

# ASTON HILL FINANCIAL INC.

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2011

## MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) document for Aston Hill Financial Inc. (“Aston Hill” or the “Company”) should be read in conjunction with the condensed unaudited interim Consolidated Financial Statements (“interim Consolidated Financial Statements”) for the period ended June 30, 2011 as well as the audited consolidated financial statements for the year ended December 31, 2010 (the “Consolidated Financial Statements”). The historical financial information of the Company can be found on SEDAR under Aston Hill Financial Inc.

This MD&A and the interim Consolidated Financial Statements and comparative information have been prepared in thousands of Canadian dollars, except where otherwise indicated, and in accordance with International Financial Reporting Standards (“IFRS”), which are also generally accepted accounting principles (“GAAP”) for publicly accountable enterprises in Canada. For all periods up to and including the year ended December 31, 2010, we prepared our Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles (“previous GAAP”). In accordance with the standard related to the first time adoption of IFRS (“IFRS 1”), our transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been prepared in accordance with our IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared following previous GAAP and, as allowed by IFRS 1, has not been re-presented on an IFRS basis. Certain amounts in prior years have been reclassified to conform to the current year’s IFRS presentation format.

The information provided herein is effective as of August 17, 2011 and is, in part, based upon assumptions regarding future events and results, which may vary.

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Aston Hill’s management at the time the statements were made.

### OVERVIEW

Aston Hill is a company listed on the TSX Venture Exchange and incorporated under the *Business Corporations Act* (Alberta). The Company’s business focus is on asset management with expertise in income products, resource investments, oil and gas property management and private equity. Aston Hill provides investment portfolio management and advisory services to funds and fund managers. To that end, Aston Hill has created wholly-owned subsidiary corporations and divisions which have defined platforms and objectives of their own, all as part of the Company’s business plan.

### BUSINESS INTERESTS

Aston Hill conducts business predominantly along two distinct divisional lines: Financial Portfolio Management and Advisory, and Oil and Gas Property Management.

#### Financial Portfolio Management and Advisory

Aston Hill and its subsidiaries manage the Aston Hill Group of Funds, the Catapult Group of Funds, and sub-advisory relationships with IA Clarington Investments Inc. (“IA Clarington”), Redwood Asset Management Inc. (“Ark Funds”), First Asset Management Inc. (“First Asset”), and BMO Nesbitt Burns (“BMO”). Six licensed portfolio managers including Ben Cheng, Jeff Burchell, Andrew Hamlin, and Vivian Lo in the Toronto office; and Joanne Hruska and Carol Pretty in the Calgary office are responsible for the Financial Portfolio Management and Advisory division of Aston Hill.

Aston Hill Asset Management Inc. (“AHAM”), formerly known as Navina Asset Management Inc. (“Navina”), a Toronto based asset management firm specializing in the development, sales, and management of closed-end mutual funds, open-end mutual funds and hedge funds, was acquired on August 6, 2010 by Aston Hill. Aston Hill acquired all of the issued and outstanding common shares of Navina for total consideration of \$4.3 million, of which \$1.7 million was paid in cash and the balance through issuance of 2,009,938 common shares of Aston Hill. The acquisition was subject to a potential earn-out of up to \$1.8 million if certain conditions were met. As at August 6, 2011 the Company determined that the conditions for the earn-out were not met, and as such no consideration was rewarded. AHAM had \$152.7 million in assets under management as at June 30, 2011.

Aston Hill Investments Inc. ("AHI"), formerly Catapult Financial Management Inc. ("Catapult Financial"), an Alberta company and wholly owned subsidiary of Aston Hill, provides management and advisory services to private energy and flow-through share accounts. As well, AHI is currently involved in portfolio advisory for IA Clarington, Ark Funds, First Asset, and BMO.

### **Subsequent events - Financial Portfolio Management & Advisory**

On July 27, 2011 the Company closed a series of transactions that have a material impact on its business. The Company completed a bought deal financing of 6.00% extendible convertible unsecured subordinated debentures ("Convertible Debentures") in the aggregate principal amount of \$40.25 million. Underwriters' fees of 5% of the gross proceeds amounted to \$2.01 million for net proceeds to the Company of \$38.24 million. The Convertible Debentures trade on the TSX Venture Exchange under the symbol AHF.DB and bear interest at a rate of 6.0% per annum, payable semi-annually on July 31 and January 31, and are convertible at the option of the holder into common shares of Aston Hill ("AH Shares") at a conversion price of \$2.55 per common share.

The Company entered into a definitive agreement with a Canadian chartered bank and opened a non-revolving term credit facility (the "Non-Revolving Facility") in the amount of \$6 million and revolving term facility (the "Revolving Facility") in the amount of \$4 million. Simultaneously on July 27, 2011 the Company used the net proceeds from the Convertible Debentures, and the full \$6 million Non-Revolving Facility to fund the cash component of the following two acquisitions.

On July 27, 2011 Aston Hill acquired the business of Morrison Williams Investment Management LP and its wholly-owned subsidiary, Morrison Williams Capital Advisors Inc. (together referred to as "Morrison Williams") for total cash consideration of \$11.5 million. The acquisition of Morrison Williams represents approximately \$1.6 billion in assets under management. Morrison Williams is a portfolio management firm focused primarily on managing money for non-taxable institutional investors such as pension funds and, for high net worth individuals and other taxable investors. In conjunction with the Morrison Williams acquisition, the Company was required to contribute \$500,000 to a Morrison Williams employee benefit plan (the "Benefits Plan"). The \$500,000 contribution will be used to purchase AH Shares for which the participants in the Benefits Plan will be entitled to receive, and will be granted 50% of their entitlement if they remain an employee or officer of Morrison Williams until July 27, 2012 and the remaining 50% if they remain an employee or officer of Morrison Williams until July 27, 2013.

