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Financial **STATEMENT**

norrepFUND

2009



norrepFUNDS

FOR THE YEAR ENDED OCTOBER 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

We have audited the statements of net assets of Norrep Fund as at October 31, 2009 and 2008, the statements of operations and changes in net assets for the years ended October 31, 2009 and 2008 and the statement of investment portfolio as at October 31, 2009. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted 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 Fund as at October 31, 2009 and 2008 and the results of its operations and the changes in its net assets for the years ended October 31, 2009 and 2008, and its investment portfolio as at October 31, 2009 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are written in a cursive, slightly slanted style.

Chartered Accountants

Calgary, Canada
December 22, 2009

NORREP FUND

Statement of Net Assets

October 31, 2009 and 2008

	2009	2008
Assets		
Investments, at fair value (cost 2009 - \$74,205,445; 2008 - \$91,738,080)	\$ 76,540,357	\$ 67,095,134
Cash	2,410,990	6,531,783
Dividends and interest receivable	128,502	169,280
	<u>79,079,849</u>	<u>73,796,197</u>
Liabilities		
Accrued expenses	208,000	217,500
Units redeemed	207,251	50,656
	<u>415,251</u>	<u>268,156</u>
Net assets representing unitholders' equity	<u>\$78,664,598</u>	<u>\$ 73,528,041</u>
Units outstanding (note 5)	<u>3,424,619</u>	<u>4,077,636</u>
Net asset value per unit	<u>\$ 22.97</u>	<u>\$ 18.03</u>

See accompanying notes to financial statements.

On behalf of the Board of Directors of Norrep Inc.:



Gary Perron



Randal L. Oliver

NORREP FUND

Statement of Operations

Years ended October 31, 2009 and 2008

	2009	2008
Investment income:		
Dividends	\$ 785,924	\$ 764,473
Interest	865,549	1,929,906
	<u>1,651,473</u>	<u>2,694,379</u>
Expenses:		
Management fees (note 7)	1,435,267	2,612,380
Administration fees (note 7)	130,873	125,374
Custodian and recordkeeping fees	91,804	176,180
Legal and filing fees	34,727	41,590
Audit fees	31,727	33,375
Computer services	29,581	30,805
Other	21,699	12,710
	<u>1,775,678</u>	<u>3,032,414</u>
Net investment loss	(124,205)	(338,035)
Gains and losses on investments:		
Net realized (loss) gain on investments	(9,340,712)	11,580,181
Transaction costs	(228,094)	(300,227)
Change in unrealized appreciation (depreciation) in fair value of investments	26,977,858	(78,775,117)
Net gain (loss) on investments	17,409,052	(67,495,163)
Increase (decrease) in net assets from operations	\$ 17,284,847	\$ (67,833,198)
Earnings (loss) per unit	\$ 4.57	\$ (15.81)

See accompanying notes to financial statements.

NORREP FUND

Statement of Changes in Net Assets

Years ended October 31, 2009 and 2008

	2009	2008
Increase (Decrease) in net assets from operations	\$ 17,284,847	\$ (67,833,198)
Capital unit transactions:		
Proceeds from issue of units	100,089	178,716
Units issued on reinvestment of distributions	—	17,557,673
Payments on redemption of units	(12,248,379)	(11,119,212)
	(12,148,290)	6,617,177
Distributions to unitholders		
From net realized gain on investments	—	(17,616,000)
	—	(17,616,000)
Increase (decrease) in net assets for the year	5,136,557	(78,832,021)
Net assets, beginning of the year	73,528,041	152,360,062
Net assets, end of the year	\$ 78,664,598	\$ 73,528,041
Distributions per unit from net realized gain on investments	\$ —	\$ 4.53

See accompanying notes to financial statements.

