

**McD MERGER ARBITRAGE FUND, LTD.**  
**(Incorporated in the British Virgin Islands)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

# **McD MERGER ARBITRAGE FUND, LTD.**

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# ARTHUR MORRIS & COMPANY

CHARTERED ACCOUNTANTS

CENTURY HOUSE  
16 PAR-LA-VILLE ROAD  
P.O. BOX HM 1806  
HAMILTON HM HX, BERMUDA

TELEPHONE: (441) 292-7478  
FACSIMILE: (441) 295-4164  
E-MAIL: amc@amc.bm

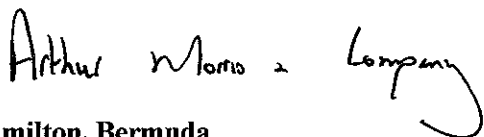
## AUDITORS' REPORT

### To the Shareholders of McD Merger Arbitrage Fund, Ltd.

We have audited the statement of net assets of McD Merger Arbitrage Fund, Ltd. (the "Fund"), including the schedule of investment, as at December 31, 2009, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of McD Merger Arbitrage Fund, Ltd. as at December 31, 2009, and the results of its operations and changes in its net assets for the year then ended, in accordance with accounting principles generally accepted in Bermuda and Canada.



HAMILTON, BERMUDA  
MAY 14, 2010

# McD MERGER ARBITRAGE FUND, LTD.

## STATEMENT OF NET ASSETS

(Expressed in U.S. dollars)

<b>December 31,</b>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Cash and cash equivalents (note 3)	\$ 24,779	\$ 8,362
Investment, at market (cost: \$3,838,610; 2008: \$2,074,277)	<u>4,378,774</u>	<u>2,797,000</u>
<b>Total assets</b>	<u>4,403,553</u>	<u>2,805,362</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	11,500	11,500
Management fees payable (note 4)	<u>2,798</u>	<u>1,775</u>
<b>Total liabilities</b>	<u>14,298</u>	<u>13,275</u>
<b>NET ASSETS</b>	<u>\$ 4,389,255</u>	<u>\$ 2,792,087</u>
<b>Number of Shares Outstanding</b> (note 5)	<u>44,643</u>	<u>31,468</u>
<b>NET ASSET VALUE PER SHARE</b> (note 7)	<u>\$ 98.32</u>	<u>\$ 88.73</u>

**Approved by the Board:**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# McD MERGER ARBITRAGE FUND, LTD.

## STATEMENT OF OPERATIONS

(Expressed in U.S. dollars)

For the year ended December 31,	2009	2008
<b>Investment Income</b>		
Interest income	\$ 26	\$ (69)
Other income	<u>-</u>	<u>14,558</u>
	<u>26</u>	<u>14,489</u>
<b>Operating Expenses</b>		
Investment management fees (note 4)	25,494	20,250
Audit fees	7,500	7,700
Miscellaneous	4,420	5,060
Directors fees	4,000	4,000
Registrar and transfer agent fees	3,000	3,000
Annual government fees	<u>2,300</u>	<u>2,300</u>
<b>Total operating expenses</b>	<u>46,714</u>	<u>42,310</u>
<b>Net investment loss</b>	<u>(46,688)</u>	<u>(27,821)</u>
<b>Investment</b>		
Net realized gain on sale of investments	574,734	-
Net change in unrealized gain on investments	<u>(182,560)</u>	<u>36,000</u>
<b>Net gain on investments</b>	<u>392,174</u>	<u>36,000</u>
<b>Increase in net assets resulting from operations</b>	<u>\$ 345,486</u>	<u>\$ 8,179</u>

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

# McD MERGER ARBITRAGE FUND, LTD.

## STATEMENT OF CHANGES IN NET ASSETS

(Expressed in U.S. dollars)

For the year ended December 31,	2009	2008
<b>Operating activities</b>		
Net investment loss	\$ (46,688)	\$ (27,821)
Net realized gain on sale of investments	574,734	-
Net change in unrealized gain on investments	<u>(182,560)</u>	<u>36,000</u>
<b>Net increase in net assets from operating activities</b>	<u>345,486</u>	<u>8,179</u>
<b>Financing activities</b>		
Cost of redemption of shares	(1,819,488)	(16,858)
Proceeds from the issuance of shares	<u>3,071,170</u>	<u>42,145</u>
<b>Net increase in net assets from financing activities</b>	<u>1,251,682</u>	<u>25,287</u>
<b>Net increase in net assets</b>	1,597,168	33,466
<b>Net assets, beginning of year</b>	<u>2,792,087</u>	<u>2,758,621</u>
<b>Net assets, end of year</b>	<u>\$ 4,389,255</u>	<u>\$ 2,792,087</u>

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

# McD MERGER ARBITRAGE FUND, LTD.

## SCHEDULE OF INVESTMENT

(Expressed in U.S. dollars)

For the year ended December 31, 2009

The Fund holds 139,097 (2008: 100,000) shares of The Merger Fund Ltd.

