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norrep2003performanceflow-thoughtlimitedpartnership

02.07.2006

# Management Discussion and Analysis

## Norrep Performance 2003 Flow-Through Limited Partnership

Management's discussion and analysis (MD&A) of financial results should be read in conjunction with the audited financial statements for the period ended February 7, 2006 included in this document. All dollar values listed are in Canadian dollars unless otherwise specified.

### Description of Business:

Norrep Performance 2003 Flow-Through Limited Partnership (the "Partnership") was formed on April 25, 2003 as a limited partnership under the laws of the Province of Ontario, with nominal equity, to invest in flow-through shares of resource companies. The Partnership commenced operations on June 30, 2003. On February 7, 2006, the Partnership transferred certain assets of the partnership to Norrep Opportunities Corp., a mutual fund corporation in exchange for Norrep II Class shares. On February 8, 2006 the partnership was terminated and ceased to exist.

Being a limited partnership, the Partnership was dependent on Norrep 2003 Management Inc., the General Partner, for the administration and management of all matters relating to the operation of the Partnership pursuant to the terms of the Partnership Agreement. Norrep 2003 Management Inc. is a wholly owned subsidiary of Hesperian Capital Management Ltd., a Calgary based company responsible for the management of the Norrep Group of Funds.

### Financial Conditions:

At February 7, 2006, Norrep Performance 2003 Flow-Through Limited Partnership had net assets of \$28,308,322, which consisted of 1,014,770 Norrep II Class shares of Norrep Opportunities Corp.

### Results of Operations:

For the period from January 1, 2006 to February 7, 2006, the Partnership earned income trust income and interest income amounting to \$16,617 and \$8,852, respectively. Management fees of \$57,265 were paid to Norrep 2003 Management Inc.. Management fees are 1/12 of 1.75% of the net asset value of the Partnership and are calculated and paid monthly. General and administrative costs of \$55,890 related to the operation of the Partnership were also incurred. As a result of the above, the net investment loss was \$87,686.

Change in unrealized losses in current value of investments was \$11,106,622 and realized gains were \$13,521,169 for a net gain on investments of \$2,326,861.

As a result of the above, the increase in net assets from operations was \$2,326,861.

For the period ended February 7, 2006, the capital gains allocation per unit was \$ 0.68 (one half taxable). On February 7, 2006 a distribution of \$0.18 was paid for each partnership unit you owned.

### Change in Net Assets:

Net assets at the beginning of the period were \$26,476,481. They increased \$2,326,861 from operations and decreased \$495,020 as a result of the distribution. Net assets were \$28,308,322 at the end of the period.

## Selected Annual Information:

### Financial Highlights

	<b>Total</b>	<b>2006 (audited)</b>	<b>2005 (audited)</b>	<b>2004 (audited)</b>	<b>2003 (audited)</b>
Net Assets, beginning of period	\$nil	\$26,476,481	\$21,772,221	\$24,486,887	\$nil
Proceeds from issuance of Partnership units	27,501,110	-	-	-	27,501,110
Cost of issuance of Partnership units	(2,204,236)	-	-	-	(2,204,236)
Change in net assets from operations	5,579,784	2,326,861	6,491,832	(102,061)	(809,987)
Partners' distributions	(4,400,177)	(495,020)	(1,787,572)	(2,612,605)	-
Net Assets, end of period	<u>\$26,476,481</u>	<u>\$28,308,322</u>	<u>\$26,476,481</u>	<u>\$21,772,221</u>	<u>\$24,486,887</u>
Per Unit:					
Net Asset Value	\$10.29	\$10.29	\$9.63	\$7.92	\$8.90
Cash Distributions	\$1.60	\$0.18	\$0.65	\$0.95	\$nil
Management Fees	\$0.43	\$0.02	\$0.16	\$0.16	\$0.09
<b>Income Tax Information (per Unit)</b>					
Capital Gains Allocated	\$6.50	\$0.68	\$1.95	\$3.79	\$0.08
Taxable Capital Gains Allocated (50%)	\$3.26	\$0.34	\$0.98	\$1.90	\$0.04
Resource Tax Deductions	\$10.10	\$nil	\$nil	\$0.03	\$10.07
Other Deductions (net)	\$0.95	\$0.19	\$0.32	\$0.37	\$0.07
Estimated Tax Savings (Cost)**	\$3.42	\$(0.15)	\$(0.30)	\$(0.68)	\$4.55

\*\*Assumes a 45% marginal tax rate

### Additional Information:

On February 7, 2006 the Norrep Performance 2003 Flow-Through Limited Partnership transferred certain assets to Norrep II Class of Norrep Opportunities Corp. in exchange for Norrep II Class mutual fund shares. This transfer was done as an income tax deferred rollover.

The Partnership received 1,014,770 Norrep II Class mutual fund shares with a net asset value of \$27.8963 per share in exchange for assets with a market value of \$28,308,322. As a result of the rollover, each limited partner will receive 0.368992417 of a Norrep II Class mutual fund share for each limited partnership unit owned.

