

Financial **STATEMENTS** of:

# **norrep2007FTLP**

Norrep Performance 2007 Flow-Through Limited Partnership

For the year ended December 31, 2009



**KPMG LLP**  
**Chartered Accountants**  
2700 205 - 5th Avenue SW  
Calgary AB T2P 4B9

Telephone (403) 691-8000  
Fax (403) 691-8008  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **AUDITORS' REPORT TO THE PARTNERS**

We have audited the statement of net assets of Norrep Performance 2007 Flow-Through Limited Partnership (the "Partnership") as at December 31, 2009 and 2008 and the statements of operations and changes in net assets for the years then ended and the statement of investment portfolio as at December 31, 2009. 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 audits.

We conduct our audits 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 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 the Partnership as at December 31, 2009 and 2008, the results of its operations and changes in net assets for the years then ended and its investment portfolio as at December 31, 2009 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are stylized and slanted to the right.

Chartered Accountants

Calgary, Canada  
February 25, 2010

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

### Statement of Net Assets

As at December 31, 2009 and 2008

	2009	2008
<b>Net Assets</b>		
Investments, at fair value (cost 2009 - \$24,271,184; 2008 - \$45,815,614)	\$ 21,796,027	\$ 20,231,949
Cash	138,680	2,196,343
Interest and dividend receivable	36,019	13,967
Portfolio assets sold	107,500	-
	<u>22,078,226</u>	<u>22,442,259</u>
Liabilities:		
Accrued expenses	75,992	118,920
Partners' distribution payable	1,811,097	1,309,097
	<u>1,887,089</u>	<u>1,428,017</u>
	<u>\$ 20,191,137</u>	<u>\$ 21,014,242</u>

### Partners' Equity

Represented by:		
Partners' net contributions (note 5)	\$ 72,358,336	\$ 74,171,723
Unrealized depreciation in fair value of investments	(2,475,156)	(25,583,665)
Cumulative loss realized	(49,692,043)	(27,573,816)
	<u>\$ 20,191,137</u>	<u>\$ 21,014,242</u>
Limited partnership units outstanding (note 5)	<u>8,140,970</u>	<u>8,141,970</u>
Net asset value per unit (note 8)	<u>\$ 2.48</u>	<u>\$ 2.58</u>

See accompanying notes to financial statements.

On behalf of the Board of Directors of Norrep 2007 Management Inc.  
as General Partner of the Partnership:

 \_\_\_\_\_ Director

 \_\_\_\_\_ Director

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

### Statement of Operations

For the years ended December 31, 2009 and 2008

	2009	2008
Investment income:		
Interest	\$ 201,629	\$ 202,688
Dividend	15,800	-
	<u>217,429</u>	<u>202,688</u>
Investment expenses:		
Management fees (notes 1 and 6)	366,401	811,837
Audit fees	42,161	26,243
Other	22,676	17,203
Administrative fees (note 6)	11,039	43,210
Custodian and recordkeeping fees	8,627	21,382
Legal and filing fees	6,190	17,681
Interest	110	136,121
	<u>457,204</u>	<u>1,073,677</u>
Net investment loss	(239,775)	(870,989)
Gain (losses) on investments:		
Net realized loss on investments	(21,740,463)	(24,426,611)
Transaction costs	(137,988)	(112,195)
Change in unrealized appreciation (depreciation) in fair value of investments	23,108,508	(2,730,976)
Net gain (loss) on investments	1,230,057	(27,269,782)
Increase (decrease) in net assets from operations	\$ 990,282	\$ (28,140,771)
Earnings (loss) per unit	\$ 0.12	\$ (3.46)

See accompanying notes to financial statements.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

### Statement of Changes in Net Assets

For the years ended December 31, 2009 and 2008

	2009	2008
Net assets, beginning of year	\$ 21,014,242	\$ 50,464,110
Partners' transactions:		
Partners' distribution	(1,811,097)	(1,309,097)
Redeemed units for cash	(2,290)	-
	(1,813,387)	(1,309,097)
Change in net assets from operations	990,282	(28,140,771)
Net assets, end of year	\$ 20,191,137	\$ 21,014,242

