



**2010**

Financial Statements of  
**NORREP FUND**

For the six-months ended April 30, 2010

## LETTER TO THE UNITHOLDERS

These unaudited financial statements are as at April 30, 2010. The unaudited financial statements include a statement of net assets, statement of operations, statement of changes in net assets, statement of investment portfolio and notes to financial statements.

Norrep Inc.  
June 2, 2010

# NORREP FUND

## Statement of Net Assets

As at April 30, 2010 with October 31, 2009 comparisons

	(Unaudited) 2010	(Audited) 2009
<b>Assets</b>		
Investments, at fair value (cost 2010 - \$76,249,253; 2009 - \$74,205,445)	\$ 87,856,797	\$ 76,540,357
Cash	1,246,201	2,410,990
Dividends and interest receivable	146,776	128,502
Portfolio assets sold	1,077,680	-
	1,224,456	128,502
	90,327,454	79,079,849
<b>Liabilities</b>		
Accrued expenses	204,000	208,000
Portfolio assets purchased	860,052	-
Units redeemed	-	207,251
	1,064,052	415,251
<b>Net assets representing unitholders' equity</b>	<b>\$ 89,263,402</b>	<b>\$ 78,664,598</b>
<b>Units outstanding (note 5)</b>	<b>3,243,331</b>	<b>3,424,619</b>
<b>Net asset value per unit</b>	<b>\$ 27.52</b>	<b>\$ 22.97</b>

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

For the six months ended April 30, 2010 and 2009  
(Unaudited)

	2010	2009
Investment income:		
Dividends	\$ 401,454	\$ 302,318
Interest	491,014	577,770
	892,468	880,088
Expenses:		
Management fees (note 7)	907,044	632,521
Administration fees (note 7)	64,492	62,738
Custodian and recordkeeping fees	37,284	67,386
Other	21,904	7,308
Legal and filing fees	17,321	25,692
Computer services	16,928	14,316
Audit fees	14,333	11,894
	1,079,306	821,855
Net investment (loss) gain	(186,838)	58,233
Gains and losses on investments:		
Net realized gain (loss) on investments	6,350,966	(9,837,610)
Transaction costs	(187,941)	(100,933)
Change in unrealized appreciation		
In current value of investments	9,272,632	5,311,595
Net gain (loss) on investments	15,435,657	(4,626,948)
Increase (decrease) in net assets from operations	\$ 15,248,819	\$ (4,568,715)
Earnings (loss) per unit	\$ 4.59	\$ (1.17)

See accompanying notes to financial statements.

# NORREP FUND

## Statement of Changes in Net Assets

For the six months ended April 30, 2010 and 2009  
(Unaudited)

	2010	2009
Increase (decrease) in net assets from operations	\$ 15,248,819	\$ (4,568,715)
Capital unit transactions:		
Proceeds from issue of units	58,856	55,787
Payments on redemption of units	(4,708,871)	(4,679,762)
	(4,650,015)	(4,623,975)
Increase (decrease) in net assets for the period	10,598,804	(9,192,690)
Net assets, beginning of the period	78,664,598	73,528,041
Net assets, end of the period	\$ 89,263,402	\$ 64,335,351

See accompanying notes to financial statements.

# NORREP FUND

## Statement of Investment Portfolio

As at April 30, 2010  
(Unaudited)