### The Merger Fund Ltd. Condensed Statement of Assets and Liabilities December 31, 2009

	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 202,784	\$ 1,308
Investment in GS Master Trust	28,992,542	21,762,845
Receivable from GS Master Trust	203,569	1,106,041
Other assets	<u>52,711</u>	<u>7,991</u>
	<u>\$ 29,451,606</u>	<u>\$ 22,878,185</u>
<b>LIABILITIES AND SHAREHOLDERS' CAPITAL</b>		
<b>Liabilities</b>		
Redemptions payable	\$ 58,500	\$ 473,433
Subscriptions received in advance	200,000	-
Accrued investment advisory fees	814,544	117,704
Payable to GS Master Trust	<u>-</u>	<u>6,000</u>
	<u>1,073,044</u>	<u>597,137</u>
Net Assets	<u>28,378,562</u>	<u>22,281,048</u>
NAV per share	<u>\$ 31.49</u>	<u>\$ 27.97</u>

# McD MERGER ARBITRAGE FUND, LTD.

## SCHEDULE OF INVESTMENT

(Expressed in U.S. dollars)

For the year ended December 31, 2009

### The Merger Fund Ltd. Condensed Statement of Operations For the year ended December 31, 2009

	2009	2008
Investment (loss) income	\$ (95,440)	\$ 1,282,628
Operating expenses	<u>(1,152,438)</u>	<u>(449,206)</u>
Net investment (loss) gain	(1,247,878)	833,422
Total realized gain (loss) on investments	3,837,315	(142,845)
Total change in unrealized gain on investments	<u>388,870</u>	<u>(443,753)</u>
Net increase in net assets from operations	<u>\$ 2,978,307</u>	<u>\$ 246,824</u>

### Condensed Statement of Changes in Shareholders' Capital For the year ended December 31, 2009

	2009	2008
Shareholders' capital, beginning of year	\$ 22,281,048	\$ 26,725,578
Capital contributions	8,364,425	3,550,321
Capital withdrawals	(5,245,218)	(8,241,675)
Net increase in net assets from operations	<u>2,978,307</u>	<u>246,824</u>
Shareholders' capital, end of year	<u>\$ 28,378,562</u>	<u>\$ 22,281,048</u>

A copy of the audited financial statements of The Merger Fund Ltd. and GS Master Trust for the year ended December 31, 2009, is available, without charge, upon written request to the Investment Manager, McD Financial Services Ltd., Suite 269, 48 Par-la-Ville Road, Hamilton, Bermuda.

# McD MERGER ARBITRAGE FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS

(Expressed in U.S. dollars)

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For the year ended December 31, 2009

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### 1. Operations

McD Merger Arbitrage Fund, Ltd. (the "Fund") was incorporated under the laws of Bermuda on August 13, 1986. The Fund redomiciled to the British Virgin Islands on January 24, 1997 and is an open-ended mutual fund company with limited liability.

The Fund is managed by McD Financial Services Ltd. (the "Investment Manager"), a management company with limited liability incorporated in and under the laws of Bermuda. McD Financial Services Ltd. also provides administrative and registrar and transfer agent services. The Investment Manager and the Fund have common directors.

The Fund is organized with a single class of shares with the objective to achieve long term capital growth through a professionally managed program of merger arbitrage. The Fund aims to accomplish this objective by investing in The Merger Fund Ltd., an investment fund incorporated in the Cayman Islands, which is listed on the Irish Stock Exchange and has the same investment objectives as the Fund.

### 2. Significant accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The significant accounting policies are as follows:

#### *Valuation of Investment*

The investment has been valued at the balance sheet date at market value, being the net asset value per share of The Merger Fund Ltd. as reported in its audited financial statements.

#### *Investment Transactions*

Investment transactions are recorded on a trade date basis. The investment is valued in accordance with the net asset value per share as stated in the investee fund's audited financial statements as at December 31, 2009. Realized gains and losses on the sale of investments are recorded on a first-in, first-out basis and included in the statement of operations. Investment income is recorded on an accrual basis.

# McD MERGER ARBITRAGE FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS (continued)

(Expressed in U.S. dollars)

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**For the year ended December 31, 2009**

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### 2. Significant accounting policies (continued)

#### *Cash and cash equivalents*

Cash comprises funds held in a liquid money market fund, which is related to the Fund through common management.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in Bermuda and Canada requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the financial statements reflect the Fund's best estimates and assumptions, actual results could differ from these estimates.

#### *Adoption of New Accounting Standards*

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011.

In December 2009, the CICA Accounting Standards Board ("AcSB") approved Part II of the CICA Accounting Handbook as the accounting standards for private enterprises for fiscal years beginning on or after January 1, 2011. As a result the Fund's first set of IFRS compliant statements will be for the year ended December 31, 2011.

# McD MERGER ARBITRAGE FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS (continued)

(Expressed in U.S. dollars)

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**For the year ended December 31, 2009**

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**2. Significant accounting policies (continued)**

*Adoption of New Accounting Standards (continued)*

Based on the Investment Manager's current evaluation of the differences between accounting principles generally accepted in Bermuda and Canada and IFRS, the Investment Manager does not expect that the net assets attributable to shareholders or net asset value per share will be impacted by the changeover to IFRS. Currently, the Investment Manager expects that the impact of IFRS on the Fund's financial statements will result in additional disclosures and potentially different presentation of shareholder interests and certain other items.