See accompanying notes to financial statements.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Statement of Investment Portfolio

As at December 31, 2009

	Number of shares/warrants	Cost	
1116203 Alberta Ltd. (Private)	210,000	\$ 1	\$ -
Angle Energy Inc.	200,000	988,241	1,340,000
Argosy Energy, Inc.	416,667	750,001	520,834
Argosy Energy, Inc. Warrants	208,334	-	19,938
Avondale Energy Inc. Class A (Private)	1,050,000	1,785,000	52,500
Baytex Energy Trust	40,000	935,919	1,181,200
Bonavista Energy Trust	45,000	790,875	1,002,150
Canadian Natural Resources Ltd.	12,500	842,918	945,625
Cenovus Energy Inc.	12,000	321,720	316,800
Cequence Energy Ltd.	204,250	744,370	735,300
Coastal Energy Company	40,000	200,000	211,600
Colonia Energy Corporation	2,500,000	500,000	575,000
Daylight Resources Trust	150,000	1,159,993	1,525,500
Delphi Energy Corp.	1,000,000	2,450,000	1,680,000
Driftwood Resources Ltd. (Private)	2,230,000	446,000	-
Drumlin Energy Corp. (Private)	240,000	660,000	324,000
EnCana Corporation	12,000	362,477	408,600
Goldbrook Ventures Inc. Warrants	500,000	100	49,050
Goldbrook Ventures Inc. Warrants	581,395	116	41,570
Goldbrook Ventures Inc. Warrants	520,000	104	24,336
Goldbrook Ventures Inc. Warrants	520,000	104	5,720
Green Point Resources Ltd. (Private)	2,000,000	540,000	-
Legacy Oil & Gas Inc.	195,125	1,757,125	1,875,151
Legacy Oil & Gas Inc. Founders Shares	8,333	19,000	74,904
NAL Oil & Gas Trust	92,292	1,245,463	1,260,709
Orleans Energy Ltd.	600,000	1,769,614	1,410,000
Painted Pony Petroleum Ltd.	150,000	427,500	858,000
Rock Energy Inc.	400,000	590,050	1,296,000
Seaview Energy, Inc.	160,700	152,665	170,342
Suncor Energy, Inc.	17,000	607,323	630,870
Talisman Energy Inc.	35,000	632,031	684,250
Value Creation Inc. (Private)	365,939	3,017,047	1,921,180
Vero Energy Inc.	55,000	310,750	243,650
Yoho Resources Inc.	175,000	296,149	411,248
Transaction costs		(31,472)	
		\$ 24,271,184	\$ 21,796,027

See accompanying notes to financial statements.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements

For the years ended December 31, 2009 and 2008.

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### 1. Basis of presentation:

Norrep Performance 2007 Flow-Through Limited Partnership (the "Partnership") was formed on November 20, 2006 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 February 1, 2007. Using the Partners' contributions, the Partnership invests in flow-through shares of resource companies with the objective of achieving capital appreciation in accordance with investment strategies. These resource companies incur Canadian Exploration Expenses, Canadian Development Expense and/or Eligible Canadian Development Expenses in carrying out mining, oil and natural gas, exploration and development activities. The resource companies renounced these expenses effective December 31, 2007 to the Partnership in amounts substantially equal to the subscription amount of the flow-through shares. In turn, the Partnership allocated the renouncements to the limited partners. It is intended that the Partnership will be dissolved by December 31, 2010.

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 are allocated to the partners. The tax base is less than the reported amounts of the Partnership's assets and liabilities by \$6,755,000 (December 31, 2008 - \$15,939,000).

Being a limited partnership, the Partnership is dependent on Norrep 2007 Management Inc., the General Partner (the "Manager"), 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 is 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 is entitled to an Exit Incentive Allocation. The Exit Incentive Allocation is calculated at dissolution and is 20% of the amount by which a partner's return on investment, as defined in the prospectus, exceeds 8% compounded annually. No General Partner Exit Incentive Allocation is payable at December 31, 2009.

The General Partner is also entitled to a 0.01% share of the net assets of the Partnership upon dissolution of the Partnership, which, at December 31, 2009, would be \$2,019 (December 31, 2008 - \$2,101).