Annual reports and press releases issued by Hesperian Capital Management Ltd. and other information relating to the Norrep Products can be obtained from our website at [www.norrepfunds.com](http://www.norrepfunds.com) and through Sedar at [www.sedar.com](http://www.sedar.com). You may also call our office for further information at (877) 431-1407.

# MD&A

**Norrep Performance 2003 Flow-Through Limited Partnership**  
Adjusted Cost Base (ACB) - Per \$10,000 Invested  
February 7, 2006

<b>Original purchase price:</b>		<b>\$ 10,000.00</b>
Effect of T5013 tax slips		
Resource deductions allocated		(10,071.16)
Capital gains allocated		6,423.79
Other (net)		(1,186.95)
Distributions		
2004	\$950.00	
2005	\$650.00	
2006	<u>\$180.00</u>	(1,780.00)
ACB on windup (A)		<u>\$3,385.68</u>
Norrep II Class shares received (B)		<u>368.99</u>
<b>ACB per Norrep II Class shares (A/B)</b>		<b><u>\$9.17553</u></b>

Note: The \$3,385.68 ACB of the partnership units is transferred to the 368.99 Norrep II Class shares.



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## AUDITORS REPORT TO THE PARTNERS

We have audited the statement of net assets of Norrep Performance 2003 Flow-Through Limited Partnership (the "Partnership") as at February 7, 2006 and the statements of operations and changes in net assets for the period from January 1, 2006 to February 7, 2006. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an 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 principals 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 the Partnership as at February 7, 2006 and the results of its operations and changes in net assets for the period from January 1, 2006 to February 7, 2006 in accordance with Canadian generally accepted accounting policies.

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are slanted and have a slightly irregular, cursive-like appearance.

Chartered Accountants

Calgary, Canada  
March 14, 2006

# NORREP Performance 2003 Flow-Through Limited Partnership

## Statement of Net Assets

February 7, 2006, with comparative figures for December 31, 2005

	2006	2005
<b>Assets</b>		
Investments, at current value (cost 2005 - \$28,308,322 2005 - \$16,169,759)(note 3)	\$ 28,308,322	\$ 27,276,381
Other assets:		
Cash	2,615,001	2,885,858
Accounts receivable	-	21,216
Due from related party	-	91,600
	2,651,001	2,998,674
	30,923,323	30,275,055
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	2,119,981	2,011,002
Partners' distribution payable	495,020	1,787,572
	2,615,001	3,798,574
	\$ 28,308,322	26,476,481
<b>Partners' Equity</b>		
Represented by:		
Partners' contributions (note 4)	\$ 20,401,677	\$ 20,896,697
Unrealized appreciation in current value of investments	-	11,106,622
Cumulative (gain) loss realized	7,906,645	(5,526,838)
	\$ 28,308,322	\$ 26,476,481
Limited partnership units outstanding (note 4)	2,750,111	2,750,111
Net asset value per unit	\$ 10.29	\$ 9.63

See accompanying notes to financial statements.

On behalf of the Board of Directors of Norrep 2003 Management Inc.  
as General Partner of the Partnership:



Director



Director

## NORREP Performance 2003 Flow-Through Limited Partnership

### Statement of Operations

	Period from January 1, 2006 to February 7, 2006	Year ended December 31, 2005
Investment income:		
Income trust distributions	\$ 16,617	\$ 76,172
Interest	8,852	12,446
	25,469	88,618
Investment expenses:		
General and administrative	55,890	94,381
Interest	-	234
Management fees (notes 1 and 5)	57,265	431,554
	113,115	526,169
Net investment loss	(87,686)	(437,551)
Gains and losses on investments:		
Net realized gain (loss) on investments	13,521,169	(4,630,947)
Changes in unrealized appreciation in current value of investments	(11,106,622)	11,560,330
Net gain on investments	2,414,547	6,929,383
Increase in net assets from operations	\$ 2,326,861	\$ 6,491,832

See accompanying notes to financial statements

## NORREP Performance 2003 Flow-Through Limited Partnership

### Statements of Changes in Net Assets

	Period from January 1, 2006 to February 7, 2006	Year ended December 31, 2005
Net assets, beginning of period	\$ 26,476,481	\$ 21,772,221
Partners' transactions:		
Partners distribution payable	(495,020)	(1,787,572)
	25,981,461	19,984,649
Change in net assets from operations:	2,326,861	6,491,832
Net assets, end of the period	\$ 28,308,322	\$ 26,476,481

See accompanying notes to financial statements

# NORREP PERFORMANCE 2003 FLOW-THROUGH LIMITED PARTNERSHIP

## Notes to Financial Statements

Period from January 1, 2006 to February 7, 2006

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### 1. Basis of presentation:

Norrep Performance 2003 Flow-Through Limited Partnership (the "Partnership") was formed on April 25, 2003 as a limited partnership under the laws of the Province of Ontario, with nominal equity, to invest in flow-through shares of resource companies. The Partnership commenced operations on June 30, 2003. Using the Partner's contributions, the Partnership entered into flow-through share agreements with 47 resource companies. These resource companies incur Canadian Exploration Expenses, Canadian Development Expenses and/or Eligible Canadian Development Expenses in carrying out oil and natural gas exploration and development activities. The resource companies renounced these expenses effective December 31, 2003 to the Partnership in amounts substantially equal to the subscription amount of the flow-through shares. In turn, the Partnership allocates the renouncements to the limited partners. The Partnership invests in flow-through shares of resource companies with the objective of achieving capital appreciation in accordance with investment strategies. It was intended that the Partnership would be dissolved by December 31, 2006; however, it was terminated on February 8, 2006.