NORREP FUND

Statement of Investment Portfolio

As at October 31, 2009

Description	Number of common shares/warrants	Cost	Fair value
Canadian (100%)			
ADF Group Inc.	536,300	\$1,860,996	\$1,367,565
AG Growth International, Inc.,	17,100	351,625	544,806
Angle Energy Inc.	309,000	2,322,855	1,714,950
Axia NetMedia Corporation	1,828,200	4,987,789	2,541,198
Baytex Energy Trust	105,200	2,157,010	2,787,800
Big Eagle Energy Services Trust (Private)	260,000	1,300,000	176,800
Black Diamond Income Fund	427,300	3,380,465	6,195,850
Breaker Energy Ltd.	600,400	3,840,427	3,224,148
Breakwater Resources, Ltd.	5,254,300	1,451,721	1,996,634
CML Healthcare Income Fund	118,000	1,547,800	1,577,660
COM DEV International Ltd.	999,300	3,394,087	3,067,851
Computer Modelling Group Ltd.	313,900	1,120,425	4,921,952
CY Oriental Holdings Ltd.	735,200	930,308	7,352
CY Oriental Holdings Ltd. Wt Exp 21-Feb-12	707,448	—	—
Daylight Resources Trust	267,750	2,365,650	2,326,748
Delphi Energy Corp.	282,000	647,077	431,460
Glamis Resources Ltd. Restricted shares	560,000	700,000	919,352
Glamis Resources Ltd. Class A	413,000	708,881	689,710
Global Railway Industries Ltd.	727,900	2,670,699	764,295
Gluskin Sheff + Associates Inc.	53,300	754,896	995,111
Home Capital Group Inc.	44,000	1,650,568	1,606,440
Inmet Mining Corporation	34,500	1,332,551	1,994,100
Le Chateau Inc.	196,000	1,003,621	2,316,720
Logibec Groupe Informatique Ltee	74,588	827,300	1,314,986
Neo Material Technologies, Inc.	921,100	2,739,559	3,177,795
Orleans Energy Ltd.	730,800	2,668,704	1,688,148
Parkbridge Lifestyle Communities Inc.	274,400	1,123,303	1,111,320
Progress Energy Resources Ltd	138,206	2,340,098	1,900,333
Quadra Mining Ltd.	162,300	2,070,696	2,434,500
SEMAFO Inc.	712,000	2,065,822	2,335,360
Sino-Forest Corporation	332,600	2,374,056	5,035,564
Softchoice Corporation	281,600	3,394,718	2,196,480
Stella-Jones Inc.	116,500	1,972,073	2,516,400
TMX Group Inc.	68,300	2,243,590	1,980,700
Vector Aerospace Corporation	1,040,400	4,688,677	6,346,440
Yoho Resources Inc.	1,166,915	5,421,363	2,333,829
Transaction costs		(203,965)	
		\$74,205,445	\$76,540,357

See accompanying notes to financial statements.

NORREP FUND

Notes to Financial Statements

Years ended October 31, 2009 and 2008

1. Basis of presentation:

The Norrep Fund (the "Fund") is an open-ended mutual fund trust established under the laws of Alberta pursuant to a Declaration of Trust dated June 3, 1997. The Fund may issue an unlimited number of units. Each unit represents an equal undivided interest in the net assets of the Fund. BNY Trust Company of Canada is the trustee, CIBC Mellon Global Securities Services Company ("CIBC Mellon") is the custodian of the Fund and Norrep Inc. is the manager of the Fund. Effective March 1, 2005 the Fund was closed to both new and additional purchases except for reinvested distributions and management fee rebates.

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, expenses, and gains and losses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of investments and investment income accruals. The following is a summary of significant accounting policies followed by the Fund.

(a) Change in accounting policies:

Effective November 1, 2007, the Fund 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 Fund'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 Fund 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 Fund is exposed during the period and at the balance sheet date, and how the Fund manages those risks.

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Notes to Financial Statements, page 2

Years ended October 31, 2009 and 2008

2. Significant accounting policies (continued):

(a) Change in accounting policies (continued)

The Fund adopted the amendments to CICA 3862, Financial Instruments – Disclosures on January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund'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.

(b) Financial Instruments – Recognition and Measurements:

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

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

(c) Valuation of investments:

Investments are recognized on the trade date and are measured at each period 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 Fund values the initial investment at fair value for common shares. After initial investment, the Fund uses estimation techniques to determine fair value including observable market data, discounted cash flows and internal models that compare the investments to its peer group.

Fair value of investments on restricted shares is determined using an economic model taking into account various factors including risk free rate of interest, volatility, market value and length of the restriction.

Average cost is used to determine realized gains or losses and unrealized appreciation or depreciation on the value of investments, which are recorded through the statement of operations.