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 2

For the years ended December 31, 2009 and 2008

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### 2. Significant accounting policies:

These financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), 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 year. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Partnership.

(a) Change in accounting policy:

Effective January 1, 2008, the Partnership adopted the following new CICA Handbook Sections: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments - Presentation.

Section 1535, Capital Disclosures, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Partnership's objectives, policies and processes for managing capital.

Sections 3862 and 3863 consist of a comprehensive series of disclosure requirements and presentation rules applicable to financial instruments. Section 3862 revises and enhances the disclosure requirements set out in Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3863 carries forward unchanged the presentation requirements of Section 3861.

Section 3862, Financial Instruments – Disclosures, requires the Partnership to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments for the Fund's financial position and performance, the nature and extent of risks arising from financial instruments to which the Partnership is exposed during the year and at the statement of net assets date, and how the Partnership manages those risks.

The Partnership adopted the amendments to CICA 3862, Financial Instruments – Disclosures on October 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Partnership's investments. The hierarchy of inputs is summarized below:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (ii) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- (iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 3

For the years ended December 31, 2009 and 2008

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### 2. Significant accounting policies (continued):

#### (b) Financial Instruments – Recognition and Measurement:

All financial instruments are classified as held for trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

Due to their short term nature, the Partnership's receivables are classified as loans and receivables and liabilities are classified as other financial liabilities and are measured at amortized cost. Cash and investments are deemed to be categorized as held for trading.

#### (c) Valuation of investments:

Investments are recognized on the trade date and are measured at each year end at fair value, as substantially established by the closing bid price for trading on the recognized public stock exchange on which the security is listed or principally traded. For securities where market quotes are not available, the Partnership values the initial investment at fair value for common shares and 20% below cost for flow-through shares. After initial investment, the Partnership uses estimation techniques to determine fair value that incorporate observable market data, discounted cash flows and internal models that compare an investment to its peer group.

Average cost is used to determine realized gains or losses and unrealized appreciation or depreciation on the value of investments. Realized and unrealized gains and loss are recognized on the statement of operations.

Fair value of investments in share purchase warrants is determined using a recognized economic model taking into account various factors including risk free rate of interest, dividend rates, volatility, market value and trading volume of the underlying stock.

Transaction costs incurred in the purchases and sales of investments are expensed as incurred.

#### (d) Recognition of income and expenses:

The Partnership follows the accrual method of recording income and expenses with dividends being recorded on the ex-dividend date.

#### (e) Unit values:

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

#### (f) Earnings (loss) per unit:

Earnings (loss) per unit are calculated as the net increase/decrease in net assets from operations for the year, divided by the weighted average units outstanding during the year.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 4

For the years ended December 31, 2009 and 2008

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### 2. Significant accounting policies (continued):

(g) Derivative financial instruments:

The Partnership may use derivative financial instruments to reduce their exposure to fluctuations in foreign currency exchange rates. These derivatives are carried at fair value with gains and losses recognized in income.

(h) Short selling:

The Partnership may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities that are sold short are valued at the last ask price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter into a short sale, the Partnership may need to borrow the security for delivery to the buyer. Also, while the transaction is open, the Partnership will incur a liability for any paid dividends or interest that is due to the lender of the security. As well, the Partnership may employ exit strategies, which may include, in aggregate, short sales of up to 10% of the Proceeds Available for Investment, when an appropriate selling opportunity arises in order to "lock-in" the resale price of flow-through shares or other securities, if any, of resource companies held in the Partnership's investment portfolio.

