

# CONFIDENTIAL OFFERING MEMORANDUM



## SHERPA FUNDS

### SHERPA DIVERSIFIED RETURNS FUND

### SHERPA MARKET NEUTRAL INCOME FUND

February 1, 2011

Continuous Offering

This Confidential Offering Memorandum constitutes a private offering of the securities described herein only in those jurisdictions and to those persons where and to whom they may be lawfully sold and therein only by those entities permitted to sell such securities. This Confidential Offering Memorandum is not, and under no circumstances is it to be construed as a prospectus, advertisement or public offering of the securities referred to herein. **No securities commission or similar regulatory authority has passed on the merits of the securities offered nor has it reviewed this Confidential Offering Memorandum and any representation to the contrary is an offence. Persons who will be acquiring securities pursuant to this Confidential Offering Memorandum will not have the benefit of the review of the material by the securities commissions or similar authorities in Canada.** The securities offered hereunder will be issued through registered dealers and under exemptions from the registration and prospectus requirements of the applicable securities laws of the provinces and territories of Canada, and the rules, regulations and policies thereunder and will be subject to certain resale restrictions.

**These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States. These securities may not be offered or sold in the United States except pursuant to exemptions from registration under the U.S. Securities Act and all applicable states securities laws. The term "United States" is as defined in Rule 902 of Regulation S under the U.S. Securities Act.**

**CONFIDENTIAL OFFERING MEMORANDUM**

Dated: February 1, 2011

*Continuous Offering***THE ISSUERS:**

**Name:** Sherpa Diversified Returns Fund  
 Sherpa Market Neutral Income Fund

**Head Office:** 202-2438 Marine Drive  
 West Vancouver, British Columbia, V7V 1L1

**Phone Number:** 604-926-7739

**E-mail Address:** [ian@sherpaam.com](mailto:ian@sherpaam.com)

**Fax Number:** 778-279-7739

**Currently Listed or Quoted:** These securities do not trade on any exchange or market.

**Reporting Issuer:** No

**SEDAR Filer:** No

**THE OFFERING:**

**Securities Offered:** Class A, Class B, Class F, Class I and Class M Units (the “Diversified Returns Units”) of Sherpa Diversified Returns Fund (“Diversified Returns Fund”) and Class A, Class B, Class F, Class I and Class M Units (the “Market Neutral Units”) of Sherpa Market Neutral Income Fund (“Market Neutral Fund” and, collectively with the Diversified Returns Fund, the “Funds”). The Diversified Returns Units and the Market Neutral Units are collectively referred to as the “Units”. Each Class has the attributes and characteristics as set out under the heading “Terms of Securities - Summary of Trust Agreement.” Units of the Funds are issued in Series.

**Class Attributes:**

Class A: For investors making investments of \$25,000 or more who are not eligible to purchase Class I Units.

Class B: For investors making investments of \$25,000 or more through a registered dealer with whom they maintain an investment account.

Class F: For investors making investments of \$25,000 or more through a registered dealer with whom they maintain an investment account and who are subject to a periodic asset-based fee rather than commissions on each transaction and that do not require the Investment Manager to pay service fees (trailers) to such dealers.

Class I: For large institutional investors investing a minimum of \$5,000,000.

Class M: For clients of dealers who have negotiated an arrangement with the Investment Manager.

**Price Per Security:** For Class the A Units and Class I of the Funds, the subscription price will be \$10.00 per Unit of a Series.

For the Class B, Class F and Class M Units of the Funds, the subscription price per Unit will be based upon the applicable net asset value (“Net Asset Value”) of the Units as at the first Valuation Date following the date on which the subscription is received and may vary from Class to Class, except that first issuance of Units will be at a price of \$10.00. The Net Asset Value of each Class of Units that comprise a Fund is divided by the number of Units of each Class outstanding (before Unit redemptions and subscriptions) at the close of business on a Valuation Date to determine the Net Asset Value per Unit for each Class. See “Terms of Securities - Summary of Trust Agreement”.

**Minimum/Maximum Offering:** No minimum. No maximum.

<b>Minimum Subscription Amount:</b>	The minimum aggregate subscription price for the Units is \$25,000, or such lesser amount as the Investment Manager, in its sole discretion, may accept.
<b>Payment Terms:</b>	The subscription price is payable upon subscription, by cheque or by bank draft or through electronic means acceptable to the Investment Manager (i.e. FundSERV). No financing of the subscription price will be provided by the Investment Manager.
<b>Proposed Closing Date(s):</b>	Closings of the offering will take place monthly on the last business day of the month.
<b>Income Tax Consequences:</b>	There are important tax consequences to investors who purchase, hold and dispose of these securities. See "Certain Canadian Federal Income Tax Considerations and Eligibility for Registered Plans."
<b>Selling Agent:</b>	None.

### **RESALE RESTRICTIONS**

You will be restricted from selling your securities for an indefinite period. As there is no market for these securities, it may be difficult or even impossible for an investor to sell them. The Units are subject to resale restrictions. See "Resale Restrictions". However, an investor may generally elect to redeem any or all of his Units on the last business day of any month. See "Terms of Securities - Summary of Trust Agreement - Redemption Price and Payment".

### **INVESTORS' RIGHTS**

You have two business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Confidential Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See "Investors' Rights".

**No securities regulatory authority has assessed the merits of these securities or reviewed this Confidential Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See "Risk Factors".**

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## **USE OF NET PROCEEDS**

### **Net Proceeds and Use of Net Proceeds**

The Funds sell Units on a continuous basis, with closings of this Offering occurring on the last business day of each month. As costs of the Offering are an ongoing expense of the Funds, each Fund will use the net proceeds from the sale of its Units to invest in securities and financial instruments pursuant to its respective investment objectives and strategies, policies and restrictions (see “Business of the Funds”).

## **BUSINESS OF THE FUNDS**

### **Structure**

There are two separate funds offered herein: the Sherpa Diversified Returns Fund and the Sherpa Market Neutral Income Fund. Each Fund is an unincorporated open end investment trust, formed under the laws of British Columbia by a trust agreement dated June 11, 2008, as amended, January 31, 2011 and the supplements thereto (the “Trust Agreement”). Caledon Trust Company is the trustee of the Funds (the “Trustee”). Sherpa Asset Management Inc. acts as investment manager of the Funds (“Investment Manager”) pursuant to the Trust Agreement.

The Trust Agreement set out the rights, duties and obligations of the Investment Manager relating to the investment management and administration of the Funds. Under the terms of the Trust Agreement the Investment Manager has agreed to provide various services, including the determination of the investment policy for the Funds from time to time, the provision of investment analysis, advice and recommendations and the implementation of investment decisions. The day-to-day management, supervision, administration and control of the Funds are also the responsibility of the Investment Manager.

The head office and principal business address of the Funds and the Investment Manager is 202-2438 Marine Drive, West Vancouver, British Columbia, V7V 1L1. The fiscal year end of the Funds will be December 31st in each year and the auditors of the Funds are KPMG LLP. The assets of the Funds will be held under the custodianship of trust companies, banks, brokers, investment dealers or securities dealers. The assets of the Funds will not be held under the custodianship of the Investment Manager. Commonwealth Fund Services Ltd. will act as record keeper of the Units.

### **Our Business**

Each Fund is an investment fund, formed for the purposes of investing in securities in Canada and the United States in accordance with the investment objectives, strategies and restrictions described herein.

### **Development of Business**

The Diversified Returns Fund has expanded its investment activities through the sale of Units. There were 715,535.3270 Class A Units outstanding as of December 31, 2008. As of December 31, 2009 there were 917,789.2905 Class A Units and 24,109.6895 Class B Units outstanding. As of December 31, 2010, there were 1,248,131.53 Class A Units, 650,958.49 Class B Units and 35,737.48 Class F Units outstanding.

From its inception in June 2008 until December 2010, the Class A Master Series has posted returns of 8.66%. The breakdown of returns by calendar year is as follows:

2008: In the 7 months from its inception in June 2008 to December 2008, the SDRF Class A Master Series posted returns of -14.21%.

2009: The Class A Master Series posted returns of 17.39% in 2009.

2010: The Class A Master Series posted returns of 7.89% in 2010.

The percentages listed above represent the change in the value of an investment in the Diversified Returns Fund in the particular calendar year. These figures assume that all distributions made were re-invested in additional Units, are net of all Fund expenses and do not take into account sales, redemptions, distributions, performance fees for later series, or optional charges or taxes payable by any Unitholder that would have reduced returns. The Funds' returns are not guaranteed, their values change frequently and past performance may not be repeated and is not indicative of future returns. All figures and percentages listed above are unaudited.

The Market Neutral Fund has not previously carried on any activities. The Market Neutral Fund intends to expand its activities through the sale of Units.

## **Objectives and Strategies**

### *Investment Objectives*

The principal objective of the Diversified Returns Fund is to achieve consistently high risk-adjusted returns by profiting from investment opportunities identified by the Investment Manager. The principal objective of the Market Neutral Fund is to achieve consistent absolute returns in varying market conditions by profiting from investment opportunities identified by the Investment Manager.

### *Investment Strategies*

The Funds will employ a variety of investment strategies to take advantage of profitable opportunities in the capital markets, which will be determined at the full and unfettered discretion of the Investment Manager. Strategies that may be used include the following:

#### *Long Investments*

Long positions involve buying a security in anticipation of price expansion in the short and over the long term. The Funds' long investment positions will include securities of companies and ETFs (including index ETFs) and index futures that the Investment Manager, through its investment process, identifies as appropriate.

#### *Put and Call Options*

The Funds may purchase and sell options on common stocks, ETFs (including index ETFs), futures and USD/CAD currency pairs and may also use them for hedging purposes. The use of puts and calls implies the use of leverage through the use of margin.

#### *Short Sales*

Short sales involve a Fund selling a security that it does not own in anticipation of a price decline. A short sale occurs when a Fund borrows a security from a third party. The Fund repurchases the security at a later date in order to replace the security that was borrowed from the third party. This is known as covering the short position.

Short selling can be extremely risky, as losses can be unlimited if the price of the borrowed security continues to increase rather than decline. The Funds will use short sales primarily for the purpose of hedging against an offsetting long position either in a similar security or on the same security that has a long exposure established through the use of derivative securities (i.e. options or futures contracts). To further mitigate the risks of short selling, the Funds will frequently employ the use of stop/loss orders.

#### *Leverage*

Each Fund may borrow up to 200% of Net Asset Value to invest in accordance with its investment objective of to fund payment of redemption proceeds.

