SEMI-ANNUAL REPORT 2010

AX/S Investment Fund Inc.

AXIS INVESTMENT FUND INC. (THE "FUND")

MANAGEMENT REPORT OF FUND PERFORMANCE

For the six-month period ended February 28, 2010

/ INTRODUCTORY NOTE

This semi-annual Management Report of Fund Performance (MRFP) contains financial highlights but does not contain the complete semi-annual financial statements of the Fund. Those semi-annual financial statements are included in the Fund's 2010 Semi-Annual Report, of which this MRFP forms a part. You can also get a copy of the annual financial statements at your request, and at no cost, by calling toll-free 1-888-888-3863, by writing to us at 15 Toronto Street, Suite 400, Toronto, Ontario M5C 2E3 or by visiting our website at www.axisfunds.com or SEDAR at www.sedar.com.

Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures and its proxy voting disclosure record.

/ MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

The Fund is a venture capital investment fund registered as a labour-sponsored investment fund corporation under the *Community Small Business Investment Funds Act* (Ontario). The Fund's investment objective is to achieve long-term capital growth through investing in a diversified portfolio of early stage private companies in the information technology sector in Ontario. The investment strategy is to attract and evaluate, through a rigorous due diligence process, investment opportunities that meet the investment objectives of the Fund. Management believes that the information technology sector provides numerous investment opportunities that have the potential to grow exponentially and, thereby, allow the Fund to achieve its investment objectives. Investments are structured in a manner that will allow the Fund to maximize its return on those investments, through value creation and liquidity in a reasonable time frame.

Risk

General

Investing in early stage privately held companies will always provide a level of risk that is higher than that of later stage or publicly traded counterparts. There are numerous reasons for this, such as i) there is often little meaningful prior performance of the company which is measurable or predictive of future performance in order to assess future success, ii) the companies are generally pre-revenue at the time of the Fund's investment and continue to be so for a significant period thereafter. This increases the company's exposure to changing market conditions and external events that can significantly hamper a company's ability to generate profits, and iii) there is generally not a clear liquidity event for the Fund at the time of investment.

Liquidity

In the past, the Fund has provided its portfolio companies with their planned investment dollars based on satisfying various performance milestones. New sales of Fund shares have been less than in prior years. This has resulted in a reduction in available cash that may be required in the future to make follow-on investments in the current portfolio. Should the Fund be unable to participate in its follow-on obligations, the effect on the value of the underlying asset could be impaired.

Valuation

The Fund estimates the fair value of its assets for which there is no published market. The valuation process is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. To the extent that these valuations are too high, a new shareholder investment will provide a benefit to existing investors; similarly, to the extent these valuations are too low, existing investors will suffer a dilution in the value of their shares.

Redemptions

The Fund intends to maintain, at all times, sufficient liquid assets to honour redemption requests up to 20% of the trading net asset value of the Fund as of the last day of the preceding financial year. However it cannot guarantee that it will honour all redemption requests at the time they are made. The Fund may suspend redemptions for substantial periods of time. Where a redemption request is not honoured in one year, it will be made as of the first day of the next financial year of the Fund subject to the 20% limit above. The Fund's ability to satisfy redemption requests on an ongoing basis will be influenced by a variety of factors, including the level of redemption requests experienced by the Fund, the effect of such requests upon the liquid assets of the Fund, and the ability of the Fund to generate and retain liquid assets.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE (Cont'd.)

Recent Developments

On May 29, 2009 the Canadian Institute of Chartered Accountants ("CICA") issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures ("3862 Amendments"). As a result of these amendments, the Fund will be required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (Level 1, Level 2 and Level 3 inputs as defined in the standard). The 3862 Amendments are applicable for years ending after September 30, 2009. As a result, the Fund will be implementing the 3862 Amendments in the financial statements for the year ending August 31, 2010. The 3862 Amendments will not affect the valuation of assets and liabilities held by the Fund, but will result in enhanced and increased disclosure requirements.

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the date International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises such as investment funds and other reporting issuers. The Canadian Securities Administrators (the "CSA") has issued CSA Staff Notice 52-320, which requires the Manager to provide progress updates on the changeover plan to the new reporting standards at each interim and annual reporting period up until the changeover date. The Fund is developing a changeover plan to meet the timeline published by the CICA. The key elements of the plan include: identification of the differences between the current accounting policies of the Fund which reflect current GAAP, and those expected to apply under IFRS, analyzing the impact on business arrangements, including business and reporting processes, disclosure of the qualitative and quantitative impact, if any, in the management report of fund performance for the Fund for fiscal 2011 and preparation of the financial statements for the Fund for fiscal 2012 in accordance with IFRS. The Manager anticipates there will be changes to the financial statements but the impact, if any, cannot be reasonably estimated at this time. The Manager does anticipate an increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and changes needed to gather and process the required information. By the end of fiscal 2010, the Manager expects to be able to determine the impact of IFRS on the overall financial statement presentation including note disclosure and to complete its assessment of and initiate any changes to its business arrangements.

Effective July 1, 2010, Ontario provincial sales tax ("PST") will be replaced with a value-added tax and combined with the federal Goods and Services Tax ("GST") to create a federally administered Harmonized Sales Tax ("HST"). The HST will have a combined rate of 13% of which the provincial portion will be 8% and the federal portion will be 5%. Management fees and certain other service costs of the Fund are currently subject to the 5% GST but not the PST. Beginning on July 1, 2010, these services will be subject to the new HST. The Fund will not be able to recover this tax and therefore the additional 8% tax will represent an increase in costs to the Fund.

On November 6, 2009, the Fund announced that it has halted redemptions and subscriptions of shares of the Fund while the Board of Directors explores strategic options to maximize returns for all the Fund's shareholders. The Board of Directors' decision follows careful consideration of the current liquidity situation, continuing adverse market conditions and the anticipated requests for redemptions from Class A Shareholders.