On February 7, 2006, the Partnership transferred certain assets of the partnership to Norrep Opportunities Corp., a mutual fund corporation in exchange for Norrep II class shares (note 3). On February 8, 2006 the partnership was terminated and ceased to exist and settled its remaining liabilities and distributed its remaining assets to the Partners. The Statement of Net Assets as at February 7, 2006 reflects the assets and liabilities of the Partnership after the transfer of certain assets to Norrep Opportunities Corp.

These financial statements reflect only the assets, liabilities, revenues and expenses of the Partnership and therefore, do not include any assets, liabilities, revenues or expenses of the partners. No provision for income taxes has been recorded in the financial statements as all income and losses of the Partnership is allocated to the partners. The net difference of tax bases is less than the reported amounts of the Partnership's assets and liabilities by \$19,370,668.

Being a limited partnership, the Partnership was dependent on Norrep 2003 Management Inc., the General Partner, for the administration and management of all matters relating to the operation of the Partnership pursuant to the terms of the Partnership Agreement. The General Partner was entitled to a monthly management fee of one twelfth of 1.75% of the net asset value of the Partnership, payable on the first day of each month. In addition, the General Partner was entitled to receive a 15% royalty on oil and gas revenue that is earned by certain subsidiaries (the "subsidiary joint venture companies") of the partnership. This royalty was to commence when the subsidiary had received cash revenues equal to 70% of the amount invested in its joint venture. The General Partner was paid \$1,926,000, to waive its rights under this entitlement.

# NORREP PERFORMANCE 2003 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 2

Period ended February 7, 2006

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## 1. Basis of presentation (continued):

The General Partner was also entitled to a 0.01% share of the net assets of the Partnership upon dissolution of the Partnership, which, at February 7, 2006 was \$2,831. As a result, \$2,831 was allocated to the General Partner. Upon dissolution of the Partnership, the General Partner could have received an additional distribution (the "General Partner Exit Incentive Allocation ") in excess of its current 0.01% share pursuant to the terms of the agreement. No General Partner Exit Incentive Allocation is payable at February 7, 2006.

## 2. Significant accounting policies:

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions made by management that affect the reported amounts of assets, liabilities, income and expenses and gains and losses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Partnership.

### (a) Investments:

Investments are recorded at current value as substantially established by the closing sale price for trading on the recognized public stock exchange on which the security is listed or principally traded. Investments in private companies are recorded at cost or at the value of the last transaction between arms length parties unless there is a decline in value, other than temporary. The subsidiary joint venture companies are valued at cost unless, taken as a group, there is a decline in value, other than temporary. Average cost is used to compute realized gains or losses and unrealized appreciation or depreciation in the value of investments.

### (b) Unit values:

The net asset value per limited partnership unit is calculated as net assets at market value, less the General Partner's share, divided by the number of limited Partnership units outstanding.

### (c) Financial instruments:

Financial instruments of the Partnership consist of cash, investments, accounts receivable, accounts payable and accrued liabilities and partners' distribution payable. Except as disclosed otherwise, there are no significant differences between the carrying values of these instruments and their market values.

# NORREP PERFORMANCE 2003 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 3

Period ended February 7, 2006

### 3. Investment:

On February 7, 2006 the partnership transferred certain assets of the partnership to Norrep Opportunities Corp. in exchange for 1,014,770 Norrep II Class mutual fund shares with a value of \$28,308,322. The assets transferred were as follows:

Treasury Bill	\$	222,447
Accounts receivable		22,076
Investments		28,063,769
	\$	28,308,322

### 4. Partners' net contributions:

The authorized capital of the Partnership consists of an unlimited number of limited partnership units. All limited partnership units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Partnership and the right to one vote at any meeting of the limited partners.

	Number of units	Amount
Balance, December 31, 2005	2,750,111	\$ 20,896,697
Partners' distribution	-	(495,020)
Balance, December 31, 2006	2,750,111	\$ 20,401,677

### 5. Related party transactions:

Pursuant to the Partnership agreement, the Partnership pays management fees to the General Partner, Norrep 2003 Management Inc., for management services received during the period. During the period, management fees amounted to \$57,265 (2005 - \$431,554) of which \$57,265 (2005 - \$43,784) is included in accounts payable at February 7, 2006.

The General Partner has engaged its shareholder, Hesperian Capital Management Ltd., to provide portfolio management and administration services to the Partnership. During the period, administration fees amounted to \$1,144 (2005 - \$9,756) of which \$1,144 (2005 - \$944) is included in accounts payable at February 7, 2006.

All transactions with related companies are measured at exchange amounts as occur within the normal course of business.



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