(i) Future accounting pronouncements:

The Canadian Accounting Standards Board confirmed that fiscal years beginning on or after January 1, 2011 International Financial Reporting Standard ("IFRS") will replace Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises, which include the Partnership. The Manager has commenced development of a changeover plan to meet the implementation date. The key elements of the plan include disclosures of the qualitative impact in the December 31, 2009 and 2010 financial statements, disclosures of the quantitative impact, if any, in the December 31, 2010 financial statements and the preparation of the December 31, 2011 financial statements in accordance with IFRS.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager does not expect that the net asset value per unit will be impacted by the changeover to IFRS. Currently, the Manager expects that the impact of IFRS on the Partnership's financial statements to be limited to possible presentation changes and additional note disclosures.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 5

For the years ended December 31, 2009 and 2008

### 3. Financial instruments:

	December 31, 2009	December 31, 2008
<b>Assets:</b>		
Held for trading	\$ 21,934,707	\$ 22,428,292
Loans and receivables	143,519	13,967
<b>Total Assets</b>	<b>\$ 22,078,226</b>	<b>\$ 22,442,259</b>
<b>Liabilities:</b>		
Financial liabilities at amortized cost	\$ 1,887,089	\$ 1,428,018
<b>Total Liabilities</b>	<b>\$ 1,887,089</b>	<b>\$ 1,428,018</b>

### Fair value hierarchy:

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

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Public securities	\$ 18,707,830	\$ 790,517	\$ –	\$ 19,498,347
Private securities	–	–	2,297,680	2,297,680
<b>Total Investments</b>	<b>\$ 18,707,830</b>	<b>\$ 790,517</b>	<b>\$ 2,297,680</b>	<b>\$ 21,796,027</b>

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 6

For the years ended December 31, 2009 and 2008

### 3. Financial instruments (continued):

During the year ended December 31, 2009, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

		Public Securities	Private Securities	Total
Beginning balance, January 1, 2009	\$	–	\$ 11,963,125	\$ 11,963,125
Purchases		–	–	–
Sales		–	(4,514,490)	(4,514,490)
Net transfers into and/or out of Level 3		–	(1,250,000)	(1,250,000)
Realized gains/(losses)		–	(4,329,060)	(4,329,060)
Change in unrealized depreciation		–	428,105	428,105
Ending balance, December 31, 2009	\$	–	\$ 2,297,680	\$ 2,297,680
Total change in unrealized depreciation during the year for assets held at December 31, 2009	\$	–	\$ (9,665,445)	\$ (9,665,445)

### 4. Financial instruments and associated risks:

The Partnership invests in flow-through shares of resource companies whose shares are listed on a North American stock exchange and flow-through shares of resource companies that are private issuers, in each case, whose principal business is oil and gas exploration, development and production or mineral exploration. The Partnership Agreement provides that the Partnership may also invest in flow-through special warrants, which entitle the Partnership to acquire, for no additional compensation, shares in the capital of resource companies, provided that such warrants qualify as flow-through shares for the purposes of the Tax Act and in warrants, provided that the Partnership may invest only up to 10% of the Net Asset Value in warrants forming part of an offering of units consisting of flow-through shares and warrants, and further provided that not more than 5% of the aggregate purchase price under the relevant flow-through investment agreement shall be attributable to warrants.

After having invested the net initial proceeds from the issuance of Partnership units in the above investments, the Partnership may invest in securities of other issuers including small capitalization companies. These investments are intended to allow the Partnership to maximize investment returns and to facilitate the eventual wind-up of the Partnership.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 7

For the years ended December 31, 2009 and 2008

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#### 4. Financial instruments and associated risks (continued):

The Partnership Agreement also provides that the Partnership is subject to certain restrictions. The Partnership will not: guarantee the securities or obligations of any person; purchase or sell real estate or interest therein; purchase derivatives except for the purposes of managing risk with respect to the Partnership's investments, make short sales of securities or maintain a short position in any security; or purchase mortgages.

Pending the selection and purchase of suitable investments, the payment of expenses or other anticipated distributions, a portion of the assets of the Partnership may be held in cash. Such cash balances will be held on deposit in cash accounts at a Canadian bank or trust company or may be invested in short-term investment funds or guaranteed investment certificates.

The Partnership's investment portfolio comprises quoted and non-quoted equity investments that it intends to hold for an indefinite period of time.

The nature and extent of the financial instruments outstanding at the statement of net assets date and the risk management policies employed by the Partnership are discussed on the following pages.

##### **Market risk:**

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk. The Partnership's strategy on the daily management of investment risk is driven by the Partnership's investment objective.