Related Party Transactions

B.E.S.T. Investment Counsel Limited (the "Manager") as well as the Independent Union of Defence Contractors (the "Sponsor") are deemed to be related parties of the Fund. Please refer to the section titled "Management Fees" which outlines the fees paid to these related parties during the year. John Richardson, the Chief Executive Officer of the Fund, is a director of, officer of and indirectly controls the Manager.

Results of Operations

Financial Results

The Fund reported a decrease in net assets from operations in the amount of $1,184,869 for the six-month period ended February 28, 2010. Most of this decrease is due to realized loss of $1,193,569 from the sale of an investment from the Fund's portfolio.

Interest and other income decreased from $15,684 for the six-month period ended February 28, 2009 to $747 for the six-month period ended February 28, 2010. The lower interest income is a result of lower balances of interest earning securities and lower interest rates paid on the Fund's reserve portfolio. Total expenses for the six-month period ended February 28, 2010 decreased to $143,080 from $154,593 for the six-month period ended February 28, 2009. The decline resulted from lower expenses in almost all categories. Management fees, administration fees, sponsor fees and selling expenses were lower due to the lower average net asset value of the Fund. These lower fees were somewhat offset by higher legal fees and Independent Review Committee fees as the Fund is in the process of reviewing its strategic alternatives.

During the six-month period ended February 28, 2010 the Fund reported sales (net of commissions) of Class A Shares of $804 and redemptions of $7,773. This compares to the same period last year when the Fund reported sales (net of commissions) of Class A Shares of $3,642 and redemptions of $32,476.

The Fund did not make any new or follow-on venture investments during the period.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the six-month period ended February 28, 2010 and the past five years.

Fund's Net Assets per Share:[1]

	Six-month period ended February 28, 2010		2009		2008		2007		2006		2005	
	Series 1	Series 2	Series 1	Series 2	Series 1	Series 2	Series 1	Series 2	Series 1	Series 2	Series 1	Series 2
	$	$	$	$	$	$	$	$	$	$	$	$
Net Assets, beginning of period	**2.23**	**2.03**	**3.94**	**3.64**	**8.56**	**7.95**	**9.64**	**8.92**	**11.07**	**10.25**	**12.10**	**11.87**
Increase (decrease) from operations:												
– total revenues	0.00	0.00	0.01	0.01	0.06	0.06	(0.03)	(0.02)	0.45	0.42	0.42	0.39
– total expenses	(0.12)	(0.11)	(0.26)	(0.23)	(0.52)	(0.46)	(0.64)	(0.56)	(0.67)	(0.58)	(0.74)	(0.65)
– realized gains (losses) for the period	(0.93)	(0.87)	(0.74)	(0.70)	(1.59)	(1.50)	0.00	0.00	0.00	0.00	0.00	0.00
– unrealized gains (losses) for the period	0.12	0.11	(0.73)	(0.69)	(2.56)	(2.41)	(0.41)	(0.38)	(1.20)	(1.14)	(0.13)	(0.12)
– performance fees	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.07
Total increase (decrease) from operations[2]	**(0.93)**	**(0.87)**	**(1.72)**	**(1.61)**	**(4.61)**	**(4.31)**	**(1.08)**	**(0.96)**	**(1.42)**	**(1.30)**	**(0.38)**	**(0.30)**
Total distributions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Net Assets, end of period	**1.30**	**1.16**	**2.23**	**2.03**	**3.94**	**3.64**	**8.56**	**7.95**	**9.64**	**8.92**	**11.07**	**10.25**

Notes:

1. *The information is provided as at February 28, 2010 and for the six-month period then ended and as at and for the year ended August 31 for the years shown. The net assets per series 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.*
2. *Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period. As a result, the table is not intended to and will not necessarily reconcile opening and closing net assets.*

FINANCIAL HIGHLIGHTS (Cont'd.)

Ratios and Supplemental Data:

	Six-month period ended February 28, 2010		2009		2008	
Series	1	2	1	2	1	2
Net Asset Value[1]	$492,502	$1,193,244	$849,662	$2,064,717	$1,524,907	$3,725,542
Number of shares outstanding	372,506	966,920	373,928	968,748	378,938	980,466
Management expense ratio – operating expenses only[2]	12.40%	11.92%	8.77%	8.33%	7.38%	6.88%
Management expense ratio after operating expenses and commissions[2]	12.40%	11.92%	8.78%	8.35%	7.41%	6.96%
Management expense ratio before waivers or absorptions[2]	12.40%	11.92%	8.78%	8.35%	7.41%	6.96%
Trading expense ratio[3]	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Portfolio turnover rate[4]	0.00%	0.00%	0.00%	0.00%	6.14%	6.14%
Net Asset Value per share, end of year	$1.32	$1.23	$2.27	$2.13	$4.02	$3.80

	2007		2006		2005	
Series	1	2	1	2	1	2
Net Asset Value[1]	$3,328,762	$8,048,234	$3,737,524	$9,097,786	$4,272,942	$10,043,955
Number of shares outstanding	383,679	984,041	381,458	987,931	378,954	945,734
Management expense ratio – operating expenses only[2]	6.69%	6.19%	6.13%	5.64%	6.53%	6.12%
Management expense ratio after operating expenses and commissions[2]	6.78%	6.28%	6.33%	6.21%	7.19%	8.17%
Management expense ratio before waivers or absorptions[2]	6.69%	6.19%	6.33%	6.21%	7.19%	8.17%
Trading expense ratio[3]	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Portfolio turnover rate[4]	0.59%	0.59%	6.58%	6.58%	0.00%	0.00%
Net Asset Value per share, end of year	$8.68	$8.18	$9.80	$9.21	$11.28	$10.62

Notes:

1. *This information is provided as at February 28, 2010 and for the six-month period ended, and as at and for the year ended August 31of the year shown.*
2. *Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the year.*
3. *The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.*
4. *The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of a year. The higher the Fund's portfolio turnover rate in a year the greater the trading costs payable by the Fund, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.*

Management and Performance Fees and Sponsor Fees

The Fund has entered into an agreement with the Manager to provide, or cause to be provided, management, registrar, transfer agency, sales and marketing, fund accounting and liquid portfolio management services. In consideration for these services, the Fund pays the Manager 4% per year of the "trading" net asset value of the Fund. This is calculated and paid monthly based on the "trading" net asset value on the last day of each month. The Manager is also entitled to an annual performance fee equal to 25% of the amount by which the net revenue from the investments in eligible businesses in each financial year exceeds a specified threshold for that financial year. To the extent that net revenue in any given year does not exceed the threshold, then the amount by which net revenue falls below the threshold will be carried forward and deducted from net revenue in the next year.