NORREP FUND

Notes to Financial Statements, page 3

Years ended October 31, 2009 and 2008

2. Significant accounting policies (continued):

(c) Valuation of investments (continued):

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

(e) Purchase and redemption of units:

The value at which units are issued or redeemed is determined by dividing the net assets of the Fund at fair value based on last trading price by the total number of units outstanding on the valuation date. Amounts received on the issuance of units and amounts paid on the redemption of units are added to or deducted from unitholders' equity.

(f) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepting accounting principles requires estimates and assumptions that affect the reported amount of certain assets and liabilities at the date of these financial statements and the reported amounts of certain revenue and expenses during the year.

Significant areas requiring the use of management estimates includes the fair value of investments, the unrealized gains/losses from investments and the accruals for investment income.

(g) Income taxes:

The Fund is qualified as a "mutual fund trust" under the Income Tax Act (Canada) and, accordingly, is not taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund pays out sufficient net income and net realized capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made in these financial statements.

(h) Earnings (loss) per unit and distributions per unit:

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

Distributions per unit are calculated as the total amount of distributions divided by the number of units at the date of distribution.

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Notes to Financial Statements, page 4

Years ended October 31, 2009 and 2008

2. Significant accounting policies (continued):

(i) Translation of foreign currency:

Foreign currency amounts are expressed in Canadian dollars as follows:

- (i) fair value of investments and accrued receivables and payables and other assets and liabilities at the rate of exchange at the end of the period.
- (ii) purchases and sales of investments and dividend and interest income at the rate of exchange prevailing on the respective dates of such transactions.

(j) Derivative financial instruments:

The Funds may use derivative financial instruments to reduce their exposure to fluctuations in foreign currency exchange rates. Realized and unrealized gains and losses are deferred and recognized in income in the same period and in the same financial statement category as the income or expense arising from the corresponding hedge positions. These hedged positions are recorded at mark to market.

Options are contracts entitling the holder to purchase or sell a specified item at a specified price, during a specified period or on a specified date. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Any gain or loss resulting from revaluation is included in unrealized appreciation/depreciation in the value of the investments on the Statement of Operations. Upon closing of an option, other than by exercise, which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is included in income/loss from derivatives on the Statements of Operations. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option is closed, the difference between the premium and the cost to close the position is included in income/loss from derivatives on the Statement of Operations. When an option expires, the premium for options written or purchased is reflected in the statement as income/loss from derivatives.

The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Net Assets.

(k) Short selling:

The Fund 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 Fund may need to borrow the security for delivery to the buyer. Also, while the transaction is open, the Fund will incur a liability for any paid dividends or interest that is due to the lender of the security.

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Notes to Financial Statements, page 5

Years ended October 31, 2009 and 2008

2. Significant accounting policies (continued):

(l) 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 Fund. 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 October 31, 2009, 2010 and 2011 financial statements, disclosures of the quantitative impact, if any, in the October 31, 2011 financial statements and the preparation of the October 31, 2012 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 Funds' financial statements to be limited to possible presentation changes and additional note disclosures.

3. Financial instruments:

	2009
<i>Assets</i>	
Held for trading	\$78,951,347
Loans and receivables	128,502
Total Assets	\$79,079,849
<i>Liabilities</i>	
Financial liabilities at amortized cost	\$ 415,251
Total Liabilities	\$ 415,251

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Notes to Financial Statements, page 6

Years ended October 31, 2009 and 2008

3. Financial instruments (continued):

Fair value hierarchy:

The following is a summary of the inputs used as of October 31, 2009 in valuing the Fund'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	\$ 74,672,558	\$ 1,683,647	\$ 7,352	\$ 76,363,557
Private securities	—	—	176,800	176,800
Total Investments	\$ 74,672,558	\$ 1,683,647	\$ 184,152	\$76,540,357

During the year ended October 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, November 1, 2008	\$ 117,632	\$ 176,800	\$ 294,432
Purchases	—	—	—
Sales	—	—	—
Net transfers into and/or out of Level 3	—	—	—
Realized gains/(losses)	—	—	—
Change in unrealized depreciation	(110,280)	—	(110,280)
Ending balance, October 31, 2009	\$ 7,352	\$ 176,800	\$ 184,152
Total change in unrealized depreciation during the year for assets held at October 31, 2009	\$ (110,280)	\$ —	\$ (110,280)

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Notes to Financial Statements, page 7

Years ended October 31, 2009 and 2008

4. Financial instruments and associated risks:

The Norrep Fund invests in a combination of securities including but not limited to government and corporate bonds, short-term debt instruments, convertible securities (including convertible bonds and warrants), income trust units, rights, as well as common and preferred shares. These securities are primarily Canadian, but may also, as market opportunities dictate, include U.S. securities.