## *Currency*

As Canadian dollar denominated Funds investing in US equities and Canadian equities, the Funds will also be exposed to movements in the USD/CAD exchange rate. The Investment Manager will use its experience and expertise in trading currencies and currency options to decrease the Funds' volatility while attempting to enhance the Funds' returns.

### ***Investment Policies and Restrictions***

The Investment Manager will adhere to the following investment policies and restrictions in implementing the investment objectives and strategies of the Funds:

- (a) Investment will be limited to securities listed on North American exchanges with a minimum market capitalization of Cdn\$10 billion. In the event that opportunities in securities with capitalizations less than Cdn\$10 billion appear, a written rationale for the investment must be drafted, and the rationale must be reviewed and approved by the Investment Manager's Investment Committee. The combined holdings of securities of issuers with market capitalizations of less than Cdn\$10 billion must not exceed 5% of a Fund's Net Asset Value as measured at time of purchase;
- (b) individual security holdings will be limited to a maximum of 5% of a Fund's Net Asset Value with the exception of securities whose value is based on the trading levels of widely traded indices (e.g. SPY-A);
- (c) exposure to any single GICS® sector will be limited to a maximum of 25% of a Fund's Net Asset Value;
- (d) the Diversified Fund's net equity exposure will be kept between a minimum of 10% long and a maximum of 60% long through the combination of longs, shorts, options and futures positions. In the event that the Portfolio Manager requires greater flexibility beyond this range, a written rationale must be drafted, and the rationale must be reviewed and approved by the Investment Manager's Investment Committee. The Investment Manager's Investment Committee has the authority to grant no more than +/-10% from the normal prescribed limits (i.e. 0%-70% net long);
- (e) the Market Neutral Fund's net equity exposure will be kept between a minimum of 20% short and 20% long with a target exposure of 0% through the combination of longs, shorts options and futures positions;

The Investment Manager's Investment Committee members are David Guarasci, Joe Sawyer, Patrick Smart and Peter Spee. See "Management Experience" for a description of their experience and qualifications.

All investments made by a Fund will be at arm's length to the Fund, the Investment Manager and any of their respective officers and directors. Any material amendment to the investment policies of a Fund must be approved by the Unitholders of the Fund.

### ***Quarterly Distributions***

In addition to the annual distributions made by both Funds (see "Terms of Securities - Summary of Trust Agreement - Distribution of Income and Capital and Capital Gains to Unitholders") the Market Neutral Fund may pay quarterly distributions of on the last business day of March, June, September and December. These distributions will be automatically reinvested in additional Units of the Fund unless the Investment Manager receives notice in writing that the Unitholder wishes to receive the distribution in cash. There may be a transaction charge payable to the Investment Manager for each such election. The aggregate quarterly distributions that are made on Units of the Fund each year are expected to be between approximately 5% and 6% of the average Net Asset Value of the Fund over that year. The distributions are expected to be capital gains, however, any amounts distributed by the Fund

above the Fund's capital gains will be considered a return of capital. A return of capital distribution is not taxable but reduces the adjusted cost base of the Units.

The quarterly distributions may change or be halted at any time at the discretion of the Investment Manager.

### **Material Agreements**

The only material contract that has been entered into by the Funds, other than contracts entered into in the ordinary course of business, is the Trust Agreement (see "Terms of Securities – Summary of Trust Agreement").

A copy of this agreement may be inspected during normal business hours at the office of the Investment Manager, 202-2438 Marine Drive, West Vancouver, British Columbia.

### **Fees and Expenses**

#### *Management Fees*

In consideration of the services provided by the Investment Manager, the Funds pay the Investment Manager a monthly management fee (plus applicable taxes), payable in arrears, calculated as a percentage of the Net Asset Value of each Unit that comprises each Fund on the last business day of the preceding month. The management fee may vary from Class to Class and will be deducted as an expense of each Fund in the calculation of the net profits of such Fund.

#### *Sherpa Diversified Returns Fund*

The management fee for each applicable Class of Units in the Diversified Returns Fund is as follows:

Class A: up to 1.0% per annum.

Class B: up to 1.75% per annum.

Class F: up to 0.75% per annum.

Class I: management fee is negotiated directly with each investor and payable in respect of the Series held by such investor.

Class M: up to 1.75% per annum.

#### *Sherpa Market Neutral Income Fund*

The management fee for each applicable Class of Units in the Market Neutral Fund is as follows:

Class A: up to 1.0% per annum.

Class B: up to 1.75% per annum.

Class F: up to 0.75% per annum.

Class I: management fee is negotiated directly with each investor and payable in respect of the Series held by such investor.

Class M: up to 1.75% per annum.

For either Fund, the Investment Manager may, in its sole discretion, waive all or any part of its management fee from time to time and/or direct that all or any part of its management fee for a particular period be paid over to one

or more particular Unitholders in any amount that it considers appropriate or has otherwise agreed to with any particular Unitholder (to the exclusion of every other Unitholder). Any such waiver or direction of the Investment Manager in respect of a particular period will apply in respect of that period only. The Investment Manager may pay a portion of any distributions it receives from a Fund in respect of its management fee, if any to certain registered dealers whose clients hold Units of the Fund.

### ***Performance Fees***

#### *Sherpa Diversified Returns Fund*

The Investment Manager is entitled to a performance fee (plus applicable taxes) of up to 20% of the amount by which the Net Asset Value of each Series or Class of the Diversified Returns Fund (net of management fees) exceeds the previous high-water mark for that Series or Class. The highest quarter-end Net Asset Value per Unit of a Series or Class from time to time establishes a high-water mark for each Series or Class which must be exceeded in subsequent quarters for the Performance Fee applicable to each Series or Class to be payable. The performance fee is accrued monthly and is payable for each calendar quarter. The performance fee is payable by the Fund within 10 business days from the quarter-end. Upon redemption of Units, the accrued portion of the performance fee allocated to the redeemed Units will be payable by the Fund within 10 business days of the month in which the Units were redeemed.

For Class M and Class I Units and or Series of Units, the performance fee will be negotiated separately and may use an alternate formula than the Class A, B and F Series or Classes.

The Investment Manager has reserved the right to change the period for which any performance fee may be paid by the Fund to the Investment Manager.

#### *Sherpa Market Neutral Income Fund*

Classes A, B and F: For each calendar year, the Investment Manager is entitled to a performance fee of up to 15% of the amount by which the Net Asset Value per Unit of the Series or Class at each quarter-end exceeds the previous High-Water Mark for such Series or Class. The highest quarter-end Net Asset Value per Unit of a Series or Class from time to time *upon which a performance fee has been paid to the Investment Manager* establishes the high-water mark ("High-Water Mark") for such Series or Class. This performance fee is payable on the total annual returns provided a minimum annualized return (or "hurdle rate") of 5% (net of management fees) is achieved as measured at the last valuation date of the most recently completed calendar year. The performance fee is payable by the Fund within 10 business days of each quarter-end.

Classes I and M: the performance fee will be negotiated separately and may use an alternate formula than the A, B and F Series or Classes.

For either fund, the Investment Manager may, in its sole discretion, waive all or any part of its performance fee from time to time and/or direct that all or any part of its performance fee for a particular period be paid over to one or more particular Unitholders in any amount that it considers appropriate or has otherwise agreed to with any particular Unitholder (to the exclusion of every other Unitholder). Any such waiver or direction of the Investment Manager in respect of a particular period will apply in respect of that period only. The Investment Manager may pay a portion of any performance fee it receives from a Fund to certain registered dealers whose clients hold units of the Fund. The Investment Manager has reserved the right to change the period for which any performance fee may be paid by the Fund to the Investment Manager.

### ***Administration Fees and Expenses***

Each Fund is responsible for the payment of all fees and expenses relating to its operation, including the fees and expenses of the record keeper, audit, accounting, administration (other than advertising and promotional expenses which are paid for by the Investment Manager), record keeping and legal fees and expenses, custody and safekeeping charges, all costs and expenses associated with the qualification for sale of Units, providing financial and other reports to Unitholders and convening and conducting meetings of Unitholders, all taxes, assessments or other governmental charges levied against the Fund, interest and all brokerage and other fees relating to the purchase and sale of the assets of the Fund. The Investment Manager will pay for all expenses associated with the identification and management of the Funds' investments (other than direct expenses such as interest charges on margin borrowings and brokerage fees, which are the responsibility of the Funds).

## **DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS**

### **Compensation and Securities Held**

Each of David Guarasci, George Tambakis and Joseph Sawyer is a managing director and a director of the Investment Manager, Patrick Smart is a managing director and chief operating officer of the Investment Manager, Peter Spee is a managing director and Alison Gardner is a director. They do not receive any compensation from the Funds. The Funds pay the Investment Manager a management fee and a performance fee. No director or officer of the Investment Manager owns or controls 10% or more of any class of voting securities of the Diversified Returns Fund. The single Unit of the Market Neutral Fund outstanding as at January 31, 2011, is owned by the Investment Manager. See "Investment Manager" below.

### **Management Experience**

The senior management of the Investment Manager have a broad background of investment and capital market experience that will be brought to bear on the activities undertaken by the Investment Manager on behalf of the Funds. The following table discloses the principal occupations of the directors and senior officers of the Investment Manager for the past fifteen years.