The Sponsor is paid an annual fee equal to 0.15% of the "trading" net asset value of the Fund to a maximum of $105,000 per year.

PAST PERFORMANCE

General

Since inception of the Fund, there have been no distributions paid or reinvested by the Fund.

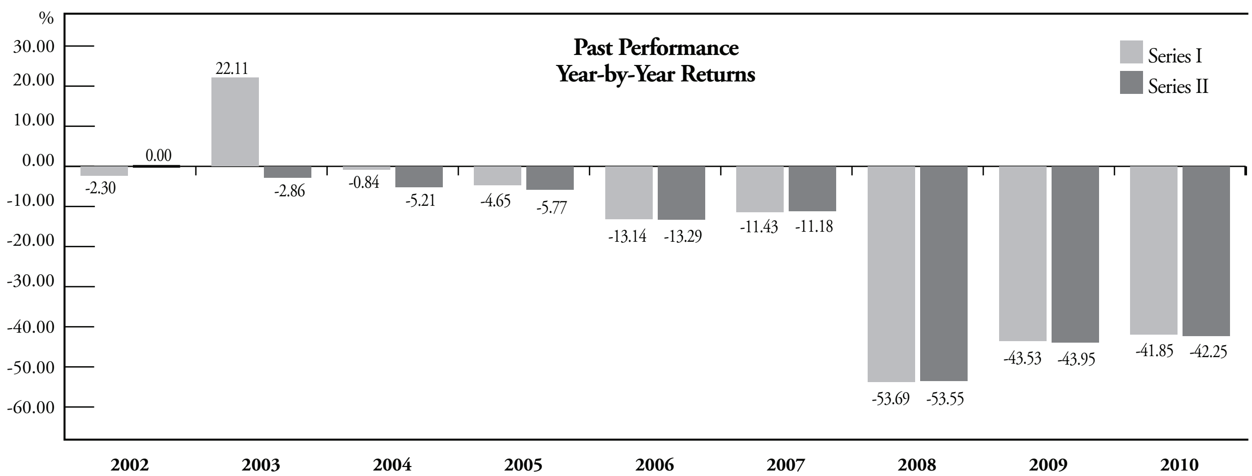
The performance information that follows does not take into account sales, redemptions, distribution, or other optional charges that would have reduced returns or performance.

Past performance of the Fund does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The following chart provides an overview of the performance of each Series of shares offered by the Fund. The Series I shares opened at $10.00 per share on March 1, 2002, while the Series II shares opened at $12.24 on December 5, 2002.

The chart also shows, in percentage returns, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year and the six-month period ended February 28, 2010.



SUMMARY OF INVESTMENT PORTFOLIO

Summary of Portfolio Companies

	Maturity date
FIXED-TERM INVESTMENTS (15.55%)*	
Inter Pipeline Inc. Discount Note, 0.50%	March 1, 2010
PUBLIC COMPANY INVESTMENTS (3.45%)*	
BSM Technologies Inc., Common Shares	

	Maturity date
VENTURE INVESTMENTS (82.90%)*	
AppZero (formerlyTrigence Corp.)	
- Common shares	
- Class A Preferred shares	
BluePrint Software Systems Inc. (formerly Sofea Inc.)	
- Class B Preferred shares	
Elliptic Semiconductor Inc.	
- Class A Common shares	
- Class A-1 Preferred shares	
- Class A-2 Preferred shares	
GridIron Software Inc.	
- Class A Exchangeable shares	
- Series A Special Voting shares	
- Special Voting Shares	
- Exchangeable Common Shares	
- Special Voting Common Shares	
Liquid Computing Inc.	
- Exchangeable common shares)	
- Special Voting shares	

** Percentage of total net assets*

SUMMARY OF INVESTMENT PORTFOLIO (Cont'd.)

This summary of the portfolio investments of the Fund will change due to the on-going transactions in the Fund. The summary will be updated on a semi-annual basis.

The following graphs provide a breakdown of the Fund's investment portfolio from several perspectives:

- **Figure 1.1** – An overall position of its portfolio investments.
- **Figure 1.2** – A breakdown of the portfolio by aggregate security type, to allow a reader to understand the type of securities being issued to the Fund by the underlying portfolio company. Interest revenue is normally generated from debt securities only. The preferred shares generally hold ranking priority over common shares and their terms can vary widely.
- **Figure 1.3** – The portfolio broken down by technology sub-sector. These sub-sectors can all be found within the Information Technology sector as a whole and many of them can be a combination of one sub-sector (i.e. hardware/software solutions).