The Fund uses a value approach as a primary method of securities selection. The Fund also searches for superior long-term earnings and/or cash flow per share growth companies exhibiting a strong position in the market in which it operates quality management and balance sheet strength. This analysis is supplemented by quantitative techniques which examine movements in general market trends as well as trends in earnings and the price of securities. Pending the selection and purchase of suitable investments, the payment of expenses or other anticipated distributions, a portion of the assets of the Fund may be held in cash. In addition, during periods in which the Portfolio Manager believes that market conditions make it advisable, the Portfolio Manager may reduce the Fund's holdings of investments and hold a portion of the Fund's assets in cash. Such cash balances will be held on deposit in cash accounts at any Canadian bank or trust company or may be invested in short-term investment funds or guaranteed investment certificates.

Portions of the assets of the Fund may be invested in foreign property. Currently, there is no limit on the percentage of foreign property that the Fund may hold in order to qualify for investment by registered retirement savings plans and other similar plans and accordingly, this Fund qualifies for investment by such plans. In order to hedge against foreign currency exchange rate risks involved in such investments, the Fund may enter into forward currency exchange contracts and currency future contracts and options on such future contracts, as well as purchase put or call options on currencies whenever a viable market for these transactions exists. The Fund uses derivatives for hedging purposes only.

The Fund's investment portfolio is comprised of 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 Fund are discussed below.

Market risk:

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and price risk.

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Notes to Financial Statements, page 8

Years ended October 31, 2009 and 2008

4. Financial instruments and associated risks (continued):

Market risk (continued):

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund is designed to achieve long-term capital appreciation by investing in small and mid-capitalization equities. The portfolio may consist of all types of equity and debt obligations of issuers in Canada and the United States that may or may not be listed for trading upon the facilities of stock exchanges or other organized and regulated trading facilities in Canada and the United States. Assets of the Fund may also be invested in debt obligations or held in cash to the extent that economic, market or other conditions make it appropriate.

The Fund may write covered call options and cash covered put options and purchase call options and put options with the effect of closing out existing call options and put options written by the Fund. The Fund may also purchase put options in order to protect the Fund from declines in the market prices of the individual securities in the portfolio or in the value of the portfolio as a whole. The Fund may enter into trades to close out positions in such permitted derivatives. The Fund may also use derivatives to hedge the Fund foreign currency exposure. Such permitted derivatives may include exchange-traded options, futures contracts, and options on futures, over-the-counter options and forward contracts. The Fund may also engage in short selling as it obtained exemptive relief from the Canadian securities regulatory authorities. The Fund may purchase securities of HBP Exchange Traded Funds.

No material change in the investment objectives, policies or restrictions of the Fund may be made without the approval of a two-thirds majority of the votes cast by unitholders at a meeting of the Fund duly called for that purpose.

The Fund's market risk is managed on a daily basis by the Portfolio Manager in accordance with the policies and procedures in place.

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

(a) Currency risk:

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than the Canadian dollar. Consequently, the Fund is exposed to risks that the exchange rate of the Canadian dollar to other foreign currencies may fluctuate. The investments are primarily Canadian, but may also, as market opportunities dictate, include U.S. securities. Currently the Fund does not hold any U.S. securities. The Fund's policy is to not have foreign currency exposure greater than 30% of the Fund's net assets.