Concurrently, Aston Hill purchased all of the issued and outstanding shares of BFML Management Limited ("BFML"), which was then renamed Aston Hill Management Limited ("Aston Hill Management" or "AHM"), for total cash consideration of \$32.23 million. Aston Hill Management now holds all of the management agreements and related books and records and is the investment fund manager for seven investment funds listed on the Toronto Stock Exchange previously managed by BFML. These seven investment funds represented assets under management of approximately \$800 million at the time of the transaction. Included in the total cash consideration of \$32.23 million is \$3.69 million in refundable GST as this transaction was arranged as an asset acquisition. Also included was \$0.39 million in adjustments paid for management fees earned by the predecessor manager for the period of July 1, 2011 to July 26, 2011. Lastly, the gross payment also included \$0.15 million in working capital that will ultimately be retained by Aston Hill Management to meet its minimum working capital requirements as a registered Investment Fund Manager.

Details of the Investment funds acquired are as follows:

#### ***Brompton Advantaged VIP Income Fund ("AVIP")***

AVIP is a closed-end investment trust established under the laws of the Province of Ontario. AVIP entered into a forward agreement with the Royal Bank of Canada which provides exposure to the return of the portfolio held by AVIP Trust. AVIP aims to provide its unitholders with high, monthly, tax-advantaged distributions together with the opportunity for capital appreciation based on the portfolio held by AVIP Trust, a closed-end investment trust established under the laws of the Province of Ontario. To achieve its investment objectives, AVIP Trust invests in a diversified portfolio consisting of income producing securities, including income trusts, dividend paying common shares, convertible debt, preferred shares and investment grade fixed income investments. Subject to the investment restrictions set out in the amended and restated declaration of trust, AVIP Trust may also invest in high yield debt and special situations, being foreign equities and non-dividend paying equities. As at December 31, 2010 the portfolio held by AVIP Trust was comprised of equities (64.9%), income trusts (7.9%), fixed income investments (19.9%) and cash and short term investments (7.3%). As of July 27, 2011 AVIP and AVIP Trust are both managed by Aston Hill Management. Manulife Asset Management Limited ("Manulife Asset Management") provides portfolio management services to AVIP Trust. AHM pays a portfolio management fee to Manulife Asset Management out of its management fee. Pursuant to separate management agreements between AHM and each of AVIP and AVIP Trust, AHM has exclusive authority to manage the business and affairs of AVIP and AVIP Trust. AVIP trades on the TSX under the symbol AV.UN.

***Brompton VIP Income Fund (“Brompton VIP”)***

Brompton VIP is a closed-end investment trust established under the laws of the Province of Ontario. Brompton VIP aims to provide its unitholders with the benefits of a high level of monthly income, together with the opportunity for capital appreciation. To achieve these objectives, Brompton VIP invests in a diversified portfolio consisting of income producing securities, including but not limited to, income trusts, dividend paying common shares, convertible debt, preferred shares and investment grade fixed income investments. Subject to the investment restrictions as set out in the amended and restated declaration of trust, Brompton VIP may also invest in high yield debt and, in certain circumstances, foreign equities and non-dividend paying equities. Pursuant to a portfolio management agreement, AHM retained, on behalf of Brompton VIP, Manulife Asset Management to make investment decisions with respect to the property and assets of Brompton VIP. AHM pays a portfolio management fee to Manulife Asset Management out of its management fee. Pursuant to a management agreement between AHM and Brompton VIP, AHM has exclusive authority to manage its business and affairs. Brompton VIP trades on the TSX under the symbol VIP.UN.

***Brompton Advantaged Oil & Gas Income Fund (“AO&G”)***

AO&G is a closed-end investment trust established under the laws of the Province of Ontario. AO&G entered into a forward agreement with the Royal Bank of Canada which provides exposure to the return of the portfolio held by O&G Trust, a closed-end investment trust established under the laws of the Province of Ontario. AO&G aims to provide its unitholders with the benefits of high monthly tax advantaged distributions and the opportunity for capital appreciation based on the performance of the portfolio held by O&G Trust. To achieve its investment objectives, O&G Trust invests in an actively managed portfolio of oil and gas securities, including income trusts, dividend paying common equities and convertible debt of oil and gas issuers. In addition, O&G Trust may invest, in certain circumstances, in non-dividend paying equities. AO&G and O&G Trust are both managed by AHM. Manulife Asset Management provides portfolio management services to O&G Trust. Pursuant to separate management agreements between AHM and each of AO&G and O&G Trust, BFML has exclusive authority to manage the business and affairs of AO&G and O&G Trust. AHM pays a portfolio management fee to Manulife Asset Management out of its management fee. AO&G trades on the TSX under the symbol AOG.UN.

