ASSET VALUES PER ROC AND INCOME SECURITIES**

The net asset value of the Trust is the value of the assets of the Trust less any liabilities of the Trust (other than the outstanding principal amount and deferred interest of the Income Securities) (the “Net Asset Value”). The Net Asset Value per ROC Security means as at a Valuation Date, the number obtained by dividing (a) the Net Asset Value on such Valuation Date less the cost to redeem all Income Securities on such date determined as if the Trust had exercised its redemption right on such date and elected to deliver a Proportionate Interest in the Net Portfolio Securities or a cash payment equal to the value thereof; by (b) the total number of ROC Securities outstanding on such Valuation Date (before giving effect to any issue or redemption of ROC Securities issued or redeemed on that date). A valuation date means, at a minimum, Thursday of each week, or if any Thursday is not a business day, the immediately preceding business day, and the last business day of each month, and includes any other date on which the Manager elects to calculate the Net Asset Value per ROC Security (the “Valuation Date”). The Net Asset Value per Income Security is generally equivalent to the Net Asset Value of the ROC Security.

**7. FEES AND EXPENSES**

The Manager is paid an annual fee by the Trust that equals 1.10% of the Net Asset Value, calculated daily and paid monthly in arrears, plus applicable taxes. The Trust also pays to the Manager a service fee equal to 0.40% per annum of the aggregate Net Asset Value per ROC Security of the ROC Securities held at the end of each calendar quarter by clients of dealers, and 0.40% of the aggregate value of the Income Securities (assuming the value of one Income Security is equal to the cost to redeem an Income Security determined as at the immediately preceding Valuation Date as if the Trust exercised its redemption right on such date and elected to deliver a Proportionate Interest in the Net Portfolio Securities or a cash payment equal to the value thereof), plus applicable taxes, for services rendered to the Trust. The service fee is used by the Manager in turn to pay service fees to dealers based on the number of ROC Securities and Income Securities held by the clients of such dealers.

**8. INCOME TAXES**

The Trust qualifies as a mutual fund trust under the Income Tax Act (Canada). In accordance with the terms of the Declaration of Trust, all of its net income for tax purposes and sufficient net realized capital gains, determined in Canadian dollars, will be paid or payable to unitholders in the taxation year so that no income taxes is payable by the Trust (after taking into account applicable capital gains tax refunds.) Accordingly, no income tax provision has been recorded.

The Trust has capital losses of \$9,326,177 and non-capital losses of \$3,493,611 available to offset future capital gains and income, respectively. If not utilized, the non-capital losses will expire as follows: 2027 - \$813,488, 2028 - \$1,427,594 and 2029 - \$1,252,529

**9. PORTFOLIO TRANSACTION COSTS**

Commissions and other transaction costs paid to dealers for its portfolio transactions were \$nil (2009- \$46,093) for the period ended June 30, 2010. There were no soft dollar amounts included in these payments.

**10. NET ASSET VALUE AND NET ASSETS**

The application of CICA Handbook Section 3855 may result in a different value of securities for financial reporting purposes than the value used for pricing unitholder transaction purposes.

The following is the Net Asset Value per unit determined in accordance with Part 14 of the National Instrument and the Net Assets per unit as shown on the Statements of Net Assets. The difference between these amounts represents the valuation difference of securities resulting from the application of Section 3855.

	<b>INCOME SECURITIES</b>	<b>RETURN OF CAPITAL SECURITIES</b>
<b>2010</b>		
Net Asset Value per unit	\$5.78	\$5.78
Net Assets per unit	\$5.76	\$5.76
<b>2009</b>		
Net Asset Value per unit	\$5.84	\$5.84
Net Assets per unit	\$5.82	\$5.82

**11. SUBSEQUENT EVENT**

On June 7, 2010 Aston Hill Financial Inc. ("Aston Hill") and Navina Asset Management Inc ("NAMI") announced the execution of a share purchase agreement. Pursuant to the agreement Aston Hill acquired 100% of the common shares of NAMI. The acquisition was completed on August 6, 2010. This will result in a change of control of NAMI.



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