The Partnership is designed to achieve capital appreciation by investing in the flow-through shares of resource companies. Of the initial equity investment amount, at least 80% will be invested in publicly-listed resource companies and not more than 20% in resource company private issuers. At least 70% will be invested in oil and gas resource companies and not more than 30% in mineral resource companies. At least 50% will be invested in resource companies with a market capitalization in excess of \$20 million.

The Partnership will not invest in any one resource company if the purchase will result in ownership representing more than 20% of the portfolio amount unless the resource company has a market capitalization in excess of \$75 million. In this instance, the Partnership may invest up to 25% of the portfolio. The Partnership may not invest more than 10% of the portfolio in a resource company private issuer.

The Partnership has adopted investment criteria and restrictions which may be changed only by a special resolution duly passed by the limited partners.

Details of the nature of the Partnership's investment portfolio at December 31, 2009 are disclosed in the Statement of Investment Portfolio.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 8

For the years ended December 31, 2009 and 2008

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### 4. Financial instruments and associated risks (continued):

#### Market risk (continued):

##### (a) Currency risk:

The Partnership may invest in financial instruments and enter into transactions denominated in U.S. dollars. Consequently, the Partnership is exposed to the risk that the exchange rate of the Canadian dollar to the U.S. dollar may fluctuate.

The Partnership's investment portfolio is Canadian-dollar denominated, but may, as market opportunities dictate, include U.S. securities. At the reporting date the Partnership held no U.S. securities and therefore had no foreign currency exposure and no currency risk.

##### (b) Interest rate risk:

Interest rate risk arises on interest bearing financial instruments that mature or re-price in the future. The Partnership's assets and liabilities, with the exception of cash, are non-interest-bearing.

As a result the Partnership is subject to limited exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash in the Partnership earns an interest rate equal to the 30 day T-bill rate less 0.5% in the overnight market.

##### (c) Other market risk:

Other market risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer, or factors affecting all instruments traded in the market. All securities present a risk of loss of capital.

Market risk is managed by the Partnership's portfolio manager by selecting investments assessed to be of high quality within the Partnership's narrow focus on acquiring flow-through shares of resource companies. The price of a stock held by the Partnership is affected by individual company developments and also by general economic and financial conditions in the countries where the issuer of the stock is located, does business or where the stock is listed for trading. The business activities of resource companies are speculative and may be adversely affected by factors outside their control. In addition, certain equity securities owned by the Partnership may be of issuers whose securities are not listed on any prescribed stock exchange and thus a liquid market for resale may not exist. The portfolio manager will monitor these factors as required and make decisions regarding the portfolio based on their knowledge of the market conditions. The maximum price risk resulting from an equity investment is equivalent to its fair value.

The Partnership's equity instruments are sensitive to market price risk arising from uncertainties about future prices of the instrument.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 9

For the years ended December 31, 2009 and 2008

### 4. Financial instruments and associated risks (continued):

#### Market risk (continued):

#### (c) Other market risk (continued):

Under normal circumstances the Partnership will invest its initial equity amount in the following instruments:

Publicly-traded equity securities	At least 80% of net assets
Unlisted equity securities	No more than 20% of net assets

The following table details the breakdown of the investment assets and liabilities held by the Partnership based on current fair values:

	% of Investments	
	December 31, 2009	December 31, 2008
Equity investments:		
Listed equities	86	41
Unlisted equities	14	59
<b>Total equity investments</b>	<b>100</b>	<b>100</b>

Approximately 86% of the Partnership's equity investments are listed on the Toronto Stock Exchange ("TSX") or TSX Venture Exchange ("TSX Venture"). A 5% increase or decrease in the value of all common shares listed on the TSX and TSX Venture at December 31, 2009 would have impacted the net assets attributable to limited partners and the changes in net assets attributable to limited partners by \$937,229 (2008 - \$414,755). No individual investment of the Partnership exceeded 10% of the net assets attributable to the limited partners at December 31, 2009.