Description	Number of common shares/ warrants	Cost	Fair value
Canadian (100%)			
ADF Group Inc.	536,300	\$ 1,402,827	\$ 1,432,800
Angle Energy Inc.	309,000	2,914,485	2,581,840
Axia NetMedia Corporation	1,305,600	2,053,984	2,453,220
Baytex Energy Trust	101,600	2,083,196	3,475,736
Big Eagle Energy Services Trust	260,000	1,300,000	176,800
Black Diamond Group Ltd.	241,000	1,884,578	4,851,330
Breakwater Resources, Ltd.	3,618,800	1,073,151	1,519,896
CGA Mining Limited	1,065,000	2,277,217	2,332,350
CGA Mining Limited (Restricted)	71,000	156,200	152,437
CML Healthcare Income Fund	79,400	1,860,996	1,292,483
COM DEV International Ltd.	999,300	3,394,087	2,937,942
Computer Modelling Group Ltd.	253,300	904,121	4,698,715
CY Oriental Holdings Ltd.	735,200	930,308	-
CY Oriental Holdings Ltd. WT EXP 21-FEB-12	707,448	-	-
Daylight Resources Trust	66,750	589,756	747,600
Gennum Corporation	180,000	1,058,762	906,748
Global Railway Industries Ltd.	727,900	2,670,699	545,925
Gluskin Sheff + Associates Inc.	93,000	1,630,598	2,046,000
Home Capital Group Inc.	44,000	1,650,568	2,085,160
Inmet Mining Corporation	53,000	2,114,972	2,851,511
Le Chateau Inc.	137,100	702,023	1,998,918
Legacy Oil & Gas Inc.	147,366	1,280,300	1,930,495
Major Drilling Group International Inc.	103,000	2,534,236	2,714,304
Migao Corporation	251,000	1,798,396	1,726,880
NAL Oil & Gas Trust	230,390	3,109,052	2,928,257
Neo Material Technologies, Inc.	711,100	2,431,058	2,788,860
Northstar Aerospace Inc.	8,700	17,559	17,052
Orleans Energy Ltd.	875,200	2,322,855	2,552,340
Quadra Mining Ltd.	159,300	3,562,005	2,441,472
SEMAFO Inc.	630,300	1,828,775	4,052,829
Sino-Forest Corporation	236,600	1,688,821	4,258,800
Softchoice Corporation	324,500	3,736,561	3,137,915
Stella-Jones Inc.	98,200	1,662,297	2,877,260
Thompson Creek Metals Company Inc.	148,100	1,827,771	1,922,338
TransForce, Inc.	253,200	2,611,318	2,708,900
Vector Aerospace Corporation	858,000	3,866,671	5,362,500
Wajax Income Fund	120,000	2,839,711	3,076,800
Yoho Resources Inc.	1,166,915	5,421,363	2,683,905
Zarlink Semiconductor Inc.	992,800	1,283,929	1,588,479
Transaction costs		(225,953)	
<b>Total Equities</b>		<b>\$ 76,249,253</b>	<b>\$ 87,856,797</b>

See accompanying notes to financial statements.

# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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### 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 Trust 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.

# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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### 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

For the six months ended April 30, 2010  
(Unaudited)

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### 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.

# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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### 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.

# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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### 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, 2010, 2011 and 2012 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:

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	2010
<b>Assets</b>	
Held for trading	\$ 89,102,998
Loans and receivables	1,224,456
<b>Total Assets</b>	<b>\$ 90,327,454</b>
<b>Liabilities</b>	
Financial liabilities at amortized cost	\$ 1,064,052
<b>Total Liabilities</b>	<b>\$ 1,064,052</b>

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# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

### 3. Financial instruments (continued):

#### Fair value hierarchy:

The following is a summary of the inputs used as of April 30, 2010 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	\$ 84,650,300	\$ 3,029,697	\$ -	\$ 87,679,997
Private securities	-	-	176,800	176,800
<b>Total Investments</b>	<b>\$ 84,650,300</b>	<b>\$ 3,029,697</b>	<b>\$ 176,800</b>	<b>\$ 87,856,797</b>

During the period ended April 30, 2010, 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, 2009	\$ 7,352	\$ 176,800	\$ 184,152
Purchases	-	-	-
Sales	-	-	-
Net transfers into and/or out of Level 3	-	-	-
Realized gains/(losses)	-	-	-
Change in unrealized depreciation	(7,352)	-	(7,352)
<b>Ending balance, April 30, 2010</b>	<b>\$ -</b>	<b>\$ 176,800</b>	<b>\$ 176,800</b>
Total change in unrealized depreciation during the year for assets held at April 30, 2010	\$ (7,352)	\$ -	\$ (7,352)

# NORREP FUND

Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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#### 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.