<b>Name and Municipality of Residence</b>	<b>Principal Occupations and Related Experience</b>
David Guarasci, CFA Vancouver, BC	<p>Managing Director and Portfolio Manager of Sherpa Asset Management Inc. since 2007.</p> <p>Mr. David Guarasci is a founder and an officer and a director of the Investment Manager and has overall responsibility for the investment and trading decisions affecting the Fund's investment portfolio. Mr. Guarasci has over 18 years of experience managing equity, currency and options portfolios. He began his career with TD Asset Management and progressed to Managing Director and Global Head of Currency Spot and Options Trading at TD Securities before forming his own investment firm and subsequently, the Investment Manager. At TD, Mr. Guarasci spent ten years developing and executing proprietary trading strategies, and was responsible for billions of dollars in trading throughout ten portfolios. Mr. Guarasci holds an Honours Economics degree from the University of Western Ontario and has been a CFA charter holder since 1996</p>

<b>Name and Municipality of Residence</b>	<b>Principal Occupations and Related Experience</b>
Patrick Smart, CFA Toronto, ON	<p>Managing Director and Chief Operating Officer of Sherpa Asset Management Inc. since 2009.</p> <p>Mr. Patrick Smart is an officer of the Investment Manager. Mr. Smart began his career in 1991 with TD Bank where he developed compliance, risk management and performance analytics as the senior analyst for TD Mutual Funds. In 1997, Mr. Smart moved to the TSE where he worked with market participants in the U.S. and Canada to develop new trading mechanisms for improving market liquidity. In 1999, Mr. Smart returned to TD Asset Management as Managing Director, eBusiness. He then moved to RBC Dexia Institutional Investor Services, where he spent three years developing and implementing the global online strategy for custody, fund administration and market products. Mr. Smart holds a Bachelor of Commerce degree in Finance from the University of British Columbia and has been a CFA charter holder since 1996.</p>
Joe Sawyer Vancouver, BC	<p>Managing Director of Sherpa Asset Management Inc. since 2007.</p> <p>Mr. Joe Sawyer is a founder and an officer and a director of the Investment Manager. Mr. Sawyer began his investment career at the Hong Kong Bank of Canada in 1983, moving into the Treasury Department in 1984. At HSBC, Mr. Sawyer traded interest rate and foreign exchange products and progressed to the position of Senior Dealer. In 1989, Mr. Sawyer moved to TD Bank as Chief Dealer for Foreign Exchange and International Money Market Trading and Corporate Sales. In 1999 Joe became Managing Director, TD Securities responsible for Corporate and Institutional Sales.</p>
Peter Spee Vancouver, BC	<p>Managing Director of Sherpa Asset Management Inc. since 2011.</p> <p>Mr. Peter Spee was formerly a managing director at RBS Securities in Tokyo, Japan. As the Head of Options for the Asia-Pacific region, Mr. Spee built RBS's derivative trading business in Japan and Hong Kong which covered all of Asia and Australia. Prior to that, Mr. Spee was the Head of Rates for the Royal Bank of Scotland in Hong Kong. Before joining RBS, Mr. Spee was a Vice President and Director with TD Securities, where he held senior positions in Tokyo, Dublin, London and Toronto. Mr. Spee's roles involved FX Options, Interest Rates, and FX/Rates trading. Mr. Spee's experience also extends to Information Technology, Risk Management and Operations. Mr. Spee holds Masters in Business Administration from the University of Victoria and a Bachelor of Science degree in Engineering from the University of Alberta.</p>

### **Investment Manager**

Sherpa Asset Management Inc. was incorporated under the laws of Canada on April 12, 2007. The head office and principal business address, and the registered office, of the Investment Manager are at 202-2438 Marine Drive, West Vancouver, British Columbia, V7V 1L1. The Investment Manager is principally owned by Mr. David Guarasci, Mr. Mr. Joseph Sawyer, Mr. George Tambakis and Mr. Patrick Smart. The Investment Manager is registered as a portfolio manager with the securities commission in British Columbia and Ontario.

### Penalties, Sanctions, and Bankruptcy

There are no penalties, sanctions, declarations of bankruptcy, voluntary assignments in bankruptcy, proposals under any bankruptcy or insolvency legislation or proceedings, arrangements or compromises with creditors, appointments of a receiver, receiver manager or trustee to hold assets, that have been in effect during the last ten years against or in connection with any of the directors, executive officers or control persons of the Funds or the Investment Manager or any issuer of which any director, executive officer or control person of the Funds or the Investment Manager was a director, senior officer or control person.

## CAPITAL STRUCTURE

### Share Capital

An investment in the Funds is represented by Units. Each Unit of a Fund represents a share of the aggregate interests of all Unitholders in such Fund. Each Fund is authorized to issue an unlimited number of Units in one or more classes. Units may be issued in series of a class. The Investment Manager may consolidate, subdivide or designate by name and series the Units from time to time in such a manner as considered appropriate.

#### *Sherpa Diversified Returns Fund – Outstanding Securities*

<b>Description of security</b>	<b>Number authorized to be issued</b>	<b>Number outstanding as at December 31, 2010<sup>(2)</sup></b>
Units <sup>(1)</sup> :		
Class A	Unlimited	1,248,131.53
Class B	Unlimited	650,958.49
Class F	Unlimited	35,737.48
Class I	Unlimited	0
Class M	Unlimited	0

(1) The attributes and characteristics of each Class of Units is set forth under the heading “Terms of Securities – Summary of Trust Agreement.”

(2) As at December 31, 2010, the issued and outstanding Units had the following Net Asset Values per Unit: Class A Master Series, \$10.8659 per Unit, Class B Master Series, \$10.9024 per Unit, Class F Master Series, \$10.4967 per Unit. The number of Class A units is comprised of multiple series which include the Master Series

### *Prior Sales*

Within the 12 months from January 1, 2010 to December 31, 2010, the Diversified Returns Fund has issued an aggregate of 424,147.28 Class A Units, 626,848.80 Class B Units and 35,737.48 Class F Units for aggregate gross proceeds in the amount of \$11,058,172.80. Units are issued at the relevant Net Asset Value per Unit at the date of subscription.

*Sherpa Market Neutral Income Fund – Outstanding Securities*

Description of security	Number authorized to be issued	Number outstanding as at January 31, 2011 <sup>(2)</sup>
Units <sup>(1)</sup> : Class A	Unlimited	1
Class B	Unlimited	0
Class F	Unlimited	0
Class I	Unlimited	0
Class M	Unlimited	0

(1) The attributes and characteristics of each Class of Units are set forth below under the heading “Terms of Securities”

(2) As at January 31, 2011, the issued and outstanding Class A Unit had a Net Asset Value of \$10.00

*Prior Sales*

Within the 12 months prior to the date of this Confidential Offering Memorandum, the Market Neutral Fund has issued one Class A Unit for gross proceeds of \$10.00.

**SECURITIES OFFERED****Terms of Securities**

Each Fund is offering an unlimited number of multiple classes (each a “Class”), which may have multiple series or a single series (each a “Series”) of trust units (each a “Unit” and together, the “Units”). These Units are being offered on a continuous basis to qualified investors resident in all provinces and territories of Canada through registered dealers and pursuant to applicable securities laws. See “Subscription Procedure”. Class A and Class I of each Fund are divided into multiple Series. Each Unit within a particular Series will be of equal value, however, the value of a Unit in one Series may differ from the value of a Unit in another Series. For Class A Units and Class I Units, the subscription price will be \$10 per Unit. For Classes B, F and M Units, the subscription price per Unit will be based upon the applicable Net Asset Value of the Units as at the first Valuation Date following the date on which the subscription is received and may vary from Class to Class. However, the subscription price for the first issuance of Class B, Class F and Class M Units will be \$10.00 per Unit. Units may be redeemed at the end of any month. Redemption amounts will be paid out within ten business days of the redemption date. See “Summary of Trust Agreement” below.

***Class Attributes***

<b>Class</b>	<b>Attributes</b>
A	For investors making investments of \$25,000 or more who are not eligible to purchase Class I Units.
B	For investors making investments of \$25,000 or more through a registered dealer with whom they maintain an investment account.
F	For investors making investments of \$25,000 or more through a registered dealer with whom they maintain an investment account and who are subject to a periodic asset-based fee rather than commissions on each transaction and that do not require the Investment Manager to pay service fees (trailers) to such dealers .
I	For large institutional investors investing a minimum of \$5,000,000.
M	For clients of dealers who have negotiated an arrangement with the Investment Manager.

***Portfolio Valuation***

The Net Asset Value of each Series or Class of a Fund is equivalent to the assets less the liabilities applicable to each Series or Class of the Fund as at each Valuation Date. On each Valuation Date, the Net Asset Value will be calculated by crediting or debiting, as the case may be, the profits and gains or losses (realized and unrealized) and expenses and liabilities of the Funds, applicable to each Series or Class, including the Management Fee and Performance Fee then accruing, any distributions made to Unitholders and any subscriptions and redemptions. The number of Units in each Series or Class and the fair market value of the assets and the amount of the liabilities of each Fund in the aggregate and attributable to each Series or Class, shall be calculated in such manner as the Investment Manager in its sole discretion shall determine from time to time, subject to the following:

- (a) liquid assets (which term includes cash on hand or on deposit, bills and demand notes, accounts receivable, prepaid expenses, cash dividends (including unpaid but declared dividends provided that the record date for such dividends is on or before the date of determination of the net asset value) and interest accrued and not yet received) will be valued at their full face amount unless the Investment Manager determines that any such deposit, bill, demand note, account receivable, prepaid expense, cash dividend or interest amount is not worth the full face value, in which event the value shall be the fair value as determined by the Investment Manager;
- (b) securities listed on a stock exchange or traded on an over-the-counter market will be valued at the closing sale price or, if there is no closing sale price, the average of the closing bid and closing asked price or lacking any recent sales or any record thereof, the latest available sale price or latest available bid price all as reported by any report in common use;
- (a) securities and other assets for which market quotations are not readily available will be valued at the lesser of their fair market value (determined on the basis of such price or yield equivalent quotations or arm's length transaction or on such other appropriate basis), as determined by the Investment Manager, and then- historical cost, provided that if a higher price is established for such securities and other assets as a result of an arm's length transaction, the value of such securities and other assets held by a Fund may be revalued to reflect such price;

- (b) the value of any security, the resale of which is restricted or limited by reason of a representation, undertaking or agreement by a Fund or by a Fund's predecessor in title or by law shall be the lesser of:
  - (i) the value thereof based on reported quotations in common use; and (ii) that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition, provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restrictions will be lifted is known;
  - (ii) the value of any security which is a debt obligation and which, at the time of acquisition, had a remaining term to maturity of one year or less, shall be the amount paid to acquire the obligation plus the amount of any interest accrued on such obligation since the time of acquisition. For the purposes of the foregoing, interest accrued will include amortization over the remaining term to maturity of any discount or premium from face value of an obligation at the time of its acquisition;
- (c) long positions in clearing corporation options, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (d) where a clearing corporation option or over-the-counter option is written, the premium received by a Fund shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the net asset value of the Fund. The securities, if any, which are the subject of a written clearing corporation option or over-the-counter option shall be valued at their current market value; and
- (e) the liabilities of a Fund shall be deemed to include all liabilities of the Fund of whatsoever kind and nature except liabilities represented by outstanding Units and, for greater certainty but without limitation, include:
  - (i) all bills, notes and accounts payable;
  - (ii) all administrative expenses payable or accrued (including fees payable pursuant to the Management Agreement);
  - (iii) all obligations for the payment of money or property, including distributions of net income and net realized capital gains, if any, declared, accrued or credited to the Unitholders but not yet paid on the day before the day as of which the Unit Value is being determined; and
  - (iv) all allowances authorized or approved by the Investment Manager for taxes (if any) or contingencies.