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Notes to Financial Statements, page 9

Years ended October 31, 2009 and 2008

4. Financial instruments and associated risks (continued):**Market risk (continued):**

(b) Interest rate risk:

Interest rate risk arises on interest bearing financial instruments. The majority of the Fund's assets are non-interest-bearing. Interest-bearing financial assets mature or re-price in the short-term, no longer than twelve months. There are no interest-bearing financial liabilities. As a result, the Fund is subject to limited exposure to fair value interest rate risks due to fluctuations in the prevailing levels of market interest rates. Any excess cash in the Fund earns an interest rate compared to a 30-day T-bill less 0.5% in the overnight market. Any interest rate fluctuations in the overnight market will provide fluctuations in the interest income earned on the cash balance. As of October 31, 2009 the Fund had a cash balance of \$2,410,990, thus an increase or decrease of 100 basis points in interest rates at the reporting date would have impacted the net assets attributable to holders of the redeemable shares and changes in net assets attributable to holders of redeemable shares by \$66 on a daily basis.

(c) Other price risk:

Other price risk is the risk that value of the instrument 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 or its issuer, or factors affecting all instruments traded in the market. All securities present a risk of loss of capital.

Price risk is managed by the Fund's Portfolio Manager by constructing a diverse portfolio of securities. The price of a stock is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the stock is located, does business or where the stock is listed for trading. In addition, a portion of the equity securities invested in 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 daily and make decisions regarding the portfolio based on their knowledge of the market conditions and diversify the portfolio of investments accordingly. The maximum price risk resulting from financial instruments is equivalent to their fair value.

The Fund's equity and debt instruments are susceptible to market price risk arising from uncertainties about future prices of the instrument.

Under normal circumstances the Fund will invest in the following instruments:

Equity securities listed on the TSX or TSX Venture	Up to 100% of net assets
Unlisted equity securities	Up to 10% of net assets

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Notes to Financial Statements, page 10

Years ended October 31, 2009 and 2008

4. Financial instruments and associated risks (continued):**Market risk (continued):**

(c) Other price risk (continued):

The following table details the breakdown of the investment assets and liabilities held by the Fund:

	% of Net Assets October 31, 2009
Investment assets	
Equity investments:	
Listed equities	99.8
Unlisted equities	0.2
Total equity investments	100.0

Sensitivity analysis:

A 1% increase or decrease on the BMO Small Cap Equity Only Weighted Total Return Index at October 31, 2009 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by approximately \$765,400.

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 carrying amount of investments as presented on the statement of investment portfolio represents the maximum credit risk exposure as at October 31, 2009. This also applies to cash and receivables as they have a short-term settlement.

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

At October 31, 2009, the Funds financial assets exposed to credit risk amounted to the following:

	October 31, 2009
All amounts stated in Canadian dollars	
Cash	2,410,990
Dividends and interest	128,502
Total	2,539,492

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

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Notes to Financial Statements, page 11

Years ended October 31, 2009 and 2008

4. Financial instruments and associated risks (continued):

Credit risk (continued):

Credit risk arising on transactions for units purchased and portfolio assets sold relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved. Also, legal entitlement will not pass until all monies have been received for the units purchased or the portfolio assets sold. If either party does not meet its obligation then the transaction will fail.

Substantially all of the assets of the Fund are held by CIBC Mellon, the custodian. Bankruptcy or insolvency of the custodian may cause the Fund's rights with the respect to securities held by the custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and credit rating and financial positions of the custodian the Fund uses. If the credit quality or the financial position deteriorates significantly then the Investment Manager will move the cash holdings to another financial institution.

The Fund Manager analyses credit concentration based on the counterparty, industry and geographical location of the financial assets that the Fund holds.

The Fund's financial assets exposed to credit risk and other price risk were concentrated in the following industries:

	October 31, 2009
Basic materials	24.1%
Energy	23.8%
Information technology	21.3%
Industrials	16.6%
Consumer discretionary	7.4%
Healthcare	3.8%
Total	100.0%

Other than outlined above there were no significant concentrations of credit risk to counterparties at October 31, 2009. No individual investments exceeded ten percent of the net assets attributable to the unitholders at October 31, 2009.