FIGURE 1.1

Situation Analysis ($Millions)
(February 28, 2010)

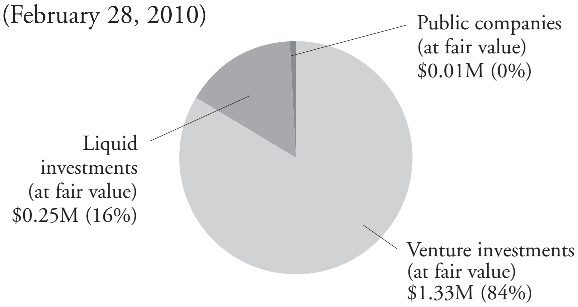


FIGURE 1.2

Investment by Security Type
(February 28, 2010)

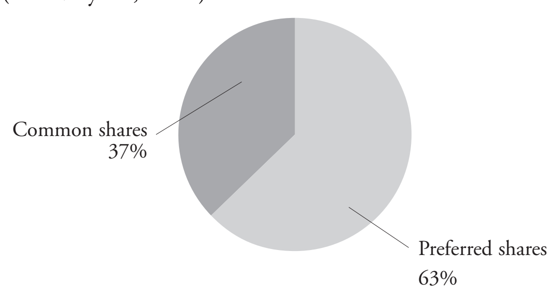
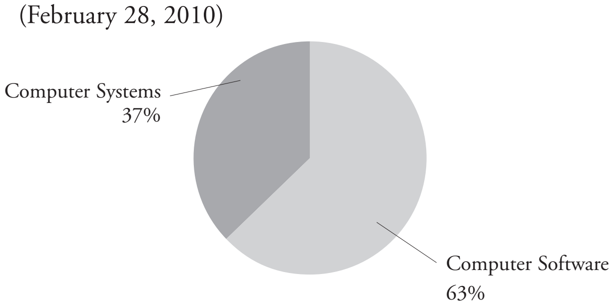


FIGURE 1.3

Sector Distribution
(February 28, 2010)



AX/S

Axis Investment Fund Inc.

Unaudited Interim Financial Statements

For the Six-month period ended February 28, 2010

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS

In accordance with Canadian securities laws (National Instrument 81-106), Axis Investment Fund Inc. hereby gives notice that the Fund's independent auditors have not performed a review of these Interim Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

Statements of Net Assets (Unaudited)

As at February 28, 2010 and August 31, 2009	**2010**	2009
ASSETS		
Investments – at fair value (cost $7,537,090; 2009 – $8,930,522)	**$ 1,638,133**	$ 2,880,532
Cash	**51,226**	32,093
Accrued interest	**120**	96
	1,689,479	2,912,721
LIABILITIES		
Accounts payable and accrued liabilities	**81,869**	110,600
Redemptions payable	**1**	2,674
	81,870	113,274
NET ASSETS	**$ 1,607,609**	$ 2,799,447
Net assets per class/series		
Class A, Series I Shares	**$ 484,387**	$ 834,214
Class A, Series II Shares	**$ 1,123,222**	$ 1,965,233
Class B Shares	**–**	–
Number of shares outstanding (note 3)		
Class A, Series I Shares	**372,506**	373,928
Class A, Series II Shares	**966,920**	968,748
Class B Shares	**10**	10
Net assets per share (note 5)		
Class A, Series I Shares	**$ 1.30**	$ 2.23
Class A, Series II Shares	**$ 1.16**	$ 2.03
Class B Shares	**NIL**	NIL

Approved by the Board of Directors

George R. Paterson, Director

David A. Copeland, Director

The accompanying notes are an integral part of these financial statements

/ Statements of Operations (Unaudited)

For the six-month periods ended February 28, 2010 and 2009	2010	2009
INCOME		
Interest and other income	$ 747	$ 15,684
	747	15,684
EXPENSES		
Management fees (note 4)	35,089	56,996
Audit fees	31,383	26,676
Legal fees	28,921	20,349
Directors' fees and expenses (note 4)	19,273	17,273
Administration fees (note 4)	11,697	18,998
Independent review committee fees	5,662	1,988
Custodian fees	4,100	3,620
Filing and other fees	3,472	2,238
Sponsor fees (note 4)	1,770	3,215
Selling expenses (note 4)	1,713	3,240
	143,080	154,593
Net investment loss for the period	(142,333)	(138,909)
Realized (loss) and unrealized appreciation (depreciation) on investments		
Realized (loss) on sale of investments	(1,193,569)	(42,636)
Unrealized appreciation (depreciation) of investments	151,033	(1,528,619)
	(1,042,536)	(1,571,255)
Decrease in net assets from operations	$ (1,184,869)	$ (1,710,164)
Decrease in net assets from operations		
Class A, Series I shares	$ (346,688)	$ (499,327)
Class A, Series II shares	$ (838,181)	$ (1,210,837)
Decrease in net assets from operations per share		
Class A, Series I shares	$ (0.93)	$ (1.32)
Class A, Series II shares	$ (0.87)	$ (1.24)

The accompanying notes are an integral part of these financial statements

Statements of Changes in Net Assets (Unaudited)

For the six-month periods ended February 28, 2010 and 2009	2010	2009
Net Assets - Beginning of period		
Class A, Series I shares	$ **834,214**	$ 1,493,937
Class A, Series II shares	**1,965,233**	3,563,667
	2,799,447	5,057,604
Decrease in net assets from operations per series		
Class A, Series I shares	**(346,688)**	(499,327)
Class A, Series II shares	**(838,181)**	(1,210,837)
	(1,184,869)	(1,710,164)
Capital Transactions		
Proceeds from issue		
Class A, Series I shares	**100**	780
Class A, Series II shares	**798**	3,269
Commissions paid to agents, Class A, Series I shares	**(6)**	(47)
Commissions paid to agents, Class A, Series II shares	**(88)**	(360)
Payments on redemption		
Class A, Series I shares	**(3,233)**	(5,696)
Class A, Series II shares	**(4,540)**	(26,780)
	(6,969)	(28,834)
Decrease in net assets from capital transactions		
Class A, Series I shares	**(3,139)**	(4,963)
Class A, Series II shares	**(3,830)**	(23,871)
	(6,969)	(28,834)
Total decrease in net assets		
Class A, Series I shares	**(349,827)**	(504,290)
Class A, Series II shares	**(842,011)**	(1,234,708)
	(1,191,838)	(1,738,998)
Net Assets - End of period		
Class A, Series I shares	**484,387**	989,647
Class A, Series II shares	**1,123,222**	2,328,959
	$ **1,607,609**	$ 3,318,606