***Brompton Oil & Gas Income Fund (“BO&G”)***

BO&G is a closed-end investment trust established under the laws of the Province of Ontario. BO&G aims to provide its unitholders with the benefits of a high level of monthly distributions together with the opportunity for capital appreciation. BO&G seeks to achieve these objectives by investing in an actively managed portfolio of oil and gas securities, including, but not limited to, income trusts, dividend paying common equities and convertible debt of oil and gas issuers. Subject to the investment restrictions as set out in the amended and restated declaration of trust, BO&G may also invest, in certain circumstances, in non-dividend paying equities. BO&G is managed by AHM. AHM has exclusive authority to manage the business and affairs of BO&G. Pursuant to a portfolio management agreement dated June 19, 2008, AHM retained, on behalf of BO&G, Manulife Asset Management to make investment decisions with respect to the property and assets of BO&G. BFML pays a portfolio management fee to Manulife Asset Management out of its management fee. BO&G trades on the TSX under the symbol OGF.UN.

***Global Uranium Fund Inc. (“Global”)***

Global is a mutual fund corporation incorporated under the laws of the Province of Ontario. Global aims to provide its shareholders with the opportunity for capital appreciation by investing in an actively-managed diversified portfolio consisting of equity securities of uranium corporations. To achieve this objective, Global invests in a portfolio that represents attractive investment opportunities in the global production of uranium and development of uranium deposits and, in addition, securities of exploration issuers that offer significant growth potential. Global is managed by AHM pursuant to a management agreement dated May 29, 2007. AHM has exclusive authority to manage the business and affairs of Global. Pursuant to a portfolio management agreement, AHM retained, on behalf of Global, UBS Global Asset Management (Canada) Co. (“UBS Asset Management”) to make investment decisions with respect to the property and assets of Global. AHM pays a portfolio management fee to UBS Asset Management out of its management fee. Global trades on the TSX under the symbol GUR.

### **Senior Gold Producers Income Corp. (“Senior Gold”)**

Senior Gold is a closed-end investment fund established as a mutual fund corporation under the laws of the Province of Ontario. Senior Gold aims to provide its shareholders with monthly distributions, the opportunity for capital appreciation, and lower overall volatility of portfolio returns than would be experienced by owning a portfolio of common shares of gold producers directly. To achieve these objectives, Senior Gold invests in a portfolio consisting of common shares of the large-capitalization gold producers that are included in the S&P/TSX 60 Index and sells covered call options to capitalize on price volatility while retaining the upside on a significant portion of the portfolio. On February 18, 2011, Senior Gold completed its initial public offering of five million class A shares for gross proceeds of \$50 million. On March 8, 2011, Senior Gold closed the over-allotment option for additional gross proceeds of \$5 million. Senior Gold is managed by AHM pursuant to a management agreement dated February 18, 2011. AHM has exclusive authority to manage the business and affairs of Senior Gold. Highstreet Asset Management Inc. (“Highstreet”) was retained pursuant to an option advisor agreement dated February 18, 2011 to manage the portfolio and maintain the option writing program for Senior Gold. For its services to Senior Gold, Highstreet is paid a fee out of AHM’s management fee. Senior Gold trades on the TSX under the symbol GPC.

### **Manulife Brompton Advantaged Bond Fund (“ABB”)**

ABB is an investment trust established under the laws of the Province of Ontario. ABB aims to provide its unitholders with the benefits of attractive monthly tax advantaged cash distributions, together with the opportunity for capital appreciation based on the performance of the portfolio of MBB Trust, an investment trust established under the laws of the Province of Ontario. To achieve its investment objectives, MBB Trust invests in an actively managed portfolio consisting primarily of North American corporate bonds managed by Manulife Asset Management, and at the discretion of Manulife Asset Management Limited, selling short debt securities issued by the United States Department of the Treasury or the Bank of Canada with an aggregate sales price up to one-third the total assets of MBB Trust and investing the proceeds in additional corporate bonds. ABB entered into a forward agreement with The Bank of Nova Scotia which provides exposure to the return of the portfolio held by MBB Trust. ABB and MBB Trust are both managed by AHM. Manulife Asset Management provides portfolio management services to MBB Trust. Pursuant to separate management agreements between AHM and each of ABB and MBB Trust, AHM has exclusive authority to manage the business and affairs of ABB and MBB Trust. AHM pays a portfolio management fee to Manulife Asset Management out of its management fee. ABB trades on the TSX under the symbol MBB.UN.

### **IA Clarington Relationship**

AHI is the portfolio sub-advisor for the IA Clarington Tactical Income Fund and IA Clarington Tactical Income Class (“Tactical Fund & Class”), the IA Clarington Global Tactical Income Fund and the IA Clarington Global Tactical Income Class (“Global Fund & Class”). The Tactical Fund & Class invests approximately one third to two-thirds of its portfolio in equity and other income generating securities and about one third to two thirds in fixed income securities and cash equivalents. The investment strategy of the Global Income Fund & Class is to seek out companies with stable earnings growth, strong management, solid balance sheet and a growing overall market share. The Global Income Fund & Class seeks to generate income and long-term capital growth by investing in a combination of equity and fixed income securities of companies located mainly in Europe and North America.

In 2010 AHI became the sub-advisor for the IA Clarington Aston Hill Tactical Yield Fund (“Tactical Yield Fund”). The Tactical Yield Fund’s investment objectives are to provide unit-holders with monthly cash distributions, initially targeted to be 6.0% per Trust Unit per annum on the original offering price of \$10.00 per unit and to maximize total returns for unit-holders, consisting of both cash distributions and capital appreciation, while reducing risk and preserving capital. The investment strategy is to invest in an actively managed, diversified portfolio comprised primarily of Canadian common, preferred equity, and income generating securities that provide a consistent and stable source of current income; and fixed income securities, including high yield corporate debt securities, and cash and cash equivalents.