Liquidity risk:

The Fund is exposed to daily cash redemptions of redeemable units. Investments in small, mid-capitalization and micro-capitalization companies may involve greater risks than in larger, more established companies since such companies may have more limited markets and financial resources and their securities may be more sensitive to market changes. As well, the liquidity of the securities may be limited. Consequently, in order to fund redemptions, a mutual fund may

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Notes to Financial Statements, page 12

Years ended October 31, 2009 and 2008

4. Financial instruments and associated risks (continued):

Liquidity risk (continued):

have to liquidate its shareholdings in the more liquid large and medium-sized companies. To the extent that the liquidity is limited, the mutual fund's ability to realize profits and/or minimize losses may be limited, which could adversely affect the net asset value of the mutual fund. Also, the Fund's investments include unlisted equity instruments, which are not traded on an organized public market and which may be illiquid. As a result, the Fund may not be able to quickly liquidate some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements. The Fund maintains sufficient cash and cash equivalent positions to maintain liquidity.

The Fund's liquidity risk is managed on a daily basis by the Investment Manager's Chief Investment Officer. Minimum cash balances will be required to be maintained in the Fund at the discretion of the Chief Investment Officer to allow for monies to cover redemptions. At October 31, 2009 the Fund is required to have a cash balance equal to at least 1% of the net assets. The Fund's redemption policy allows for redemptions at any time during any given month. In certain circumstances, the Fund is required to settle the transaction by Trade day plus two days.

The Fund is subject to regulatory requirements where the Fund shall not purchase an illiquid asset if, immediately after the purchase, more than ten percent of the net assets of the Fund, taken at market value at the time of purchase, would consist of illiquid assets.

Residual contractual maturities of financial liabilities:

As at October 31, 2009	Due on demand	1 to 3 months	3 months to 1 year	Due > 1 year	Total
All amounts stated in Canadian dollars					
Financial liabilities					
Accrued expenses	208,000	–	–	–	208,000
Units redeemed	207,251	–	–	–	207,251

The previous table shows the contractual, undiscounted cash flows of the Fund's financial liabilities.

NORREP FUND

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Years ended October 31, 2009 and 2008

5. Unitholders' equity :

The authorized capital of the fund consists of an unlimited number of units, each representing an equal undivided interest in the net assets of the Fund.

	2009	2008
Balance, beginning of the year	4,077,636	3,927,634
Issued, for cash	5,805	6,331
Issued on reinvestment of distributions	—	567,185
Redeemed, for cash	(658,822)	(423,514)
Balance, end of the year	3,424,619	4,077,636

6. Net asset value per unit at end of period:

The net asset value per unit for the current year and the last five years, after taking into account distributions to unitholders, are as follows:

October 31, 2009	\$	22.97
October 31, 2008	\$	18.03
October 31, 2007	\$	38.79
October 31, 2006	\$	34.17
October 31, 2005	\$	29.63

7. Management fees and expenses:

(a) Manager and management fees:

Norrep Inc. is the manager of the Fund. The Fund pays a monthly management fee to the manager of 1/12 of 2% multiplied by the average net asset value of the Fund in each month.

The maximum annual management fee is the fee that can be charged to the Fund according to the simplified prospectus. The actual management fee of \$1,435,267 (2008 - \$2,612,380) is the fee that was charged to the Fund. Included in accrued expenses is \$146,500 (2008 - \$135,000) related to these fees.

(b) Expenses:

All fees and expenses applicable to the administration and operation of the Fund, including recordkeeping and communication costs, custodian fees, legal and filing fees, audit, applicable taxes and bank charges are payable by the Fund. Hesperian Capital Management Ltd., the portfolio manager, has charged the Fund for administration services. During the year, administrative fees amounted to \$130,873 (2008 - \$125,374) of which \$ 11,145 (2008 - \$10,205) is included in accrued expenses.

NORREP FUND

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Years ended October 31, 2009 and 2008

8. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$194,078 (2008 - \$264,241) in connection with portfolio transactions during the year.

9. 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 below.

	October 31, 2009		October 31, 2008	
	Total	Per unit	Total	Per unit
Net asset value, industry standard using closing prices	\$ 78,861,884	\$ 23.02	\$ 75,265,261	\$ 18.46
Difference as a result of using bid prices	(197,286)	(0.05)	(1,737,220)	(0.43)
Net asset value, financial statements	\$ 78,664,598	\$ 22.97	\$ 73,528,041	\$ 18.03



norrepFUNDS

Hesperian Capital Management Ltd.

Kipling Square

Suite 175

601 - 10th Avenue SW

Calgary, Alberta

T2R 0B2

403.531.2650 phone

1.877.431.1407 toll free

403.508.6120 fax

www.norrepfunds.com