In no event and under no circumstances shall Investment Manager or its directors, officers or employees incur any individual liability or responsibility for any determination made or other action taken or omitted by any of them in good faith.

As at any Valuation Date, Net Asset Value per Unit of a Series or a Class means the amount obtained by dividing Net Asset Value applicable to such Series or Class and as at such Valuation Date by the total number of Units of that Series or Class outstanding as at such Valuation Date.

### *Summary of Trust Agreement*

The rights and obligations of the Investment Manager are governed by the Trust Agreement. The following is a summary only of certain provisions of the Trust Agreement and does not purport to be complete. A copy of the Trust Agreement may be inspected during normal business hours at the office of the Investment Manager.

#### *Head Office*

The head office and the principal office of the administration of the Funds will be in West Vancouver, British Columbia at the address of the Investment Manager or at such other location as designated by the Investment Manager.

#### *Division of Fund into Classes and Units*

The beneficial interest in each Fund shall be divided into interests of multiple Classes (each a "Class"), some of which have multiple series and some of which have a single series (each a "Series") and each referred to as "Units" and fractions thereof. Each Class or Series and its Units and fractions thereof will be issued only as fully paid and non-assessable. There will be no limit to the number of Units or the number of Classes or Series of Units that may be issued, subject to any determination to the contrary made by the Investment Manager. No Class, Series or Unit or fraction thereof shall have any rights, preferences or priorities over any other Unit, except in respect of voting rights (See "Voting").

#### *Voting*

Each Unitholder will be entitled to one vote for each whole Unit held by him. No holder of a fraction of a Unit, as such, shall be entitled to notice of, or to attend or to vote at, meetings of Unitholders. A holder of a Unit of one Class shall not be permitted to notice of, or to attend or vote at, meetings of Unitholders of another Class.

#### *Net Asset Value Per Unit*

The Net Asset Value of each Series of Units that comprise a Class of Fund will be the then fair market value of the assets of the Fund attributable to each Series of Units calculated in accordance with the portfolio valuation principles described under "Portfolio Valuation" above at the time the calculation is made less the aggregate amount of the liabilities of the Fund attributable to that Series including accruing fees or liabilities as are to be taken into account as determined from time to time by the Investment Manager (including any Performance Fee accruing in favour of the Investment Manager) at that time. The Net Asset Value per Unit for each Series will be the quotient obtained by dividing the amount equal to the Net Asset Value of each Series of Units that comprise Class A or Class I by the total number of Units of each Series outstanding, including fractions of Units.

#### *Price of Units*

For Units in any Series of Class with multiple series, the subscription price per Unit of Units purchased pursuant to a subscription will be \$10.00.

For Units of Classes with a single series, the subscription price per Unit of Units purchased pursuant to a subscription will be the Net Asset Value per Unit determined on the Valuation Date on which the subscription is accepted and may vary from Class to Class.

#### *Issuance of Certificates*

No certificates evidencing ownership of Units will be issued to a Unitholder.

### *Right to Redeem*

A Unitholder will be entitled to require payment of the Net Asset Value of all or any of his Units by giving written notice to the Investment Manager, which notice must contain a clear request that a specified number of Units of a specified Series or Class of a Fund are to be redeemed or the dollar amount which the Unitholder is required to be paid, and the signature on the redemption notice must be acceptable to the Investment Manager. A redemption request must reach the Investment Manager at its offices not later than the close of business seven days prior to the Valuation Date on which the Units are intended to be redeemed. If Units are registered in the name of an intermediary such as a registered dealer, redemption orders must be made through such intermediary. The Investment Manager may in its sole discretion waive the seven day advance notice requirement and allow redemption at the nearest Valuation Date.

### *Redemption Price and Payment*

The proceeds payable on redemption will be the Net Asset Value of the Units redeemed, which may vary from Series to Series and from Class to Class, less any applicable redemption charges, determined on the Valuation Date following receipt by the Investment Manager of a redemption request, which Net Asset Value will include allocated but undistributed income and realized capital gains. The Trustee will, within ten business days after the Valuation Date, and subject to receipt of written notice in respect of redemption requests received by the Investment Manager, arrange for the payment of the value of the Units being redeemed by mailing or delivering a cheque in the relevant amount in Canadian funds to the Unitholder or electronic transfer of funds to an account maintained by a Unitholder's registered dealer as applicable.

### *Suspension of Redemption Right*

The Investment Manager may suspend, or continue suspension of the right of a Unitholder to require a Fund to redeem Units for any period during which normal trading is suspended on any stock exchange on which the securities that represent more than 50% by value of the gross assets of the Fund are then listed or with the consent of the appropriate securities regulatory authorities for any period during which the Investment Manager determines that conditions are such that the disposal of the assets of the Fund is not reasonably practicable or it is not reasonably practicable to determine fairly the value of the Fund's assets.

### *Transfer of Units*

Subject to the approval of the Investment Manager, and upon completion of the appropriate subscription documents a Unitholder of any Series or Class may be entitled to transfer, at any time, all or, subject to any minimum investment requirements for a particular Series or Class prescribed by the Investment Manager and set forth in this Confidential Offering Memorandum (or other like document), any part of the Units of one Series or one Class registered in its name by giving written notice to the Investment Manager. The notice must contain a clear request that a specified number of Units of a specified Series or Class (or fractions thereof) be transferred, provide the full name and address of the transferee, shall be irrevocable and the signature of the transferor thereon must be acceptable to the Investment Manager and shall be accompanied by evidence satisfactory to the Investment Manager that the proposed transferee is a resident Canadian. The record keeper of the Fund may charge a fee to the transferor or the transferee to affect a transfer of Units. None of the Trustee, the Investment Manager or the Fund shall have any obligation to ensure that any transfer of Units is made in accordance with applicable securities legislation, that any necessary filings with regulatory bodies having jurisdiction are made, or that any taxes payable in respect of a transfer amongst Series or Classes, if any, are so paid.

### *Powers and Duties of the Trustee*

The Trustee, subject to the specific limitations contained in the Trust Agreement, has full, absolute, and exclusive power, control and authority over the assets of the Funds and over the activities and affairs of the Funds to the same extent as if the Trustee was the sole owner thereof in its own right.

### *Powers and Duties of the Investment Manager*

The Trust Agreement grants the Investment Manager exclusive power to manage and direct the investment of the assets of the Funds and the powers necessary to perform its duties. The Trustee has no responsibility for investment management of the securities or other property of the Funds or for any investment decisions.

### *Trustee's Fee*

The Trustee will receive an annual fee which will be paid from the Funds. The amount of the annual fee will be settled by agreement between the Trustee and the Investment Manager.

### *Expenses*

All expenses of a Fund will be paid from the Fund. See "Administration Fees and Expenses" above.

### *Removal of Trustee*

The Trustee may be removed by the Investment Manager at any time by notice to the Trustee not less than 60 days prior to the date that such removal is to take effect provided a successor trustee is appointed or the Fund is terminated.

### *Status of Unitholders*

The ownership of all property of a Fund of every description and the rights to conduct the affairs of the Fund are vested exclusively in the Trustee and the Unitholders have no interest other than their beneficial interest in the Fund.

### *Liability of Unitholders*

No Unitholder will be held to have any personal liability as such for any obligation or claim arising out of or in connection with any contract or obligation of the Funds, the Investment Manager, or the Trustee.

### *Unitholder Meetings*

The Trustee will, upon the written request of the Investment Manager or of Unitholders of a single Class holding not less than 50% of the outstanding Units of that Class, call a meeting of Unitholders of that Class. A holder of a Unit of one Class shall not be permitted to notice of, or to attend or vote at, meetings of Unitholders of another Class.

### *Distribution of Income and Capital and Capital Gains to Unitholders*

On the last Valuation Date in each calendar year (the "Distribution Date") the Trustee will determine the net income and net realized capital gains of each Series of Units and each Class of Units that comprise each Fund and such portions of the net income and net realized capital gains will be payable to the Unitholders (pro rata to the number of Units held by them respectively at the close of business of the record keeper of the Fund on the Distribution Date).

The Manager expects that Units of a Fund will be automatically consolidated immediately after each distribution by the Fund to the Unitholders (which distributions will automatically be reinvested in additional Units) such that the Series Net Asset Value Per Unit following a consolidation will be equal to the Series Net Asset Value Per Unit immediately prior to such distribution and the Class Net Asset Value Per Unit following a consolidation will be equal to the Class Net Asset Value Per Unit immediately prior to such distribution. These consolidations will provide a Series Net Asset Value Per Unit and a Class Net Asset Value Per Unit calculation which is not diluted by distributions, thereby allowing the Manager and the Unitholders to better track the performance of the Units. The Manager may, in its discretion elect not to proceed with a consolidation. Notice to Unitholders will not be required provided that the consolidation will not be material to the Fund.

*Manner of Payment*

On and after each Distribution Date, such amount, if any, of net income and net realized capital gains payable to each Unitholder will be reinvested in additional Units of the Fund of the same Series and Class as the Units held by the Unitholder, at the Net Asset Value Per Unit for that Series or Class calculated on the Distribution Date.

**Subscription Procedure**

Investors wishing to become a Unitholder or wishing to subscribe for additional Units of a Fund may subscribe by means of the Subscription Agreement attached to this Confidential Offering Memorandum or in such other form or forms as may be approved by the Investment Manager from time to time. The subscriber must tender with the form of subscription full payment of the aggregate subscription price of the Units or confirmation of wire instructions or other evidence of payment (as the Investment Manager may otherwise permit or require) for the amount representing the purchase price of the Units subscribed for.

No Units shall be issued without receipt of the subscription proceeds and acceptable form of subscription. The Investment Manager has the unconditional right to accept or reject any subscription submitted and will promptly give notice thereof to the investor. If a subscription is not accepted by the Investment Manager, all subscription proceeds will be returned, without interest, deduction or penalty to the investor. If the subscription is accepted only in part, a cheque representing a portion of the purchase price for that portion of the subscription for the Units which is not accepted will be promptly delivered or mailed to the subscriber without interest.

The Net Asset Value Per Unit for subscriptions which are received and accepted by the Investment Manager prior to 4:00 p.m. (Toronto time) on the last Business Day of a month will be calculated as of the Valuation Date for that month. Subscriptions which are received and accepted by the Investment Manager after 4:00 p.m. (Toronto time) on the last Business Day of a month will be calculated and processed as of the Valuation Date for the following month.