Also in 2010 AHI became the sub-advisor to IA Clarington Tactical Bond Fund and IA Clarington Bond Class (“Tactical Bond Fund & Class”) and IA Clarington Energy Class (“Energy Class”). The Tactical Bond Fund & Class invests in a mix of high quality fixed income securities as well as investment grade and higher yielding securities of North American corporate issuers. The Fund will generally be diversified across industry sector, size of issuer and credit rating. Energy Class selects equity securities based on a bottom-up stock selection approach by identifying companies with stable earnings growth, strong management teams, sound balance sheets and a growing overall market share that are trading at attractive prices. The Fund will seek to hold approximately 40-60 securities operating in the Canadian and global energy resource sector.

On February 8, 2010, Aston Hill announced that the agreements between its portfolio management subsidiary, AHI, and IA Clarington have been extended to further strengthen the nature and commitment of their relationship and facilitate a long-term

business arrangement. The extended agreements include an amended sub-advisory agreement with IA Clarington that has an initial term of 5 years and is subject to early termination on two year's notice, or on the occurrence of certain events. An estimate of the financial effects and incremental revenue that will be earned on the advisory services to be performed in accordance with the renewed agreement is not determinable. As specified thresholds of assets under advisory with IA Clarington are achieved, AHI earned advisory fees are reduced on a step down basis.

As part of the extended agreement with IA Clarington, AHI has agreed that it will not manage or advise certain competing retail investment funds unless consented to by IA Clarington. Certain mandates existing on the date of the agreement are excluded from this restriction. In addition, if the assets under sub advisory by AHI for IA Clarington exceed certain specified thresholds during any calendar year, members of the investment advisory team managing those assets will become precluded from acting on the investment advisory team of other investment funds during the next calendar year (subject to certain exceptions).

IA Clarington, a subsidiary of Industrial Alliance Insurance and Financial Services Inc., markets a wide range of investment products, including mutual funds, segregated funds, principal protected notes and closed end funds managed by leading portfolio managers.

### ***First Asset Relationship***

Aston Hill provides portfolio advisory services for the First Asset Preferred Share Investment Trust (the "Trust"). The first closing for the Trust was on April 3, 2009 for \$55 million.

The Trust invests in an actively managed portfolio comprised primarily of investment grade preferred shares and to a lesser extent investment grade corporate debt and convertible bonds in order to provide unit-holders with the opportunity for growth of their investment value through any capital appreciation of the portfolio and quarterly distributions.

### ***Ark Funds Relationship***

AHI provides advisory services to Ark Aston Hill Energy Class Mutual Fund ("Ark Energy Fund"), Ark Aston Hill Monthly Income Class Mutual Fund ("Ark Monthly Fund"), and Ark Catapult Energy Class Fund ("Ark Catapult Fund"). Redwood Asset Management Inc. is a Toronto-based manager and distributor of Ark mutual funds and hedge funds.

Ark Energy Fund is an open ended mutual fund corporation that focuses on investment in the energy sector and seeks to generate long-term capital growth through the investment in Canadian energy exploration and production companies.

The Ark Monthly Fund distributes a tax-efficient, fixed monthly distribution of 5 cents per unit. This fund invests in dividend paying equities and fixed income securities, having a flexible mandate in security selection, sector exposure and asset allocation.

Ark Catapult Fund's investment objective is to achieve long-term capital appreciation by investing primarily in the equity securities of Canadian energy and resource issuers.

### ***Sword Oil & Gas Property Management***

Aston Hill identifies potential oil and natural gas exploration and development opportunities in both the private and public sectors within its oil and gas management division. The mandate is to identify, acquire and manage oil and gas properties on behalf of institutional investors. In 2007, the Company, alongside Infra-PSP Canada Inc. ("PSP"), a wholly-owned subsidiary of the Public Sector Pension Investment Board ("PSPIB"), acquired all of the issued and outstanding trust units of Thunder Energy Trust ("Thunder"). Thunder was then privatized and Aston Hill manages the assets of the resultant private entity, Sword Energy Inc. ("Sword"). Aston Hill receives ongoing management fees for providing Sword with management consulting services and a performance bonus if certain hurdles are met. Aston Hill's ownership interest in Sword is 2.75%. The details of the management agreement and fee structuring are subject to confidentiality agreements, however are in line with comparable agreements in the oil and natural gas industry.

### ***Other Business Interests***

Juno Canada Holdings Ltd. ("Juno") a wholly owned subsidiary and an Alberta company, sells debentures and invests the proceeds in the Wisevest Income Fund ("Wisevest"). Wisevest was established by deed of trust on January 1, 2004 and Juno is the sole holder of Wisevest units. Wisevest's investment objective is to maximize distributions primarily through investment in securities of Canadian royalty and income trusts. Juno has a \$250 debenture (fully collateralized by the Wisevest units) bearing

interest at 8.4% per annum and maturing May 11, 2012. PortfolioCo Inc., an Alberta company and wholly-owned subsidiary of Aston Hill, is the manager of Wisevest and earns fees for its management and administration services.

Aston Hill also invests excess working capital in various investment opportunities including, but not limited to, bankers' acceptances, term deposits, short term bonds, common share securities and oil and gas properties.