**3. Related party balances**

As at December 31, 2009, the Fund had invested \$24,779 (2008 - \$8,362) with McD Money Market Fund Ltd. which is an affiliated company through common directors.

**4. Investment management fees**

Pursuant to an investment management agreement dated June 25, 2002, the investment manager is entitled to a monthly management fee, paid in arrears, calculated at the rate of 0.75% per annum of the net asset value of the Fund on the last trading day of each month. During the year, investment management fees amounted to \$25,494 (2008 - \$20,250), of which \$2,798 (2008 - \$1,775) is payable at year end.

# McD MERGER ARBITRAGE FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS (continued)

(Expressed in U.S. dollars)

**For the year ended December 31, 2009**

### 5. Share capital

The authorized share capital comprises 2,000,000 redeemable shares with a par value of \$1.00 per share.

Shares are issued and redeemed at the net asset value per share at the close of business on the last trading day of each month. The Fund must receive redemption requests at least 15 business days prior to month end.

Share capital transactions during the year were as follows:

	2009		2008	
	Number of shares	Capital at par value	Number of shares	Capital at par value
Outstanding, beginning of year	31,468	\$ 31,468	31,168	\$ 31,168
Issued	32,975	32,975	500	500
Redeemed	(19,800)	(19,800)	(200)	(200)
Outstanding, end of year	44,643	\$ 44,643	31,468	\$ 31,468

### 6. Financial instruments and concentration of risks

The fair values of cash and cash equivalents, accounts payable and accrued liabilities and management fees payable approximate their carrying value. The fair value of the investment is disclosed in the Condensed Statement of Assets and Liabilities of The Merger Fund Ltd.

The Fund is potentially subject to concentrations of credit risk with cash and cash equivalents and the investment. The Fund's credit risk is the replacement cost at the then estimated fair value of the instrument. The Fund places its cash in McD Money Market Fund Ltd., an affiliated company, which invests in investment grade commercial paper. Accordingly, management believes the risk of loss arising from credit risk is remote. The Merger Fund Ltd. invests in diverse portfolio of quoted securities which are subject to market risk.

# McD MERGER ARBITRAGE FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS (continued)

(Expressed in U.S. dollars)

For the year ended December 31, 2009

### 6. Financial instruments and

**concentration of risks (continued)** The Fund is also subject to concentration of liquidity risk. The Fund invests in The Merger Fund Ltd. wherein redemptions may be made as of the last day of each calendar month (the "Valuation Date"), upon five days prior written notice, for an amount equal to the net asset value per share held by the investors as of the Valuation Date. Redemption proceeds are generally paid 15 days after the Valuation Date. The Funds is wholly dependant upon the timely receipt of the cash proceeds from the redemption of shares in The Merger Fund Ltd. to finance its obligations to redeeming shareholders.

### 7. Financial highlights

	2009	2008
Net asset value per share, beginning of year	\$ 88.73	\$ 88.51
Net investment loss	(1.30)	(0.75)
Net realized and unrealized appreciation of investment	<u>10.89</u>	<u>0.97</u>
Net asset value per share, end of year	<u>\$ 98.32</u>	<u>\$ 88.73</u>
Total return	<u>10.81%</u>	<u>0.25%</u>
Average net assets	<u>\$ 3,345,912</u>	<u>\$ 2,702,147</u>
Management expense ratio:		
Investment management fees	0.75%	0.75%
Other	<u>0.63%</u>	<u>0.82%</u>
	<u>1.38%</u>	<u>1.57%</u>

Financial highlights are calculated for the share class taken as a whole. An individual investor's return and ratios will vary as a result of the timing of capital transactions.

### 8. Taxation

Under the laws of the British Virgin Islands, the Fund is not required to pay any taxes on either income or capital gains. Accordingly, no provision has been made in the accompanying financial statements.

# McD MERGER ARBITRAGE FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS (continued)

(Expressed in U.S. dollars)

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For the year ended December 31, 2009

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**9. Subsequent events**

During the period January 1, 2010 to May 14, 2010, there were no issue or redemption of shares by the Fund.

**10. Fair value measurements**

The Fund adopted the provisions of Canadian Institute of Chartered Accountants Handbook Section 3862, "Financial Instruments – Disclosure" ("CICA 3862") effective December 31, 2009 and the adoption did not have a material impact on the Fund's financial statements when adopted.

In determining fair value, the Fund uses various valuation approaches. CICA 3862 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund.

Unobservable inputs reflect the Fund's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2** – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

**Level 3** – Inputs for the asset or liability that are based on unobservable market data.

The categorization of the Fund's financial assets recorded at fair value based upon the fair value hierarchy as at December 31, 2009 are as follows:

Level 2 - Significant observable inputs                      \$ 4,378,774