The purchase price per Unit in each Series of Class A and Class I will be \$10.00. The purchase price per Unit in each of the other Classes will be an amount equal to the Net Asset Value per Unit subscribed for and may vary from Class to Class. The minimum aggregate subscription price for Units is \$25,000, or such lesser amount as the Investment Manager, in its sole discretion, may accept subject to applicable securities laws.

Investors may purchase Units of a Fund through the Investment Manager or through qualified dealers or brokers. Qualified dealers or brokers will send orders to the Investment Manager at its principal office by courier or telecommunication facilities without charge to the investor on the day on which investor orders are placed.

The aforementioned cash amounts, Subscription Agreements and other documents will be held in trust and released upon closing. Where required pursuant to NI 45-106 the subscription amount will be held in trust until midnight on the second business day after the investor signs a Subscription Agreement. Closings will occur on a continuous basis at the end of each month in which subscriptions are received.

***Additional Investments***

Additional investments in a Fund are generally permitted. The minimum additional subscription is \$10,000 or such greater amount as may be otherwise required to comply with applicable securities laws or as may be prescribed by the Investment Manager.

***Unit Certificates***

No certificates evidencing ownership of the Units will be issued to a Unitholder. Following each purchase or redemption of Units, Unitholders will receive a written confirmation from the Investment Manager or registered dealer indicating details of the transaction including the number and dollar value of the Units purchased or redeemed, the Net Asset Value per Unit, number and dollar value of Units held by the Unitholder following such purchase or redemption.

### **Trading and Resale Restrictions**

This offering of Units is made only on a private placement basis to investors who are eligible to purchase on an exempt basis under, and subject to compliance with, applicable securities laws. **There is no market for the Units. The transferability of the Units will also be subject to resale restrictions under applicable securities laws.** The Funds will be entitled to require and may require, as a condition of allowing any transfer of any Unit, the transferor or transferee, at their expense, to furnish to the Fund evidence satisfactory to it in form and substance (which may include an opinion of counsel satisfactory to the Fund) in order to establish that such transfer will not constitute a violation of the securities laws of any jurisdiction whose securities laws are applicable thereto.

The Funds are not a reporting issuer in any of the provinces of Canada and do not intend to become reporting in any Province of Canada. The Units will be subject to an indefinite hold period. Notwithstanding such indefinite hold period, and subject to approval by the Fund as referred to above, investors will be able to transfer from one Series or Class of Units of a Fund to another Series or Class of Units of that Fund and to transfer Units to another person pursuant to another exemption from the prospectus and registration requirements of applicable securities laws, or pursuant to an order permitting such trade granted by applicable securities regulatory authorities.

### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following summary describes the principal Canadian federal income tax considerations pursuant to the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder generally applicable to a Unitholder who acquires Units of the Fund pursuant to this offering and who, for purposes of the Tax Act, is resident in Canada, holds the Units as capital property and deals at arm's length with the Fund. Generally, Units of a Fund will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a taxpayer that is a "financial institution", a "specified financial institution" or a "restricted financial institution" as defined in the Tax Act or to a person or partnership an interest in which would be a "tax shelter investment" for purposes of the Tax Act. This summary also does not apply to a taxpayer that makes a functional currency reporting election pursuant to the Tax Act

This summary is based upon the provisions of the Tax Act and the Income Tax Regulations (the "Regulations"), all specific proposals to amend the Tax Act and the Regulations that have been publicly announced prior to the date hereof (the "Proposed Amendments") and an understanding of the current published administrative policies of the Canada Revenue Agency. No advance income tax ruling has been requested in respect of this offering. No assurance can be given that the Proposed Amendments will be enacted in the form proposed or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

**This summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Units of the Fund or any Unitholder. Consequently, prospective Unitholders should consult their own tax advisors with respect to their particular circumstances.**

### **Taxation of the Fund**

Each Fund is subject to tax under Part I of the Tax Act on its income for the year (including realized capital gains) less the portion thereof that it deducts in respect of amounts paid or payable in the year to the Unitholders. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid to the Unitholder in the year by the Fund or if the Unitholder is entitled in that year to enforce payment of the amount.

A Fund may not allocate losses incurred by the Fund to Unitholders but may apply allowable capital losses or non-capital losses from prior taxation years to reduce its taxable income in accordance with the rules contained in the Tax Act.

Certain rules in the Tax Act affect the taxation of specified investment flow-through entities (“SIFTs”), such as publicly traded income trusts and partnerships (other than certain real estate investment trusts), that are SIFT partnerships, and investors in those entities. Income attributable to a SIFT’s “non-portfolio earnings” is taxed in a manner similar to income earned by a corporation, and distributions made by these entities to investors are taxed in a manner similar to dividends from taxable Canadian corporations and are deemed to be “eligible dividends” for the enhanced dividend tax credit if paid or allocated to a resident of Canada. Non-portfolio earnings are, generally, income (other than certain dividends) from, or capital gains realized on, “non-portfolio properties”. If a Fund, or an underlying fund in which the Fund invests, holds interests in SIFT trusts or SIFT partnerships that are subject to this tax, the amount available for distribution to the Fund, and to Unitholders, may be reduced.

In computing its income, each Fund may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. A Fund may also deduct from its income for the year a portion of the expenses incurred by the Fund to issue Units. The portion of those issue expenses deductible by a Fund in a taxation year is 20% of those issue expenses, pro-rated where the Fund’s taxation year is less than 365 days.

The Funds will acquire long positions in ETFs and securities of companies with the objectives of benefiting from anticipated price expansion over the long term and receiving distributions or dividends on those securities. Accordingly, the Funds intend to treat the gains and losses from the disposition of such long positions as capital gains and losses.

The Funds will purchase or write options on common stock or ETF’s for the purpose of increasing the yield on their assets or to hedge long positions. The Funds will treat all transactions in respect of such options on capital account, in accordance with the published administrative position of the Canada Revenue Agency. Premiums received on options written by the Funds will be treated as capital gains in the year received. Where a call option written by a Fund is exercised, the Fund is required to include the premium as part of the proceeds of disposition of the securities sold, rather than as a capital gain at the time of receipt. Where a put option written by the Fund is exercised and the Fund acquires securities from the holder of the option, the amount of the premium received for writing the option should be applied to reduce the cost of the securities acquired, rather than being treated as a capital gain on receipt.

Short sales will generally be undertaken to hedge against an offsetting long position and any gains or losses incurred from hedging against common stock or ETF’s will be treated by a Fund as capital gains or losses. Any transactions in derivatives, other than options, will be treated on capital account if the derivatives are used for similar hedging purposes and otherwise they will be on income account.

The Funds intend to make sufficient distributions in each year of its net income for tax purposes and net realized capital gains so that the Fund will generally not be liable in that year for income tax under Part I of the Tax Act.

### **Taxation of Unitholders**

A Unitholder will generally be required to include in income for a particular year the portion of the net income of a Fund for a taxation year, (including net realized taxable capital gains) that is paid or payable to the Unitholder in the particular taxation year, whether that amount is received in cash, additional Units, or otherwise.

Provided that the appropriate designations are made by a Fund, that portion of its taxable dividends received from taxable Canadian corporations (including eligible dividends) and net taxable capital gains paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the gross-up and dividend tax credit provisions will be applicable in respect of Unitholders who are individuals including the enhanced gross-up and dividend tax credit for eligible dividends, the refundable tax under Part IV of the Tax Act will be payable by Unitholders that are private Canadian corporations and the deduction in computing taxable income will be available to Unitholders that are corporations.

A Fund may make similar designations in respect of foreign source income received in the year and foreign taxes paid in the year. Where applicable, Unitholders may apply allowable capital losses against taxable capital gains allocated by the Fund and may claim the foreign tax credit in calculating tax payable.

Amounts so designated will be taken into account for purposes of determining the liability, if any, for alternative minimum tax of a Unitholder that is an individual (other than certain trusts).

The non-taxable portion of any net realized capital gains of a Fund that are paid or payable to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year. Any other amount in excess of the net income of a Fund that is paid or payable to a Unitholder in that year will not generally be included in the Unitholder's income for the year. However, where such an amount is paid or payable to a Unitholder (other than as proceeds in respect of the redemption of Units), the Unitholder will be required to reduce the adjusted cost base of the Units by that amount. To the extent that the adjusted cost base of a Unit would otherwise be a negative amount, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Unit to the Unitholder will then be nil.

The cost to a Unitholder of additional Units received in lieu of a cash distribution of income will be the amount of income distributed by the issue of those Units. For the purpose of determining the adjusted cost base to a Unitholder of Units, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property immediately before that acquisition.

For income tax purposes, a subsequent consolidation of the number of Units outstanding will not result in a disposition of a Unitholder's Units for income tax purposes. The aggregate adjusted cost base to a Unitholder of all of the Unitholder's Units will not change as a result of a consolidation of Units; however, the adjusted cost base per Unit will increase.

On the disposition or deemed disposition of a Unit whether on a redemption or otherwise, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. A Unitholder's proceeds of disposition on the redemption of Units will generally be equal to the total of the amount of cash and the fair market value of any non-cash property received by the Unitholder for their Units.

One-half of the amount of any capital gain (a "taxable capital gain") realized by a Unitholder must generally be included in the Unitholder's income for that year, and one-half of any capital loss (an "allowable capital loss") realized by a Unitholder is required to be deducted from taxable capital gains of the holder for that year. That portion of allowable capital losses which exceeds the Unitholder's taxable capital gains for that year may be carried back and deducted against the taxable capital gains of the Unitholder in any of the three preceding taxation years or carried forward and deducted in any following taxation year against taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

A Unitholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) throughout a taxation year may be liable to pay, in addition to tax otherwise payable under the Tax Act, a refundable tax on certain investment income including taxable capital gains.

If a Unitholder disposes of Units, and the Unitholder, the Unitholder's spouse or another person affiliated with the Unitholder (including a corporation controlled by the Unitholder) has also acquired Units within 30 days before or after the Unitholder disposes of its Units, a capital loss that would otherwise be realized by the Unitholder may be suspended or denied.