The Partnership's financial assets exposed were concentrated in the following industries:

	% of Investments	
	December 31, 2009	December 31, 2008
Energy	99	97
Basic materials	1	3
<b>Total</b>	<b>100</b>	<b>100</b>

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 10

For the years ended December 31, 2009 and 2008

#### 4. Financial instruments and associated risks (continued):

##### Market risk (continued):

(c) Other market risk (continued):

Sensitivity analysis:

A 1% increase or decrease on the BMO Small Cap Equity Only Weighted Total Return Index at December 31, 2009 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by \$217,960 (2008 - \$202,319).

##### 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 Partnership.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the statement of net asset date.

At December 31, 2009, the Partnership's financial assets exposed to credit risk amounted to the following:

	December 31, 2009	December 31, 2008
Cash	\$ 138,680	\$ 2,196,343
Interest and dividend	36,019	13,967
Portfolio assets sold	107,500	-
<b>Total</b>	<b>\$ 282,199</b>	<b>\$ 2,210,310</b>

Amounts in the above table are based on the carrying value of all accounts.

Credit risk arising on transactions for units purchased, portfolio assets purchased or portfolio assets sold relates to transactions awaiting settlement. The risk relating to these transactions is considered minimal due to the short settlement period involved. In addition, legal entitlement to an asset will not transfer until funds have been received in full for the asset purchased or sold. If either party to the transaction does not meet its obligation, the transaction will fail.

Substantially all of the assets of the Partnership are held by the custodian, CIBC Mellon Global Securities Services Company. Bankruptcy or insolvency of the custodian may cause the Partnership's rights with the respect to securities held by the custodian to be delayed or limited. The Partnership manages this risk by monitoring the credit quality and financial position of the custodian. If the credit quality or the financial position deteriorates unacceptably, the portfolio manager will act to move the Partnership's cash holdings to another financial institution.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 11

For the years ended December 31, 2009 and 2008

#### 4. Financial instruments and associated risks (continued):

##### Liquidity risk:

Investments in small-capitalization resource companies by the Partnership may involve greater risks than investments in large-capitalization companies as small-capitalization companies may have limited trading volume in the financial markets leading to a higher sensitivity to market changes.

To the extent that the liquidity is limited, the Partnership's ability to realize profits and/or minimize losses may be limited, which could adversely affect the net asset value of the Partnership. Furthermore, the Partnership's investments include unlisted equity instruments, which are not traded on an organized public market and which may be illiquid. Therefore, the Partnership may not be able to quickly liquidate some or all of its investment in these instruments at an amount close to their fair value in order to meet liquidity requirements. The Partnership maintains sufficient cash and cash equivalent positions to maintain liquidity.

The Partnership's liquidity risk is managed by the portfolio manager. Minimum cash balances may be created and modified at the discretion of the portfolio manager to ensure cash availability for expected liquidity needs. As there is currently no market through which the units of the Partnership may be sold, the portfolio manager's liquidity constraints do not include expected redemptions.

The following table presents the contractual, undiscounted cash flows of the Partnership's financial liabilities:

As at December 31, 2009					
<i>All amounts stated in Canadian dollars</i>	Due on demand	1 to 3 months	3 months to 1 year	Due > 1 year	Total
Financial liabilities					
Accrued expenses	75,992	–	–	–	75,992
Partners' distribution payable	1,811,097	–	–	–	1,811,097
As at December 31, 2008					
<i>All amounts stated in Canadian dollars</i>	Due on demand	1 to 3 months	3 months to 1 year	Due > 1 year	Total
Financial liabilities					
Accrued expenses	118,920	–	–	–	118,920
Partners' distribution payable	1,309,097	–	–	–	1,309,097

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 12

For the years ended December 31, 2009 and 2008

### 5. 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, January 1, 2008	8,141,970	\$ 75,480,820
Partners' distribution	—	(1,309,097)
Balance, December 31, 2008	8,141,970	74,171,723
Partners' distribution	—	(1,811,097)
Redeemed units for cash	(1,000)	(2,290)
Balance, December 31, 2009	8,140,970	\$ 72,358,336

### 6. Related party transactions:

Pursuant to the Partnership agreement, the Partnership pays management fees to the General Partner, Norrep 2007 Management Inc., for management services received during the year. During the year, management fees amounted to \$366,401 (2008 - \$811,837) of which \$33,000 is included in accrued expenses at December 31, 2009 (December 31, 2008 - \$77,480).