## Assets under Management & Advisory

As at June 30, 2011 the Company had approximately \$3.4 billion in assets under management and advisory. The following table summarizes the various investment profiles managed by Aston Hill:

| Assets Under Management and Advisory       | (\$ Millions) |
|--|---------------|
| Oil and natural gas properties             | \$ 327        |
| Financial Portfolio Management             | 157           |
| Assets Under Management                    | \$ 484        |
| Financial Portfolio Advisory               | 2,909         |
| Total Assets under Management and Advisory | \$ 3,393      |

As a result of the acquisitions completed on July 27, 2011 the Company had approximately \$5.8 billion in assets under management and advisory.

## Business Outlook

As a result of the two significant financings and the two major acquisitions completed on July 27, 2011, the Company's primary focus for the remainder of 2011 is on integration and synergizing of its operations in the Financial Portfolio Management division. The Company has re-branded the majority of the investment funds acquired in the Navina acquisition completed in 2010, and marketing of these funds will continue to be emphasized. Aston Hill is also continually pursuing other institutional and private equity investors as opportunities arise in Oil and Gas Property Management business.

## Capital Management

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. As of July 27, 2011 capital of the Company consists of equity instruments, convertible debt instruments, as well as non-revolving and revolving credit facilities. The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives.

## Long-Term Investments

As at June 30, 2011, the Company's long-term investment in Sword had an estimated fair value of \$8,973 (December 31, 2010 - \$7,834). The Company recognized an increase in the fair value of long-term investments for the three and six month periods ended June 30, 2011 of \$140 (2010 - loss of \$1,101) and \$689 (2010 - loss of \$1,101) respectively, due to the changes in the fair value of the investment in Sword. The fair value of the investment in Sword is recalculated quarterly based on internal and external reserve evaluations and estimates as well as conventional valuation methods for valuing privately held interests in accordance with generally accepted accounting principles. The fair value is affected significantly by a volatile oil and natural gas pricing environment; therefore, changes in the fair value from the Sword investment may fluctuate materially from quarter to quarter.

The Company manages Sword on behalf of its majority shareholders and is paid a quarterly management fee in accordance with a management agreement.

On June 22, 2011, the Company invested additional cash of \$450 in Sword, which increased its ownership interest from 2.57% to 2.75%.

## Overall Performance & Results of Operations

- The Company's cash position at June 30, 2011 was \$3,453 (December 31, 2010 - \$4,014)
- The Company's total assets at June 30, 2011 was \$20,946 (December 31, 2010 - \$20,120)
- The Company's total long-term debt at June 30, 2011 was \$250 (December 31, 2010 - \$639)

### Selected Financial Information

|  | Three months ended June 30, |          | Six months ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2011                        | 2010     | 2011                      | 2010     |
| Total revenues                           | \$ 3,538                    | \$ 2,029 | \$ 6,728                  | \$ 3,666 |
| Total expenses                           | \$ 2,773                    | \$ 1,230 | \$ 6,181                  | \$ 2,948 |
| Total general and administrative expense | \$ 1,927                    | \$ 1,080 | \$ 4,907                  | \$ 2,730 |
| Net income (loss) after tax              | \$ 610                      | \$ 393   | \$ 355                    | \$ 201   |
| Net income (loss) per Share – basic      | \$ 0.009                    | \$ 0.006 | \$ 0.005                  | \$ 0.003 |
| Net income (loss) per Share – diluted    | \$ 0.008                    | \$ 0.006 | \$ 0.005                  | \$ 0.003 |
| Cash dividends declared per Share        | \$ -                        | \$ -     | \$ 0.010                  | \$ -     |

Aston Hill's results of operations for the three and six month periods ended June 30, 2011 yielded income after tax of \$610 (2010 - \$393) and \$355 (2010 - \$210) respectively.

Net income before tax for the three month period ended June 30, 2011 was \$765 (2010 - \$799) resulting from revenue of \$3,538 (2010 - \$2,029) from management fees offset by operating and financing expenses of \$2,773 (2010 - \$1,230). Included in expenses are non-cash charges for stock compensation, amortization of property and equipment, and amortization of deferred charges totaling \$410 (2010 - \$121).

Net income before tax for the six month period ended June 30, 2011 was \$547 (2010 - \$201) resulting from revenue of \$6,728 (2010 - \$3,666) from management fees offset by operating and financing expenses of \$6,181 (2010 - \$2,948). Included in expenses are non-cash charges for stock compensation, amortization of property and equipment, and amortization of deferred charges totaling \$769 (2010 - \$228).

During the three and six month periods ended June 30, 2011, Aston Hill recorded net losses on investments of \$145 (2010 - \$23) and \$202 (2010 – profits of \$10) respectively.

The significant increase in revenue from the comparative three month period is largely attributable to the increase in AUM throughout the last 9 months of 2010 and the first six months of 2011. AUM increased from \$2.039 billion as at June 30, 2010 to \$3.393 billion as at June 30, 2011, representing an increase of 66%. The increase in AUM has increased management fee revenue from \$2,029 for the three month period ended June 30, 2010 to \$3,538 for the three month period ended June 30, 2011, a 74% increase.

General & administrative expenses have increased \$847 or 78% from the comparative three month period ended June 30, 2010 as a result of incremental salaries & benefits of \$486 as headcount has increased by 12 staff members year over year, \$124 in additional marketing costs associated re-branding and marketing of current funds under management and new product development, and \$237 in additional rent, insurance, reporting and filing, and general office expenses.