### **Eligibility for Investment**

The Diversified Returns Fund was accepted for registration as a "registered investment" under the Tax Act and the Market Neutral Fund will immediately apply for and reasonably expects to be accepted for registration as a "registered investment" under the Tax Act. It is anticipated that the Market Neutral Fund will have a sufficient

number of Unitholders on or before April 30, 2012 such that an election may be made to treat the Market Neutral Fund as a “mutual fund trust” under the Tax Act effective January 31, 2011, prior to which it will qualify as a “quasi-mutual fund trust” pursuant to paragraph 204.4(2)(d) of the Tax Act. Provided that the Funds continue to qualify at all relevant times as a “registered investment” or a “mutual fund trust” within the meaning of the Tax Act, Units will be a “qualified investment” for RRSPs, RRIFs, RESPs, DPSPs, RDSPs and TFSAs..

Provided that the holder of a TFSA does not hold a "significant interest" (as defined in the Tax Act) in the Fund or any person or partnership that does not deal at arm's length with the Fund, and provided that such holder deals at arm's length with the Fund, the Units will not be a prohibited investment for a trust governed by a TFSA.

### **COMPENSATION PAID TO SELLERS AND FINDERS**

Units may be distributed by qualified dealers or brokers in the applicable jurisdictions. The Investment Manager will provide the compensation described below to such qualified dealers or brokers placing orders for the purchase of Units to assist them in their distribution efforts.

#### **Sales Commissions**

Registered dealers may, at their discretion, charge investors a front-end sales commission of up to 5% of the aggregate purchase price of Class B units of a Fund purchased by a subscriber. This amount will be deducted from the purchase order and paid by the investor to the dealer. The remaining amount will be invested in the Fund. Sales commissions may be negotiated between the dealer and the investor. In addition, when switching between Classes of Units, the Unitholder's registered dealer may charge the Unitholder a sales charge and/or a switch fee. Any such sales commission and/or switch fee will be negotiated between the registered dealer and the Unitholder and will be payable by the Unitholder directly to their dealer. Units issued on a reinvestment of distributions will not be subject to a sales commission. No deferred sales charge option is available.

#### **Service Fee**

The Service Fee is a portion of the Investment Manager's management fee that is shared with a qualified dealer or broker. A Service Fee will be paid to a qualified dealer or broker for ongoing advice and service provided by the dealers or brokers to their clients who have invested in a Fund. This Service Fee is payable by the Investment Manager for as long as such broker's or dealer's clients' investments remain in the Fund. Qualified brokers or dealers will not charge the investor a commission or fee on the redemption of Units. Service Fees will be calculated and payable by the Investment Manager at least semi-annually to qualified dealers or brokers for salespersons of the qualified dealer or broker with client assets invested in the Fund having an aggregate Net Asset Value of not less than \$25,000. Service Fees will be based on the aggregate value of the clients' investments in the Fund at the end of each month and may be up to 1/12 of 1.0% of the Net Asset Value of the Units held by the clients on the last business day of that month. Service Fees may be modified or discontinued by the Investment Manager at any time.

#### **Other Fees**

In addition, the Investment Manager may from time to time elect to pay a portion of any performance fee it receives from a Fund to certain registered dealers whose clients hold Units of the Fund. This portion of the Performance Fee would be paid annually, semi-annually or quarterly, in the discretion of the Investment Manager, on or before the end of the month following the year or quarter-end, as applicable, in respect of the aggregate value of such clients' investments in the Fund as of the last Valuation Date of the preceding calendar year or quarter, as applicable.

### **RISK FACTORS**

**Investment in the Units is speculative due to the nature of the Funds' activities and involves certain risk factors. There is no guarantee that an investment in Units of a Fund will earn any positive return in the short**

**or long term and investors must be able to bear the risk of a complete loss of their investment.** An investment in the Funds should not be viewed as a complete investment program. The following risks should be carefully evaluated by prospective investors.

***Business Risk.*** While the Investment Manager believes that the Funds' investment policies will be successful over the long term, there can be no guarantee against losses resulting from an investment in Units of a Fund and there can be no assurance that the Fund's investment approach will be successful or that its investment objectives will be attained. A Fund could realize substantial losses, rather than gains, from some or all of the investments described herein.

***Liquidity.*** An investment in a Fund provides limited liquidity. The Units are subject to indefinite resale restrictions under applicable securities laws. Unitholders may redeem their Units on the last day of each month and must give at least seven days notice prior to making such redemption. The Investment Manager may take up to ten business days after month-end to pay out any such redemption.

***Net Asset Value.*** The Net Asset Value of each Series and Class of Units that comprise a Fund will fluctuate with changes in the market value of the investments attributable to such Series or Class. Such changes in market value may occur as a result of various factors, including those factors identified above with respect to international investments and emerging market securities and material changes in the intrinsic value of an issuer whose securities are held by the Fund.

***Portfolio Turnover.*** The operation of a Fund may result in a high annual portfolio turnover rate. The Funds have not placed any limit on the rate of portfolio turnover and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the Investment Manager, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate (e.g., greater transaction costs such as brokerage fees).

***Interest Rate Fluctuations.*** In the case of interest rate sensitive securities, the value of a security may change as the general level of interest rates fluctuates. When interest rates decline, the value of such securities can be expected to rise. Conversely, when interest rates rise, the value of such securities can be expected to decline.

***Competition for Services.*** The Funds will not have independent management and will rely upon the Investment Manager to manage the activities of the Funds and to provide managerial skill. The directors and officers of the Investment Manager may have a conflict of interest in allocating their time between the activities of the Investment Manager and the Funds, and other businesses or projects in which they may become involved. The directors and officers of the Investment Manager have, however, agreed to devote as much time to each Fund as is required for the effective management of the Funds.

***Reliance on Management.*** The success of a Fund will be entirely dependent upon the efforts of the Investment Manager.

***No Assurance of Return.*** Although the Investment Manager will use its best efforts to achieve superior rates of return for the Funds, no assurance can be given in this regard. An investment in Units should be considered as speculative and investors must be able to bear the risk of a complete loss of their investment.

***Lack of Separate Counsel.*** Counsel for the Funds in connection with this offering is also counsel to the Investment Manager. The Unitholders, as a group, have not been represented by separate counsel and counsel for the Funds and the Investment Manager does not purport to have acted for the Unitholders or to have conducted any investigation or review on their behalf.

***Limited Resources of Investment Manager.*** The Investment Manager has no obligation to fund any operating deficits resulting from the activities of a Fund or to advance funds to continue the operations of a Fund. Even if the Investment Manager should elect to do so voluntarily or be held individually accountable by Fund creditors, its available assets will likely not be adequate to satisfy the capital needs of continuing operations. The Investment Manager has no equity and, consequently no capital resources. If Fund revenues are insufficient to pay Fund

expenses after expending the funds obtained from this Offering and if the Investment Manager does not advance such additional funds as may be needed by the Fund, the Fund may not be able to continue its investment activities in the absence of an alternative source of financing, and there can be no assurance that such financing will be available to the Fund.

**Possible Effect of Redemptions** Substantial redemptions of Units could require the Funds to liquidate positions more rapidly than otherwise desirable to raise the necessary cash to fund redemptions. Redemptions may also reduce the size of the Funds' portfolio, making it more difficult for the Funds to achieve their investment objectives with a smaller asset base. Such factors could adversely affect the value of Units redeemed and of the Units remaining outstanding. Alternatively, the Investment Manager could be forced to suspend or postpone redemptions.

**Charges to the Fund** The Funds are obligated to pay management fees, administrative fees, brokerage commissions and legal, accounting, filing and other expenses including potential borrowing costs to fund redemptions, regardless of whether the Funds realize profits.

**Potential Indemnification Obligations** Under certain circumstances, the Funds may be subject to significant indemnification obligations in respect of the Investment Manager. The Funds will not carry any insurance to cover such potential obligations and none of the foregoing parties will be insured for losses for which the Funds have agreed to indemnify them. Any indemnification paid by the Funds will reduce the Net Asset Value of each of the Funds and by extension, the value of the Units.

**Changes in Trading Approach** The Investment Manager may alter its trading approach without prior approval by or notice to Unitholders if the Investment Manager determines that such change is in the best interest of the Funds.

**Valuation of the Funds' Investments** Valuation of the securities and other investments made by the Funds may involve uncertainties and judgmental determinations, and if such valuations should prove to be incorrect, the Net Asset Value per Unit of each of the Funds could be adversely affected. Independent pricing information may not at times be available regarding certain of the Funds' securities and other investments. Valuation determinations will be made in good faith in accordance with the Funds' constitutive documents.

The Funds may have some of their assets in investments, which by their very nature may be difficult to accurately value. To the extent that the value assigned by the Funds to any such investment differs from the actual value, the Net Asset Value per Unit of the Funds may be understated or overstated, as the case may be. In light of the foregoing, there is a risk that a Unitholder who redeems all or part of its Units while the Funds holds such investments will be paid an amount less than it would otherwise be paid if the actual value of such investments is higher than the value designated by the Funds. Similarly, there is a risk that such Unitholder might, in effect, be overpaid if the actual value of such investments is lower than the value designated by the Funds. In addition, there is risk that an investment in the Funds by a Unitholder (or an additional investment by an existing Unitholder) could dilute the value of such investments for the other Unitholders if the designated value of such investments is higher than the value designated by the Funds. Further, there is risk that a new Unitholder (or an existing Unitholder that makes an additional investment) could pay more than it might otherwise if the actual value of such investments is lower than the value designated by the Funds. The Funds do not intend to adjust their Net Asset Values retroactively.

**Fixed Income Securities** The Funds, to the extent that they hold fixed income securities, will be influenced by financial market conditions and the general level of interest rates in North America. In particular, if fixed income investments are not held to maturity, the Funds may suffer a loss at the time of sale of such securities.

**Equity Securities** To the extent that the Funds holds equity portfolio investments, it will be influenced by stock market conditions in those jurisdictions where the securities held by the Funds are listed for trading and by changes in the circumstances of the issuers whose securities are held by the Funds. Additionally, to the extent that the Funds holds any foreign investments, it will be influenced by world economic factors and by the value of the Canadian dollar as measured against foreign currencies which will be used in valuing the foreign investment positions held by the Funds.

**Potential Lack of Diversification** Although the Funds' portfolios will generally be diversified, this may not be the case at all times if the Investment Manager deems it advantageous for the Funds to be less diversified. Accordingly, the investment portfolio of a Fund may be more susceptible to fluctuations in value resulting from adverse economic conditions affecting a particular country, industry or issuer than would be the case if the Funds were required to maintain a wider diversification.