The General Partner has engaged its shareholder, Hesperian Capital Management Ltd., to provide portfolio management and administrative services to the Partnership. During the year, administrative fees amounted to \$11,039 (2008 - \$43,210) of which \$900 is included in accrued expenses at December 31, 2009 (December 31, 2008 - \$6,586).

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

### 7. Brokerage commissions on securities transactions:

The Partnership paid brokerage commissions amounting to \$133,923 (2008 - \$109,530) in connection with portfolio transactions during the period.

## NORREP PERFORMANCE 2007 FLOW-THROUGH LIMITED PARTNERSHIP

Notes to Financial Statements, page 13

For the years ended December 31, 2009 and 2008

### 8. Net asset value reconciliation:

In accordance with industry standards, quoted market values per unit and performance reporting continue to use market values as determined by the last sale price. A reconciliation of net asset value per unit at the current period's closing price and net asset value per unit at the current period's last bid price according to GAAP is presented in the following table.

	December 31, 2009		December 31, 2008	
	Total	Per unit	Total	Per unit
Net asset value, industry standard	\$ 20,294,063	\$ 2.49	\$ 21,357,409	\$ 2.62
Difference as a result of using bid price	(102,926)	(0.01)	(343,168)	(0.04)
Net asset value, financial statements	\$ 20,191,137	\$ 2.48	\$ 21,014,241	\$ 2.58





## Our Investment **PROFESSIONALS**

### **Randal Oliver, CFA**

*Chairman & Chief Investment Officer*

Portfolio Manager: NorrepFUND, Norrep II Class, Norrep Flow-Through Limited Partnerships

### **Alexander Sasso, CFA**

*Chief Executive Officer & Portfolio Manager*

Portfolio Manager: NorrepFUND, Norrep II Class, Norrep Q Class, Norrep G Class, Norrep Income Growth Class

### **Keith Leslie, CFA**

*Vice President, Portfolio Manager & Chief Compliance Officer*

Portfolio Manager: Norrep Q Class, Norrep Income Growth Class

### **Craig Millar, CFA**

*Vice President & Portfolio Manager*

Portfolio Manager: Norrep G Class, Norrep US Class

### **Steve Smith, CA**

*Vice President, Portfolio Manager & Chief Financial Officer*

Portfolio Manager: Norrep Flow-Through Limited Partnerships, Norrep Resource Class

### **Kamran Khan, CFA**

*Portfolio Manager*

Portfolio Manager: Norrep US Class

### **Paul Tepsich, CFA**

*Portfolio Manager*

Portfolio Manager: Norrep Yield Fund

## Our Investment **ANALYST**

**Terry Thib, MEsc, MBA, PEng, CFA**  
*Equity Research Analyst*

**Don Walker, CFA**  
*Equity Research Analyst*

**Tim Stephenson**  
*Equity Research Analyst*

**James Chisholm, CMA**  
*Equity Research Analyst*

**Steve Ripplinger**  
*Equity Research Analyst*

## Our **MARKETING TEAM**

**Richard Rohan**  
*VP Business Development*

**Steve Valetta**  
*VP of Western Regional Sales*

**Jeff Lucyk**  
*VP of Regional Sales*

**Mila Belic**  
*Manager of Business Development*

**Patrick Chu**  
*Dealer Services*

## Other **PROFESSIONALS**

**Deirdre Harris**  
*Chief Operating Officer*

**Kelsey Stanton, CA**  
*Treasurer*

## Other Material Information

As a limited partnership, the Partnership is dependent on Norrep 2007 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 2007 Management Inc. is a wholly-owned subsidiary of Hesperian, a Calgary-based company responsible for the management of the Norrep Group of Funds.



**norrep**FTLP

Hesperian Capital Management Ltd.

Kipling Square

Suite 175

601 - 10<sup>th</sup> Avenue SW

Calgary, Alberta

T2R 0B2

403.531.2650 phone

1.877.431.1407 toll free

403.508.6120 fax

[www.norrepfunds.com](http://www.norrepfunds.com)