## Summary of Quarterly Results

In 2011 we began reporting our financial results using our IFRS accounting policies. In accordance with IFRS 1, our transition date to IFRS was January 1, 2010 and therefore the comparative information for 2010 has been re-presented in accordance with our IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared following previous GAAP and, as allowed under IFRS 1, has not been re-presented. Further information regarding our IFRS accounting policies can be found in the Significant Accounting Policies and Estimates section of this MD&A as well as in the notes to the interim Consolidated Financial Statements.

|  | 2011     |            | 2010     |          |          |
|--|----------|------------|----------|----------|----------|
|  | Q2       | Q1         | Q4       | Q3       | Q2       |
| Revenue                                    | \$ 3,538 | \$ 3,189   | \$ 3,034 | \$ 2,645 | \$ 2,029 |
| Expenses                                   | 2,741    | 3,396      | 2,167    | 1,640    | 1,224    |
| Net operating income (loss) for the period | 797      | (207)      | 867      | 1,005    | 805      |
| Net income (loss) - per share              | \$ 0.009 | \$ (0.004) | \$ 0.005 | \$ 0.038 | \$ 0.006 |
| Net income (loss) - per share diluted      | \$ 0.008 | \$ (0.004) | \$ 0.004 | \$ 0.037 | \$ 0.006 |

|  | 2010       | 2009 (previous GAAP) |            |
|--|------------|----------------------|------------|
|  | Q1         | Q4                   | Q3         |
| Revenue                                    | \$ 1,637   | \$ 1,291             | \$ 1,015   |
| Expenses                                   | 1,723      | 1,149                | 965        |
| Investing losses (gains)                   | -          | (1,886)              | 364        |
| Net operating income (loss) for the period | (86)       | 2,028                | (314)      |
| Net income (loss) - per share              | \$ (0.003) | \$ 0.046             | \$ (0.005) |
| Net income (loss) - per share diluted      | \$ (0.003) | \$ 0.046             | \$ (0.005) |

The following is an explanation for the significant changes in revenues over prior quarters:

- The increase in revenues from the first quarter of 2011 to the second quarter of 2011 is a result of an increase in sub-advisory fees. Consistent increases in revenues from the first quarter of 2010 through each subsequent quarter up to and including the second quarter of 2011 were primarily due to increased AUM and advisory fees from IA Clarington funds under sub-advisory.
- The increase in revenues quarter over quarter from the third quarter of 2010 to the fourth quarter of 2010 was due to an increase in revenues from the AHAM acquisition.
- Consistent increases in revenue for the last eight quarters are the result of incremental investment funds and total AUM added to the business throughout the two year period.

The following is an explanation for the significant changes in expenses over prior quarters:

- The decrease in expenses in the second quarter of 2011 of \$655 as compared to the first quarter of 2011 is due to the annual employee short term incentive payment of \$1,350 that was expensed in the first quarter. This was partially offset by increases in salaries and benefits and share based payments in the second quarter of \$193 and \$34 respectively as headcount increased by 4, increased marketing, legal, and general office expenses of \$82 as a result of significant product development and the commencement of due diligence procedures on the transactions that closed on July 27, 2011. In addition, the Company incurred an additional \$259 as it absorbed expenses typically paid by its investment funds. Lastly, the Company incurred incremental losses on its investments of \$88 in the second quarter of 2011.
- The increase in expenses in the first quarter of 2011 as compared to the fourth quarter of 2010 is a result of annual employee incentive payments. In the first quarter, the Board of Directors determines and approves the annual employee short term incentive payment. Consistent with prior years, the expense is fully recognized in the quarter for which the payment is made and approved by the Board.
- The increase in expenses in the fourth quarter of 2010 as compared to the third quarter of 2010 is due to the recognition of a full quarter of operating expenses from AHAM since the closing of the acquisition in the third quarter, one time severance payments, and additional salaries and benefits.

- The increase in expenses in the third quarter of 2010 as compared to the second quarter of 2010 is due to an increase in transaction costs from the closing of the AHAM acquisition on August 6, 2010, and incremental expenses from consolidating AHAM.
- The increase in expenses in the first quarter of 2010 as compared to the fourth quarter of 2009 is due to an increase in legal fees and marketing costs associated with new product development as well as employee short term incentive payments. In the first quarter, the Board of Directors determines and approves the annual employee short term incentive payment. Consistent with prior years, the expense is fully recognized in the quarter for which the payment is made and approved by the Board.

## **Risk Management including Financial and Other Instruments**

The Company's financial assets and liabilities are comprised of cash and cash equivalents, trade and other receivables, marketable securities, notes receivable, long term equity investments, trade and other payables, debentures, and other financial liabilities held for trading. Discussion of risks associated with financial assets and liabilities are presented as follows.

The fair values of cash and cash equivalents, trade and other receivables, notes receivable, and trade and other payables approximate their carrying amount due to the short-term maturity of those instruments.

### **Credit Risk**

Credit risk is the potential for financial loss to the Company if a counterparty in a transaction fails to meet its obligations. The Company's cash and cash equivalents, trade and other receivables, notes receivable, and marketable securities, are subject to credit risk. The Company monitors its credit risk management policies continuously to evaluate their effectiveness and feels that the credit worthiness of its counterparties is satisfactory at this time.

Cash and cash equivalents primarily consist of highly liquid temporary deposits with a Canadian chartered bank, debt securities issued by the Canadian and provincial governments, bankers' acceptances and commercial paper. The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company's maximum credit exposure is \$6,774, which is the sum of its cash and cash equivalents, trade and other receivables, notes receivable, and marketable securities, as reported on the statement of financial position as at June 30, 2011.