The accompanying notes are an integral part of these financial statements

/ Statements of Cash Flows (Unaudited)

For the six-month periods ended February 28, 2010 and 2009	2010	2009
Cash flows from (used in)		
Operating activities		
Decrease in net assets from operations	$ (1,184,869)	$ (1,710,164)
Unrealized (appreciation) depreciation of investments	(151,033)	1,528,619
Realized loss on sale of investments	1,193,569	42,636
Net change in non-cash balances related to operations	(31,428)	(101,178)
	(173,761)	(240,087)
Investing activities		
Purchase of fixed-term investments	(1,599,413)	(1,148,817)
Purchase of venture investments	–	–
Proceeds on the maturity of fixed term investments	1,799,276	599,648
Proceeds on sale of fixed-term investments	–	881,774
Proceeds on sale of venture investments	–	–
	199,863	332,605
Financing activities		
Proceeds from issue of Class A shares, Series I	100	780
Proceeds from issue of Class A shares, Series II	798	3,269
Amounts paid for Class A Shares, Series I redeemed	(3,233)	(5,696)
Amounts paid for Class A Shares, Series II redeemed	(4,540)	(26,780)
Commissions paid related to the sale of Class A shares	(94)	(407)
	(6,969)	(28,834)
Increase (decrease) in cash during the year	19,133	63,684
Cash at the beginning of the year	32,093	8,832
Cash at the end of the year	$ 51,226	$ 72,516

The accompanying notes are an integral part of these financial statements

Statement of Investment Portfolio (Unaudited)

As at February 28, 2010	Par Value	Maturity Date	Cost	Fair Value
FIXED-TERM INVESTMENTS (15.55%)*				
Inter Pipeline Inc. Discount Note (0.50%)	250,000	March 1, 2010	$ 249,880	$ 249,880
Total fixed-term investments			$ 249,880	$ 249,880

As at February 28, 2010	Number of Shares	Cost	Fair Value
PUBLIC COMPANY INVESTMENTS (3.45%)*			
BSM Technologies Inc., Common Shares	1,849,900	$ 258,986	$ 55,497
Total public company investments		$ 258,986	$ 55,497

As at February 28, 2010	Number of Shares	Cost	Fair Value
VENTURE INVESTMENTS (82.90%)*			
AppZero Corp. (formerly Trigence inc.)			
– Common shares	42,942		
– Class A Preferred shares	1,519,099	$ 1,519,099	
BluePrint Software Systems Inc. (formerly Sofea Inc.)			
– Class B Preferred shares	1,771,756	1,481,187	
Elliptic Semiconductor Inc.			
– Class A Common shares	225,365	21,000	
– Class A-1 Preferred shares	792,040	250,000	
– Class A-2 Preferred shares	2,698,393	732,978	

	Number of Shares	Cost	Fair Value
VENTURE INVESTMENTS (Cont'd.)			
GridIron Software Inc.			
– Class A Exchangeable Shares	1,079,507	400,000	
– Series A Special Voting Shares	1,079,507	–	
– Special Voting Shares	1,469,499	–	
– Exchangable Common Shares	389,992	550,000	
– Special Voting Common Shares	389,992	–	
Liquid Computing Inc.			
– Exchangeable common shares	105,837	2,073,960	
– Special Voting shares	105,837	–	
Total venture investments		$ 7,028,224	$ 1,332,756
Total investments (101.90%)*		$ 7,537,090	$ 1,638,133
Other net liabilities (1.90%)*			$ (30,524)
Total net assets			$ 1,607,609

* Percentages shown relate investments at fair value to total net assets

The accompanying notes are an integral part of these financial statements

1. FUND STATUS AND OPERATIONS

Axis Investment Fund Inc. (the "Fund") was incorporated under the laws of Canada by articles of incorporation dated October 29, 2001. The Fund is registered as a labour-sponsored investment fund corporation under the *Community Small Business Investment Funds Act*, 1992 (Ontario) (the "Ontario Act") and is a prescribed labour-sponsored venture capital corporation under the *Income Tax Act* (Canada) (the "Federal Act").

The sponsor of the Fund is the Independent Union of Defense Contractors (the "Sponsor").

The Federal and Ontario Acts allow an individual to invest in Class A shares of the Fund and to obtain personal income tax credits. The Fund makes investments in eligible businesses engaged in the information technology sector with the objective of achieving long-term capital appreciation.

The Ontario Government announced on August 29, 2005 that it would end its involvement in the Labour Sponsored Investment Fund ("LSIF") tax credit program and phase out the 15% tax credit by the end of the 2010 taxation year. On December 13, 2007, the Ontario government introduced proposed amendments to the Ontario Act which extend the phase-out of the Ontario Credit to the end of the 2011 taxation year.

On November 6, 2009, the Fund announced that it has halted redemptions and subscriptions of shares of the Fund while the Board of Directors explores strategic options to maximize returns for all the Fund's shareholders. The Board of Directors' decision follows careful consideration of the current liquidity situation, continuing adverse market conditions and the anticipated requests for redemptions from Class A Shareholders.

2. ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

a) Net Asset Value ("NAV")

A NAV is calculated on each valuation date for each series of Class A shares. The NAV of a particular series of shares is computed by calculating the value of that series' proportionate share of the assets and liabilities of the Fund common to all series less the liabilities of the Fund attributable only to that series. Expenses directly attributable to a series are charged to that series. Assets, common liabilities, revenues and other expenses are allocated proportionately to each series based upon the relative net assets of each series.

b) Valuation Policies

Marketable Securities

Short-term investments, which have a term to maturity of less than one year, are valued at fair value. Fixed-term investments and public company investments are valued based on closing bid prices. Purchases and sales of public company investments are recorded on a trade date basis.