**Short Sale Equity Positions and Leveraging** The Funds may take short sale positions without maintaining an equivalent quantity, or a right to acquire an equivalent quantity, of the underlying securities in its portfolio. While the Investment Manager will engage in these transactions only in circumstances where it has concluded that a particular security is overvalued in its principal markets, there can be no assurance that the security will experience declines in market value and this could result in the Funds incurring losses if it has agreed to deliver securities at a price which is lower than the market price at which such securities may be acquired at the time the transaction is to be completed. The Investment Manager may selectively engage in transactions which limit the potential liability of the Funds for unanticipated shifts in the market value of these securities. The possible losses to the Funds from a short sale of a security differ from losses that could be incurred from a cash investment in the security. The former may be unlimited, whereas the latter is limited to the total amount of the cash investment.

In addition to short selling, the Funds also intends to employ leveraging (i.e., the use of borrowed funds or securities) as an inherent tool in its investment strategy. While the use of leverage can increase the rate of return, it can also increase the magnitude of loss in unprofitable positions beyond the loss which would have occurred if there had been no borrowings. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the value of the securities purchased. In the event of a decline in the market value of such securities, leveraging will magnify the losses from investment activities that use leverage.

The Funds anticipated use of short-term margin borrowings subjects the Funds to additional risks, including the possibility of a "margin call" pursuant to which the Funds must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in the value of the Funds assets, the Funds may not be able to liquidate assets quickly enough to pay off its margin debt.

**Use of Options** The Funds may purchase and write exchange-traded and over-the-counter put and call options on debt and equity securities and indices (both narrow-based and broad-based), and national securities exchange-traded put and call options on currencies. A put option on securities or currencies gives the purchaser of the option, upon payment of premium, the right to deliver a specified amount of the securities or currencies to the writer of the option on or before a fixed date at a predetermined price. A put option on a securities index gives the purchaser of the option, upon payment of a premium, the right to a cash payment from the writer of the option if the index drops below a predetermined level on or before a fixed date. A call option on securities or currencies gives the purchaser of the option, upon payment of a premium, the right to call upon the writer to deliver a specified amount of the securities or currencies on or before a fixed date at a predetermined price. A call option on a securities index gives the purchaser of the option, upon payment of a premium, the right to a cash payment from the writer of the option if the index rises above a predetermined level on or before a fixed date.

The Funds' ability to close out its position as a purchaser or seller of a listed put or call option is dependent, in part, upon the liquidity of the option market. Over-the-counter ("OTC") options are purchased from or sold to securities dealers, financial institutions or other parties (the Counterparty) through direct bilateral agreements with the Counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guarantees and security, are set by the negotiation of the parties. Unless the parties provide for it, there is no central clearing or guarantee function in an OTC option. As a result, if the Counterparty fails to make or take delivery of the security, currency or other instrument underlying an OTC option it has entered into with the Funds or fails to make a cash settlement payment due in accordance with the terms of that option, the Funds will lose any premium it paid for the option as well as any anticipated benefit of the transaction.

Call options may be purchased for speculative purposes, for example to provide exposure to increases in the market (e.g., with respect to temporary cash positions) or to hedge against an increase in the price of securities or other investments that the Funds intends to purchase. Similarly, put options may be purchased for speculative purposes or

to hedge against a decrease in the market generally or in the price of securities or other investments held by the Funds. Buying options may reduce the Funds' returns, but by no more than the amount of the premiums paid for the options. Writing covered call options. (i.e., where the Funds owns the security or other investment that is subject to the call) may limit the Funds' gain on portfolio investments if the option is exercised because the Funds will have to sell the underlying investments below the current market price. Also, writing put options may require the Funds to buy the underlying investment at a disadvantageous price above the current market price. Writing uncovered call options (i.e., where the Funds does not own the security or other investment that is subject to the call) entails the risk that the price of the underlying investment at the time the option is exercised theoretically could have risen without limit. The risk of loss of uncovered put options written by the Funds is limited in the exercise price of the option less the premium received.

Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary market risks.

***Derivative Hedge Risks*** Although a derivative hedge reduces risk, it does not eliminate risk entirely. A derivative hedge can result in a loss in the case of an extraordinary event. There are several such possible cases including, but not limited to: (i) a cease trade order being issued in respect of the underlying security; (ii) the inability to maintain a short position, due to the repurchase or redemption of shares by the issuing company; (iii) disappearance of any conversion premium due to premature redemptions, changes in conversion terms or changes in an issuer's dividend policy; (iv) credit quality considerations, such as bond defaults; and (v) lack of liquidity during market panics. To protect the Funds' investments against the occurrence of such extraordinary events, the Investment Manager will attempt to maintain a properly diversified portfolio.

***OTC Transactions*** The Funds may engage in OTC or off-exchange transactions. Such transactions involve additional risks including the following. Off-exchange contracts are not regulated nor are they guaranteed by an exchange or clearinghouse. There is no limitation on the daily price movements of such contracts and speculative position limits are not applicable. Such transactions are also subject to legal risks, such as the legal incapacity of a counterparty to enter into a particular contract or the declaration of a class of contracts as being illegal or unenforceable.

***Counterparty and Settlement Risk*** Due to the nature of some of the investments that the Funds may undertake, the Funds relies on the ability of the Counterparty to the transaction to perform its obligations. In the event that a Counterparty fails to complete its obligations, the Funds bears the risk of loss of the amount expected to be received under options, forward contracts or securities lending agreements in the event of the default or bankruptcy of a Counterparty. The Funds will also bear the risk of settlement default by clearing houses and exchanges. Any default by a counterparty or on settlement could have a material adverse affect on the Funds.

***Legal, Tax and Regulatory Risks*** Legal, tax and regulatory changes to laws or administrative practice could occur during the term of the Funds which may adversely affect the Funds. For example, the regulatory or tax environment for derivative instruments is evolving, and changes in the regulation or taxation of derivative instruments may adversely affect the value of derivative instruments held by a Fund and its ability to pursue its investment strategies. Interpretation of the law or administrative practice may affect the characterization of the Funds' earnings as capital gains or income which may increase the level of tax borne by investors as a result of increased taxable distributions from the Funds. There can be no assurance that Canadian federal income tax laws and administrative policies and assessing practices of CRA will not be changed in a manner that adversely affects Unitholders.

## **REPORTING OBLIGATIONS**

As a Unitholder of a Fund you will be entitled to receive copies of the Fund's audited financial statements and interim financial statements for each fiscal year of the Fund.

## **RESALE RESTRICTIONS**

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

Unless permitted under securities legislation, you cannot trade the securities before the date that is 4 months and a day after the date a Fund becomes a reporting issuer in any Canadian province or territory.

### **Manitoba Resale Restrictions**

Unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless

- (a) the Funds have filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or
- (b) you have held the securities for at least 12 months.

The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

## **INVESTORS' RIGHTS**

Investors who purchase these securities will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

**1. Two Day Cancellation Right** - You can cancel your agreement to purchase these securities. To do so, you must send a notice to the Investment Manager by midnight on the second Business Day after you sign the agreement to buy the securities.

**2. Statutory Rights of Action in the Event of a Misrepresentation** – If there is a misrepresentation in this Confidential Offering Memorandum, you have the statutory right to sue:

- (a) the Fund(s) to cancel your agreement to buy these Units, or
- (b) for damages against the Fund(s), the Investment Manager, every person who was a director of the Investment Manager as at the date of the Confidential Offering Memorandum, and every other person who signed this Confidential Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Units.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the Units. You must commence your action for damages within the earlier of:

- (a) 180 days after learning of the misrepresentation; and
- (b) three (3) years after you signed the agreement to purchase the Units.

You may have other rights in addition to those described above. For information about your rights, you should consult a lawyer.

A

**AUDITED FINANCIALS**

Financial Statements  
(Expressed in Canadian dollars)

# **SHERPA DIVERSIFIED RETURNS FUND**

Year ended December 31, 2009



**KPMG LLP**  
**Chartered Accountants**  
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333 Bay Street Suite 4600  
Toronto ON M5H 2S5  
Canada

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## AUDITORS' REPORT

To the Unitholders of Sherpa Diversified Returns Fund

We have audited the statements of net assets and investments of Sherpa Diversified Returns Fund as at December 31, 2009 and the statements of operations and changes in net assets for the year then ended. 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting 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 and its investments as at December 31, 2009 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 19, 2010

# SHERPA DIVERSIFIED RETURNS FUND

Statement of Net Assets  
(Expressed in Canadian dollars)

December 31, 2009, with comparative figures for 2008

	2009	2008
<b>Assets</b>		
Investments at fair value (cost - \$6,303,377; 2008 - \$2,747,906)	\$ 6,458,659	\$ 2,586,751
Foreign exchange forward contract	12,992	-
Cash and cash equivalents	-	1,086,607
Receivable from investment sold	3,445,389	1,246,510
Due from broker (note 4)	2,000,000	2,000,000
Accrued interest and dividends receivable	13,348	14,291
Other assets	2,625	2,625
	<b>11,933,013</b>	<b>6,936,784</b>
<b>Liabilities</b>		
Investments sold short at fair value (cost - \$466,568; 2008 - \$616,456)	369,554	411,756
Due to broker	445,694	-
Payable for investments purchased	1,084,584	405,031
Management fees payable (note 2)	8,837	5,450
Performance fees payable	28,511	-
Other liabilities	24,361	16,926
Subscription received in advance	291,000	-
	<b>2,252,541</b>	<b>839,163</b>
<b>Net assets</b>	<b>\$ 9,680,472</b>	<b>\$ 6,097,621</b>
<b>Unitholders' equity:</b>		
Class A - Master Series	\$ 3,932,831	\$ 3,346,920
Class A - September 2008 Series	1,087,193	942,620
Class A - October 2008 Series	2,024,169	1,808,081
Class A - April 2009 Series	583,985	-
Class A - March 2009 Series	495,442	-
Class A - May 2009 Series	140,950	-
Class A - June 2009 Series	122,493	-
Class A - July 2009 Series	613,914	-
Class A - August 2009 Series	96,682	-
Class A - October 2009 Series	182,670	-
Class A - November 2009 Series	20,636	-
Class A - December 2009 Series	133,735	-
Class B - Master Series	245,772	-
	<b>\$ 9,680,472</b>	<b>\$ 6,097,621</b>

# SHERPA DIVERSIFIED RETURNS FUND

Statement of Net Assets (continued)  
(Expressed in Canadian dollars)

December 31, 2009, with comparative figures for 2008

	2009	2008
Net asset value per unit (note 6):		
Class A - Master Series	\$ 10.06	\$ 8.54
Class A - September 2008 Series	9.79	8.30
Class A - October 2008 Series	10.11	8.60
Class A - April 2009 Series	11.53	—
Class A - March 2009 Series	12.07	—
Class A - May 2009 Series	11.01	—
Class A - June 2009 Series	10.74	—
Class A - July 2009 Series	10.71	—
Class A - August 2009 Series	10.51	—
Class A - October 2009 Series	10.22	—
Class A - November 2009 Series	10.32	—
Class A - December 2009 Series	10.12	—
Class B - Master Series	10.19	—

See accompanying notes to financial statements.