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.

The Fund's strategy on the management of market 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.

# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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

##### Market risk (continued):

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 Horizons BetaPro 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 April 30, 2010 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.

##### (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 April 30, 2010 the Fund had a cash balance of \$1,246,201, 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 \$34 on a daily basis.

# NORREP FUND

Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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

### Market risk (continued):

#### (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:

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Equity securities listed on Canadian and American exchanges	Up to 100% of net assets
Unlisted equity securities	Up to 10% of net assets

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

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	% of Net Assets
	April 30, 2010
Investment assets	
Equity investments:	
Listed equities	99.8
Unlisted equities	0.2
<u>Total equity investments</u>	<u>100.0</u>

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# NORREP FUND

Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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

### Market risk (continued):

(c) Other price risk (continued):

Sensitivity analysis:

A 1% increase or decrease on the BMO Small Cap Equity Only Weighted Total Return Index at April 30, 2010 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by approximately \$878,568.

### 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 April 30, 2010. 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 April 30, 2010, the Funds financial assets exposed to credit risk amounted to the following:

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	April 30, 2010
All amounts stated in Canadian dollars	
Cash	1,246,201
Dividends and interest	146,776
Portfolio assets sold	1,077,680
<b>Total</b>	<b>2,470,657</b>

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

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 Portfolio Manager will move the cash holdings to another financial institution.

# NORREP FUND

Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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

### Credit risk (continued):

The Portfolio 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:

	April 30, 2010
Energy	19.5%
Basic Materials	30.6%
Industrials	23.6%
Consumer Discretionary	2.3%
Healthcare	1.5%
Financials	4.7%
Information Technology	17.8%
Total	100.0%

Other than outlined above there were no significant concentrations of credit risk to counterparties at April 30, 2010. No individual investments exceeded seven percent of the net assets attributable to the unitholders at April 30, 2010.

### 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 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 Portfolio 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 April 30, 2010 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 date plus two days.

# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

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

#### Liquidity risk (continued):

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 April 30, 2010	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	204,000	–	–	–	204,000
Portfolio assets purchased	860,052	–	–	–	860,052

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

### 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.

	2010	2009
Balance, beginning of the year	3,424,619	4,077,636
Issued, for cash	2,180	5,805
Redeemed, for cash	(183,468)	(658,822)
Balance, end of the year	3,243,331	3,424,619

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

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

April 30, 2010	\$	27.52
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

# NORREP FUND

## Notes to Financial Statements

For the six months ended April 30, 2010  
(Unaudited)

### 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 \$907,044 (six months ended April 30, 2009 - \$632,521) is the fee that was charged to the Fund. Included in accrued expenses is \$157,000 (October 31, 2009 - \$146,500) 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 period, administrative fees amounted to \$64,492 (six months ended April 30, 2009 - \$62,738) of which \$ 9,850 (October 31, 2009 - \$11,145) is included in accrued expenses.

### 8. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$173,438 (six months ended April 30, 2009 - \$83,467) in connection with portfolio transactions during the period.

### 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.

	April 30, 2010		October 31, 2009	
	Total	Per unit	Total	Per Unit
Net asset value, industry standard using closing prices	\$ 89,722,856	\$ 27.66	\$ 78,861,884	\$ 23.02
Difference as a result of using bid prices	(459,454)	(0.14)	(197,286)	(0.05)
Net assets value, financial statements	\$ 89,263,402	\$ 27.52	\$ 78,664,598	\$ 22.97

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## CONTACT US

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The Norrep II Class is a class of Norrep Opportunities Corp. Please contact us or visit our website to obtain a copy of the Simplified Prospectus and other Fund related materials.