Venture investments

Venture investments are recorded at their estimated fair value determined on a going concern basis, or if appropriate, assuming an orderly disposition over a reasonable period of time. Fair value is defined as the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined using the appropriate valuation methodology after considering the history and nature of the business, operating results and financial conditions, the general economic and market conditions, capital market and transaction market conditions, independent valuations of businesses, contractual rights relating to the investment, public market comparable transactions and other pertinent considerations.

The process of valuing venture investments is inevitably based on inherent uncertainties and the resulting values will differ, perhaps materially, from the amounts ultimately realized. Also, because these venture investments have been valued on a going concern basis, the values may differ materially from those realized on forced sale or liquidation.

Debt

Debt instruments are valued at their fair value. Accrued interest or discounts earned are included in interest receivable.

Warrants, Rights and Options

Warrants, rights and options that are publicly traded on a registered stock exchange having quoted market values are recorded at values based on their closing bid prices at the valuation date. Warrants, rights and options which do not have a public market price will be carried at such valuation as determined by the application of industry accepted derivative models such as the Black Scholes model where appropriate.

c) Income recognition

Interest and other income are recorded on an accrual basis. Accrued interest is written off against interest income when it becomes likely the interest will not be collected.

d) Commissions and service fees

All initial up-front commissions paid on the issue of Class A shares are recorded immediately as a charge against share capital. Service fee commissions paid as an on-going fee as they relate to the Series I shares outstanding are charged to operations during the year. Refer to Note 4.

e) Performance fee

As described in Note 4, a performance fee becomes payable to B.E.S.T. Investment Counsel Limited (the "Manager") upon realization of gains on venture investments beyond a cumulative threshold. Any amount payable at the financial statement date is recorded as a liability and expense of the Fund in the period. In addition, a provision is made for the performance fees that might become payable at a future date on the realized and unrealized appreciation in the investment portfolio.

2. ACCOUNTING POLICIES (Cont'd.)

f) Management estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

g) Increase (decrease) in net assets from operations per share

Increase (decrease) in net assets from operations per share is disclosed in the Statements of Operations and is determined by dividing the increase or decrease in net assets from operations for the year attributable to the series divided by the average number of shares of the series outstanding during the period.

h) Transaction Costs

Transaction costs, if incurred, are expensed in the Statements of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. The cost of investments for each security is determined on an average cost basis.

3. SHARE CAPITAL

The following is a description of the authorized and issued share capital:

Authorized

Unlimited number of Class A shares with discretionary dividend entitlement, voting, restrictions on transfer and redemption, entitled to elect three of the directors. The Series I Class A shares were issued at $10 per share until March 1, 2002 and continuously hereafter at a price equal to the net asset value per share for that Series. The Series II Class A shares were issued at $12.24 per share on December 5, 2002, that being the current net asset value of the Class A shares at that time and continuously thereafter at a price equal to the net asset value per share for that Series. A shareholder may redeem all or part of the Class A shares held at the net asset value for the applicable Series of Class A shares, subject to certain restrictions. In any fiscal year, the Fund is not required to, but may, redeem Class A shares having an aggregate redemption price exceeding 20% of the net asset value of the Fund as at the last day of the preceding fiscal year. If the Fund does not redeem Class A shares in the fiscal year requested, it will redeem those shares in the following fiscal year before it redeems any other Class A shares that it has been requested to redeem.

A redemption fee is charged in the amount of 0.75% for the Series I shares and 1.375% of the Series II shares times the number of years or part years remaining until the eighth anniversary of the date of issue. The early redemption fee is recorded as income.

Unlimited number of Class B shares issuable only to the sponsor of the Fund, no dividend entitlement, voting, entitled to elect all but three of the directors.

Unlimited number of Class C shares issuable in series, discretionary dividend entitlement, non-voting, restrictions on transfer and redemption.

Issued	Feb. 28, 2010	Aug. 31, 2009
Class A shares		
Series I		
Balance – Beginning of period	**373,928**	378,938
Issued during the period	**45**	554
Redeemed during the period	**(1,467)**	(5,564)
Balance – End of period	**372,506**	373,928
Series II		
Balance – Beginning of period	**968,748**	980,466
Issued during the period	**385**	1,790
Redeemed during the period	**(2,213)**	(13,508)
Balance – End of period	**966,920**	968,748
Class B shares		
Balance – Beginning of period	**10**	10
Issued during the period	**–**	–
Balance – End of period	**10**	10

The Fund makes investments in eligible Canadian businesses as defined in the CSBIF Act with the objective of achieving maximum long-term capital appreciation. The Manager's objective is to invest the Fund's capital in order to provide a return to shareholders in accordance with the objectives and strategy of the Fund. The Fund is not subject to any externally imposed capital requirements.

4. FEES AND EXPENSES

Management and administrative fees

The Fund entered into an agreement with Axis Capital Corporation commencing March 1, 2002 to provide, or cause to be provided, management, registrar, transfer agency, sales and marketing, fund accounting and liquid portfolio management services. Effective December 20, 2007 this agreement was assigned to the B.E.S.T. Investment Counsel Limited. In consideration for these services, the Fund will pay the Manager:

(a) 4% per year of the net asset value of the Fund (3% will be classified as management fees and 1% will be classified as administration fees – administration fees consisting of back office operations, marketing, distribution, shareholder communications, etc.); and

(b) an annual performance fee equal to 25% of the amount by which the net revenue from the investments in eligible businesses in each financial year exceeds a specified threshold for that financial year. To the extent that net revenue in any given year does not exceed the threshold, then the amount by which net revenue falls below the threshold will be carried forward and deducted from net revenue in the next year.

Sponsor fees

The Sponsor is paid an annual fee equal to 0.15% of the net asset value of the Fund to a maximum of $105,000 per year.