Significant amounts of the Company's accounts receivable are due from related parties. As at June 30, 2011, 57% (2010 – 43%) of the accounts receivable are due from related parties. The Company believes that the entire accounts receivable balance is collectible. Accordingly, management has not provided for an allowance for doubtful accounts as at June 30, 2011.

Despite the Company's mitigation of credit risk, there is additional risk due to the current state of the financial market.

### **Liquidity Risk**

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. In addition to the Company's current balance of cash and cash equivalents, other potential sources of liquidity include the Company's accounts receivable, and long-term investments. The Company's continued ability to access capital markets to raise funds is dependent on market conditions that are subject to change.

The timing of cash outflows relating to financial liabilities are as follows:

|  | Carrying amount | Contractual cash flows | Less than one year | One - two years | Two - five years | More than five years |
|--|-----------------|------------------------|--------------------|-----------------|------------------|----------------------|
| Non-derivative financial liabilities:                                |                 |                        |                    |                 |                  |                      |
| Trade and other payables   | \$ 1,139        | \$ 1,139               | \$ 1,139           | \$ -            | \$ -             | \$ -                 |
| Obligation to redeem Lawrence Partners Fund Inc. shares <sup>1</sup> | 407             | 407                    | 407                | -               | -                | -                    |
| Debentures   | 250             | 250                    | -                  | 250             | -                | -                    |
| Expected interest payments   | -               | 20                     | 10                 | 10              | -                | -                    |
| Office commitments   | -               | 1,917                  | 200                | 661             | 379              | 677                  |
|  | \$ 1,796        | \$ 3,733               | \$ 1,756           | \$ 921          | \$ 379           | \$ 677               |

<sup>1</sup>The Company's obligation to redeem LPF shares to the previous shareholders of Navina will be settled from the cash proceeds upon disposition of the Company's shares held in LPF.

## Market Risk

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in interest rates, foreign exchange rates or equity prices.

The Company's financial instruments are generally denominated in Canadian dollars and do not have significant exposure to changes in foreign exchange rates.

The Company's securities holdings are classified at fair value through profit or loss and at fair value through other comprehensive income, therefore unrealized gains and losses on securities are recorded in income or other comprehensive income as changes in fair value. As at June 30, 2011, the impact of a 10% increase or decrease in the value of the Company's held for trading portfolio would have been an approximate \$50 unrealized gain/loss recorded in income. As at June 30, 2011, the impact of a 10% increase or decrease in the value of financial assets at fair value through other comprehensive income would have been an approximate \$897 unrealized gain/loss recorded in other comprehensive income. Due to the current financial market conditions, there is additional market risk that may affect the short term and long term value of these financial assets and liabilities.

## Related Party Transactions

The Company had the following related party transactions:

- The Company manages a private oil and gas company and on behalf of the majority shareholders is paid a quarterly management fee in accordance with an executed management agreement. Accounts receivable includes \$352 (December 31, 2010 - \$nil) as at June 30, 2011 in respect of these management fees. For the three and six month period ended June 30, 2011 \$335 (2010 - \$375) and \$659 (2010 - \$779) respectively was recorded as revenue.
- Accounts receivable at June 30, 2011 includes management fees receivable from Catapult Energy 2008 FTS Limited Partnership ("2008 FTS") of \$nil (December 31, 2010 - \$47). During the three and six month periods ended June 30, 2011, \$nil (2010 - \$43) and \$nil (2010 - \$88) respectively was recorded as revenue in respect of these management fees.
- Accounts receivable at June 30, 2011 includes management fees and interest receivable from Aston Hill Energy 2010 Short Term FT Limited Partnership ("2010 ST FT") of \$nil (December 31, 2010 - \$4). During the three and six month period ended June 30, 2011 \$17 (2010 - \$nil) and \$42 (2010 - \$nil) respectively was recorded as revenue in respect of these management fees.
- Notes receivable as at June 30, 2011 from 2010 ST FT of \$nil (December 31, 2010 - \$303) are promissory notes due from 2010 ST FT. The notes are receivable on demand and accrue interest at a rate of 6% annually. Interest is calculated daily on the remaining balance and is receivable on a monthly basis on the last day of each month. Aston Hill Energy 2010 GP Inc., is a wholly owned subsidiary of the Company, and is the General Partner of 2010 ST FT. The notes were fully repaid on June 22, 2011.

- e) The Company's wholly owned subsidiary AHAM receives management fees and pays for expenses incurred by its various funds under management. These expenses are then charged back to the funds and are recovered under non-interest bearing, normal credit terms. Management fees and other amounts due from funds under management and included in accounts receivable at June 30, 2011 is \$225 (December 31, 2010 - \$269). During the three and six month period ended June 30, 2011 \$503 (2010 - \$nil) and \$951 (2010 - \$nil) respectively was recorded as revenue in respect of these management fees.
- f) The note payable as described in note 5 for the Navina/Lazard US High Yield Bond is one of the Company's funds under management and is a related party transaction.
- g) As at June 30, 2011 \$439 (December 31, 2010 - \$1,089) of the financial assets at fair value through profit or loss is related to holdings of two of the Company's funds under management. For the six month period ended June 30, 2011 \$3,606 (June 30, 2010 - \$nil) in changes in fair market value of these investments was recognized and recorded in net income. In addition, during the six month period ended June 30, 2011 the Company redeemed 19,214 of its 31,105 units held in Lawrence Partners Fund Inc. On the redemption, the Company recorded realized losses of \$3,598. Lawrence Partners Fund Inc. is one of the Company's assets under management and as such, these represent related party transactions.