Commissions and service fees

The Fund pays a commission of 6% to registered dealers on sale of Series I Class A shares and 11% on the sale of Series II Class A shares. Commissions on the sale of all Class A shares paid to dealers during the six-month ended February 28, 2010 amounted to $94 (2009 – $688) and, in accordance with the Fund's accounting policy, all of these commissions have been charged against share capital. The Fund also pays a service or trailer fee equal to 0.5% per annum of the "trading" net asset value of the Series I Class A shares of the Fund to registered dealers. This fee is charged to the operations of the Fund in accordance with the Fund's accounting policy.

Directors' fees

For the years ending August 31, 2010 and August 31, 2009, the directors of the Fund agreed to set the annual fee at $7,000 for each director. The Chairman of the Board of Directors is entitled to receive an additional annual fee of $4,000 and the Chairman of the Audit Committee is entitled to receive an additional annual fee of $2,000.

5. NET ASSET VALUE RECONCILIATION

Prior to September 1, 2004, the Fund had adopted the industry practice of amortizing the 6% sales commission paid on sales of Class A Shares against share capital, and the 5% additional commission paid on sales of Series II Shares against income, on a straight line basis over a period of eight years.

As a result of changes in GAAP, financial statements of a labour-sponsored investment fund for any financial year beginning on or after October 1, 2003 may not use the deferral and amortization method in respect of the recording of sales. Rather, sales commissions paid by labour-sponsored investment funds to registered dealers must now be recorded as an immediate charge against the net asset value of the labour-sponsored investment fund.

The securities regulatory authorities in Ontario have published rules that require labour-sponsored investment funds to follow these GAAP requirements for purposes of their financial statements. For transitional purposes, those securities regulatory authorities have issued a notice stating that, in determining the price at which shares of labour-sponsored investment funds are purchased and redeemed, a labour-sponsored investment fund may, on certain conditions, calculate the net asset value of its shares (the "trading net asset value") by continuing to defer and amortize sales commissions paid prior to January 1, 2004, and treating sales commissions paid on or after January 1, 2004 as an immediate reduction in the trading net asset value.

In November 2003, the Board of Directors approved to adopt the transitional provisions afforded to them by the securities regulatory authorities and beginning September 1, 2004, in accordance with GAAP, the Fund has charged all existing and future sales commissions to share capital. However, such adoption of the transitional rules now results in differences between the trading net asset value of the Class A Shares and the net assets of the Class A Shares for purposes of the Fund's financial statements (the "GAAP net assets").

5. NET ASSET VALUE RECONCILIATION (Cont'd.)

The reconciliation of the net asset value for trading purposes and GAAP purposes is as follows:

Feb. 28, 2010

	Per Share Series I $	Series I $	Per Share Series II $	Series II $	**Total $**
"GAAP" Net Assets	1.30	484,387	1.16	1,123,222	**1,607,609**
Reconciling items:					
– Commissions deferred prior to Jan. 1, 2004		122,848		499,292	**622,140**
– Amortization of deferred commissions		(114,733)		(429,270)	**(544,003)**
Net Asset Value	1.32	492,502	1.23	1,193,244	**1,685,746**

Aug. 31, 2009

	Per Share Series I $	Series I $	Per Share Series II $	Series II $	**Total $**
"GAAP" Net Assets	2.23	834,214	2.03	1,965,233	**2,799,447**
Reconciling items:					
– Commissions deferred prior to Jan. 1, 2004		122,848		499,292	**622,140**
– Amortization of deferred commissions		(107,400)		(399,808)	**(507,208)**
Net Asset Value	2.27	849,662	2.13	2,064,717	**2,914,379**

6. INCOME TAXES

The Fund is a registered labour sponsored venture capital corporation and a mutual fund corporation for the purposes of the *Income Tax Act* (Canada). The Fund is required to calculate income or loss for each taxation year, file income tax returns and is subject to tax at normal corporate rates for federal purposes and in the Province of Ontario, its only permanent establishment.

Any dividends received by the Fund from taxable Canadian corporations will generally not be subject to tax. Income taxes payable on capital gains will be fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid and deemed to be paid by the Fund to its shareholders.

Both the *Income Tax Act* (Canada) and the *Community Small Business Investment Funds Act*, 1992 (Ontario) set minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met, the Fund will be subject to defined taxes and penalties. At February 28, 2010, the Fund has met all the requirements set out in the Acts.

As at February 28, 2010, the Fund had non-capital losses available for carry forward of $4,266,090 (August 31, 2009 – $4,107,140), of which approximately $156,799, $519,082, $597,886, $554,868, $1,125,539, $768,076, $384,890 and $158,950 will expire in 2010, 2014, 2015, 2026, 2027, 2028, 2029 and 2030 respectively. The Fund also has capital losses of $4,234,304. The potential income tax benefit of these losses has not been recognized in these financial statements.

7. FINANCIAL INSTRUMENTS

The Fund makes investments in eligible businesses engaged in the information technology sector with the objective of achieving long-term capital appreciation. The Fund's financial instruments consist primarily of cash, marketable securities and venture investments in the early-stage of development. Venture investments in private companies consist of convertible debt, equity, or equity equivalents. These investments in private companies are typically illiquid. The Fund's investments are concentrated in the information technology sector in small and medium sized eligible businesses. The Fund seeks to reduce the risks typically associated with such investments by diversifying its portfolio to various companies, by using a disciplined investment decision process and by working with investee companies through, among other things, providing business advice and other services, aiding in the recruitment process, and helping in the process of raising additional capital.

Financial Instruments

	Feb. 28, 2010	Aug. 31, 2009
Assets		
Investments held for trading	**$1,638,133**	$2,880,532
Cash	**$51,226**	$32,093
Accrued interest receivable at amortized cost	**$120**	$96
Total Assets	**$1,689,479**	$2,912,721
Liabilities		
Held for trading	**$0**	$0
Financial liabilities at amortized cost	**$81,870**	$113,274
Total Liabilities	**$81,870**	$113,274

7. FINANCIAL INSTRUMENTS (Cont'd.)

Accrued interest receivable is designated as loans and receivables and recorded at cost or amortized cost. Similarly accrued liabilities and redemptions payable are designated as other financial liabilities at amortized cost.

The Fund's activities expose it to a variety of financial risks: market risk (including interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional experience, daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objectives and by structuring investments to provide the Fund with protection in the event of problems with the issuer of the security. The investment portfolio is primarily comprised of small and medium-sized private Canadian companies which are at an early stage of development. Investments of this type, by their nature, involve a longer investment time horizon than that which is typical for other types of investments. There is no assurance that the portfolio companies will be successful in developing and bringing their products to market in commercially viable quantities at reasonable costs.

Sensitivity analyses are provided for information purposes only. In practice, the actual results may differ from the sensitivity analysis and the differences may be material.

Market Risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market factors. Market risk includes currency risk, interest rate risk and other price risk. The Fund is exposed to these risks directly through its financial instruments.

Currency Risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in the exchange rates. As at February 28, 2010 all of the Fund's financial instruments were denominated in Canadian dollars and did not have exposure to currency risk.

Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and debentures. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities, categorized by the earlier of contractual re-pricing or maturity dates.

Feb. 28, 2010

	Less than 1 year	Non-interest bearing	Total
Investments	$249,880	$1,388,253	$1,638,133
Cash		$51,226	$51,226
Other assets		$120	$120
Liabilities		$81,870	$81,870

As at February 28, 2010, had prevailing interest rates raised or lowered by 1.00%, with all other variables held constant, net assets would have decreased or increased, respectively, by an immaterial amount.

Aug. 31, 2009

	Less than 1 year	Non-interest bearing	Total
Investments	$449,744	$2,430,788	$2,880,532
Cash		$32,093	$32,093
Other assets		$96	$96
Liabilities		$113,274	$113,274

As at August 31, 2009, had prevailing interest rates raised or lowered by 1.00%, with all other variables held constant, net assets would have decreased or increased, respectively, by an immaterial amount.

Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or other factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager moderates this risk through careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

The Statement of Investment Portfolio groups securities by asset type and market segment.

As at February 28, 2010, if equity prices on the Toronto Stock Exchange had increased or decreased by 5%, all other variables held constant, the net assets of the Fund attributed to public portfolio companies would have increased or decreased, respectively, by approximately $2,775 or approximately 0.18% of total net assets (August 31, 2009: approximately $6,937, or approximately 0.25%).

The Fund's venture investments (unlisted) are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Fund's Manager provides the Fund with investment advice and its portfolio companies with business advice to limit and manage market risk.

7. FINANCIAL INSTRUMENTS (CONT'D.)

As at February 28, 2010, if the value of the Fund's venture investments (unlisted) increased or decreased by 5% all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately $66,638 or approximately 4.2% of total net assets (as at August 31, 2009 approximately $114,602 or 4.1%).

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of the investments as presented in the Statement of Investment Portfolio represents the maximum credit risk exposure as at February 28, 2010.

Cash consists of highly liquid temporary deposits with Canadian banks.

All transactions in listed securities are settled/paid 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 trades will fail if the other party fails to meet its obligations. All transactions in private issuers are settled/paid for upon delivery using a third party agent such as a law firm as an intermediary. The risk of default is considered minimal as delivery of the securities sold is only made once the agent or legal counsel acting as the intermediary has received payment.

The Fund's financial assets exposed to credit risk were concentrated as followings:

Feb. 28, 2010

Asset	Security	Counterparty	Amount
Cash		CIBC Mellon	$51,226
Fixed-term investments	Commercial Paper rated R2	Inter Pipeline Inc., Discounted Note	$249,880
Total cash and fixed-term investments			$301,106

Aug. 31, 2009

Asset	Security	Counterparty	Amount
Cash		CIBC Mellon	$32,093
Fixed-term investments	Commercial Paper rated R2	Brookfield Asset Management Inc., Discounted Note	$449,744
Total cash and fixed-term investments			$481,837

Credit risk arising on fixed-term investments is mitigated by investing primarily in rated instruments of R2 for commercial paper instruments or by investing in fixed-term investments which are secured by a general security agreement on the assets of the issuing portfolio company.

Other than outlined above, there were no significant concentrations of credit risk to counterparties at February 28, 2010.

Liquidity Risk

The Fund is exposed to daily cash redemptions of redeemable shares. Therefore, the Fund invests a portion of its assets in investments that are traded in an active market and can be readily disposed of and the Fund retains sufficient cash and cash equivalent positions to maintain liquidity. In any financial year, the Fund is not required to redeem shares having an aggregate redemption price exceeding 20% of the net asset value of the Fund calculated on the last day of the preceding financial year end and may suspend redemptions for substantial periods of time in such circumstances. Rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply to the Fund.

All financial liabilities of the Fund as at February 28, 2010 and August 31, 2009 fall due within twelve months.

8. RECENT ACCOUNTING PRONOUNCEMENTS

On May 29, 2009 the CICA issued amendments to Section 3862 ("3862 Amendments"). As a result of these amendments, the Fund will be required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (Level 1, Level 2 and Level 3 inputs as defined in the standard). The 3862 Amendments are applicable for years ending after September 30, 2009. As a result, the Fund will be implementing the 3862 Amendments in the financial statements for the year ending August 31, 2010. The 3862 Amendments will not affect the valuation of assets and liabilities held by the Fund, but will result in enhanced and increased disclosure requirements.

Axis Investment Fund

BOARD OF DIRECTORS	David A. Copeland Jocelyne M.M. Côté-O'Hara George R. Paterson Michael D. Wright

Corporate and Shareholder Information

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SPONSOR	**Independent Union of Defence Contractors**

AX/S Investment Fund Inc.

CIBC
CIBC Asset Management

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectuses before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Some limitations apply, please refer to the prospectus. Fund available in Ontario only.

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