### Commitments and Guarantees

The Company is committed to lease office premises with future base rent payments as follows:

|                            | June 30,<br>2011 | December 31,<br>2010 |
|----------------------------|------------------|----------------------|
| Less than one year         | \$ 200           | \$ 387               |
| Between one and five years | 1,039            | 1,049                |
| More than five years       | 678              | 689                  |
|                            | <u>\$ 1,917</u>  | <u>\$ 2,125</u>      |

The Company is also required to pay its proportionate share of operating and property tax costs for the premises.

The Company has agreed to indemnify certain individuals, who have acted at the Company's request to be an officer or director of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individual as a result of their services. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to the beneficiary of such indemnification agreement. The Company has purchased various insurance policies to reduce the risks associated with such indemnification.

In the ordinary course of business, the Company and its subsidiaries enter into contracts which contain indemnification provisions, such as letter agreements, service agreements and purchase and sale agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. In some cases the Company requires indemnities from its service providers, related to the Company's indemnification obligations to customers. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

### Significant Accounting Policies & Estimates

The June 30, 2011 Interim Consolidated Financial Statements have been prepared in accordance with IFRS. The accounting policies followed in these interim Consolidated Financial Statements are the same as those applied in the Company's interim Consolidated Financial Statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Also included in the Interim Consolidated Financial Statements is note 12 which includes a discussion on the recoverable amount of the Company's intangible assets compared to its carrying value. In addition, Note 3 includes a discussion on the determination of the fair values of the Company's investments.

The Company carries significant intangible assets on its balance sheet. Aston Hill uses valuation models that use estimates of sales and redemptions of investment products as the primary determinants of fair value. Aston Hill uses a valuation approach based on a multiple of assets under management. Aston Hill has reassessed these variables in light of the current economic climate. Estimates of sales and redemptions are very likely to change as economic conditions either improve or deteriorate.

### **Adoption of International Financial Reporting Standards**

Aston Hill adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions and cash flow. Note 23 of the interim Consolidated Financial Statements presents reconciliations between the Company's June 30, 2010 and December 31, 2010 GAAP results and the June 30, 2010 and the December 31, 2010 IFRS results and explanations of the adjustments to IFRS. The reconciliations include the Company's reported financial position and financial performance including the nature and effect of significant changes in accounting policies as at and for the six month period ended June 30, 2010 as well as at and for the twelve month period ended December 31, 2010.

### **Future Changes in Accounting Policies**

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, *Consolidated Financial Statements* (IFRS 10), IFRS 11, *Joint Arrangements* (IFRS 11), IFRS 12, *Disclosure of Interests in Other Entities* (IFRS 12), IAS 27, *Separate Financial Statements* (IAS 27), IFRS 13, *Fair Value Measurement* (IFRS 13) and amended IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has begun the process of assessing the impact that the new and amended standards will have on its financial statements but has not yet concluded whether to early adopt any of the new requirements.

In June 2011, the IASB amended IAS 19, *Employee Benefits* ("IAS 19"). The amendment eliminates the option to defer the recognition of actuarial gains and losses, commonly known as the corridor approach, rather it requires an entity to recognize actuarial gains and losses in Other Comprehensive Income ("OCI") immediately. This amended standard is effective for annual periods beginning on or after January 1, 2013, with modified retrospective application. Earlier adoption is permitted. Management has concluded that the amendment to IAS 19 is unlikely to have any impact on its Consolidated Financial Statements.

In June 2011, the IASB issued an amendment to IAS 1, *Presentation of Financial Statements* ("IAS 1") requiring companies to group items presented within OCI based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 with full retrospective application. Early adoption is permitted. We are currently evaluating the impact of adopting this amendment on our Consolidated Financial Statements.

### **Effectiveness of Disclosure Controls and Procedures & Internal Control over Financial Reporting**

The Company is required to disclose herein any change in the design of the Company's Disclosure Controls and Procedures ("DC&P") & internal control over financial reporting ("ICFR") that occurred during the quarter ended on June 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. No material changes in Aston Hill's ICFR were identified during the three months ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Aston Hill is not required to certify the design and evaluation of its DC&P and ICFR and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency, and timeliness of the interim and annual filings and other reports provided under securities legislation.

## Outstanding Share Data

| <b>Capital</b>         | <b>Authorized</b> | <b>Outstanding as at<br/>August 17, 2011</b> | <b>Common Shares Underlying<br/>Convertible Securities</b> |
|------------------------|-------------------|--|--|
| Common Shares          | Unlimited         | 71,365,128 <sup>(1)</sup>                    | -  |
| Stock Options          | Not Applicable    | 5,591,351 <sup>(1)</sup>                     | 5,591,351 <sup>(1)</sup>                                   |
| Convertible Debentures | Not Applicable    | Nil  | 15,784,315   |

Notes:

- (1) The Company received shareholder approval to reserve for issuance up to 10% of the issued and outstanding Common Shares at the date of the creation for its incentive stock option plan.

Reference is made in this Management Discussion & Analysis to the Company's consolidated financial statement disclosure for the relevant periods filed on the SEDAR website at [www.sedar.com](http://www.sedar.com) where additional disclosure relating to the Company can also be located.

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