# SHERPA DIVERSIFIED RETURNS FUND

Statements of Operations  
(Expressed in Canadian dollars)

Year ended December 31, 2009, with comparative figures for the period from June 11, 2008 (commencement of operations) to December 31, 2008

	2009	2008
Income:		
Dividends, net	\$ 92,496	\$ 25,745
Interest	8,037	35,612
	<u>100,533</u>	<u>61,357</u>
Less foreign withholding taxes	5,751	2,155
	<u>94,782</u>	<u>59,202</u>
Expenses:		
Management fees (note 2)	83,758	32,362
Performance fees	77,200	–
Administration fees	22,779	11,428
Audit fees	19,425	10,500
Other	17,448	2,830
	<u>220,610</u>	<u>57,120</u>
Net investment gain (loss)	(125,828)	2,082
Net realized gains (losses) on sale of investments	874,006	(520,527)
Net realized gains (losses) on foreign currency	428,320	(614,753)
Commissions and other charges	(76,443)	(45,900)
Change in unrealized appreciation on investments	199,799	43,545
	<u>1,425,682</u>	<u>(1,137,635)</u>
Increase (decrease) in net assets from operations	<u>\$ 1,299,854</u>	<u>\$ (1,135,553)</u>
Increase (decrease) in net assets from operations per unit:		
Class A - Master Series	\$ 1.51	\$ (1.46)
Class A - September 2008 Series	1.48	(1.70)
Class A - October 2008 Series	1.51	(1.40)
Class A - March 2009 Series	2.07	–
Class A - April 2009 Series	1.53	–
Class A - May 2009 Series	1.01	–
Class A - June 2009 Series	0.74	–
Class A - July 2009 Series	0.71	–
Class A - August 2009 Series	0.51	–
Class A - October 2009 Series	0.22	–
Class A - November 2009 Series	0.32	–
Class A - December 2009 Series	0.12	–
Class B - Master Series	0.24	–

See accompanying notes to financial statements.

# SHERPA DIVERSIFIED RETURNS FUND

Statements of Changes in Net Assets  
(Expressed in Canadian dollars)

Year ended December 31, 2009, with comparative figures for the period from June 11, 2008 (commencement of operations) to December 31, 2008

	Net assets, December 31, 2008	Share capital subscription	Share capital redemptions	Net increase in net assets from investment operations	Net assets, December 31, 2009
Class A - Master Series	\$ 3,346,920	\$ -	\$ (6,000)	\$ 591,911	\$ 3,932,831
Class A - September 2008 Series	942,620	-	(19,398)	163,971	1,087,193
Class A - October 2008 Series	1,808,081	-	(86,342)	302,430	2,024,169
Class A - April 2009 Series	-	506,326	-	77,659	583,985
Class A - March 2009 Series	-	410,310	-	85,132	495,442
Class A - May 2009 Series	-	128,000	-	12,950	140,950
Class A - June 2009 Series	-	114,079	-	8,414	122,493
Class A - July 2009 Series	-	573,035	-	40,879	613,914
Class A - August 2009 Series	-	92,000	-	4,682	96,682
Class A - October 2009 Series	-	178,765	-	3,905	182,670
Class A - November 2009 Series	-	20,000	-	636	20,636
Class A - December 2009 Series	-	132,120	-	1,615	133,735
	6,097,621	2,154,635	(111,740)	1,294,184	9,434,700
Class B - Master Series	-	240,102	-	5,670	245,772
Net assets, end of period	\$ 6,097,621	\$ 2,394,737	\$ (111,740)	\$ 1,299,854	\$ 9,680,472

See accompanying notes to financial statements.

# SHERPA DIVERSIFIED RETURNS FUND

Statement of Investments  
(Expressed in Canadian dollars)

December 31, 2009

Shares/ par value		Average cost	Fair value
Canadian bonds - 15.79%			
1,000,000	Citigroup Finance CDA Inc.	\$ 1,025,100	\$ 1,019,648
Canadian common stocks			
Financial - 4.13%:			
2,000	Manulife Financial Corp.	44,530	38,600
1,000	Toronto-Dominion Bank	65,300	65,940
15,000	World Financial Split	140,927	144,750
6,000	World Financial Split Corp., Class A	16,647	17,340
		267,404	266,630
Energy - 1.54%:			
2,688	Suncor Energy Inc.	76,012	99,752
Others - 24.20%:			
1,000	Canadian National Railway	47,798	57,140
52,000	iShares Cdn. S&P/TSZ 60ETF	833,235	903,240
40,000	Premium Income Corp., preferred shares	583,939	602,400
		1,464,972	1,562,780
Total Canadian common stocks - 29.87%		1,808,388	1,929,162
United States common stocks			
Energy - 3.14%:			
2,000	Cenovus Energy Inc.	—	53,011
2,000	Encana Corp.	126,634	68,115
1,000	Energy Select Sector SPDR	58,451	59,879
300	Exxon Mobil Corp.	24,903	21,495
		209,988	202,500
Technology - 3.58%:			
900	Apple Inc.	188,425	199,472
1,000	Microsoft Corp.	27,361	32,059
		215,786	231,531
Financial - 6.95%:			
5,000	Bank of America Corp.	60,723	79,200
3	Berkshire Hathaway Inc., Class A	323,854	312,779
2,000	Wells Fargo & Co.	46,424	56,755
		431,001	448,734

# SHERPA DIVERSIFIED RETURNS FUND

Statement of Investments (continued)  
(Expressed in Canadian dollars)

December 31, 2009

Shares/ par value		Average cost	Fair value
	Health care - 2.27%:		
1,500	Pfizer Inc.	26,342	28,714
2,000	Teva Pharm Ltd., ADR	107,705	118,180
		134,047	146,894
	Conglomerates - 1.23%:		
5,000	General Electric Co.	78,086	79,569
	Other - 35.68%:		
3,000	Burlington Northern Santa Fe	308,601	311,185
1,000	Costco Wholesale Corp.	63,592	62,172
1,000	iShares Rut-Russell 2000	58,818	65,790
7,200	Marvel Entertainment	389,439	409,091
1,000	Powershares	38,710	48,120
1,000	Proshares Ultrashort Lehman 7 - 10 years	64,128	56,534
11,000	Standards&Poors Dep Rec 'SPDRS'	1,238,174	1,290,148
1,000	Wellpoint Inc.	58,528	61,215
		2,219,990	2,304,255
	Total United States common stocks - 52.85%	3,288,898	3,413,483
	United States options		
250	Call, S&P 500 SPDR, expire January 2010, exercise at \$112	48,009	37,076
50	Put, S&P 500 SPDR, expire January 2010, exercise at \$110	11,981	5,101
230	Put, SPY, expire March 2010, exercise at \$105	121,001	54,189
	Total United States options - 1.49%	180,991	96,366
	Total investments - 100%	\$ 6,303,377	\$ 6,458,659

# SHERPA DIVERSIFIED RETURNS FUND

Statement of Investments (continued)  
(Expressed in Canadian dollars)

December 31, 2009

Expiration date	Currency to be received (Cdn.)	Currency to be delivered (U.S.)	Equivalent value, December 31, 2009 (Cdn.)	Unrealized loss
Foreign exchange forward contracts				
February 19, 2010	\$ 524,800	\$ 500,000	\$ 526,617	\$ (1,817)
February 22, 2010	727,718	675,000	710,934	16,784
April 21, 2010	708,952	675,000	710,927	(1,975)
				\$ 12,992

Number of shares/ contracts		Average cost	Fair value
United States common stock, sold short			
	Other - 44.65%:		
(500)	SPDR Gold Trust ETF	\$ (59,310)	\$ (56,476)
(3,200)	Walt Disney Co.	(98,994)	(108,546)
		(158,304)	(165,022)

United States Options, sold short 55.35%

(7,500)	Call, Cdn. Currency, expire January 2010 at \$1.079	(13,987)	(21,248)
(10,000)	Call, Cdn. Currency, expire January 2010 at \$1.040	(7,274)	(4,977)
(10)	Call, Apple Inc., expire January 2010 at \$200	(5,317)	(13,148)
(300)	Call, S&P 500 SPDR, expire January 2010, exercise at \$115	(21,824)	(11,675)
(100)	Call, SPY, expire January 2010, exercise at \$125	(32,397)	(28,819)
(25)	Call, Teva Pharma, expire January 2010 at \$55	(3,003)	(4,996)
(15)	Call, Wellpoint, expire January 2010 at \$60	(1,117)	(1,499)
(7,500)	Put, Cdn. currency, expire January 2010 at \$1.2468	(13,987)	-
(10)	Put, Apple Inc., expire January 2010 at \$190	(3,297)	(526)
(10)	Put, Costco Wholesale Corp., expire January 2010 at \$57.50	(902)	(473)
(200)	Put, SPY, expire January 2010, exercise at \$105	(17,322)	(6,732)
(300)	Put, SPY, expire March 2010, exercise at \$90	(63,559)	(16,724)
(300)	Put, SPY, expire September 2010, exercise at \$90	(124,278)	(93,715)
		(308,264)	(204,532)
Total investments, sold short - 100%		\$ (466,568)	\$ (369,554)

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2009

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Sherpa Diversified Returns Fund (the "Fund") was created on June 11, 2008 as an open-ended trust in British Columbia pursuant to an original Trust Agreement dated June 11, 2008. The Fund commenced operations on June 11, 2008.

Sherpa Asset Management Inc. is the manager (the "Manager") and Caledon Trust Company is the trustee (the "Trustee") of the Fund.

## 1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies consistently followed by the Fund:

### (a) New accounting changes:

The Fund adopted the amendments to The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"). Section 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:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

## 1. Significant accounting policies (continued):

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

	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Common stocks	\$ 5,342,645	\$ –	\$ –	\$ 5,342,645
Bonds	–	1,019,648	–	1,019,648
Options	96,366	–	–	96,366
Foreign exchange forward contracts	–	12,992	–	12,992
	<u>\$ 5,439,011</u>	<u>\$ 1,032,640</u>	<u>\$ –</u>	<u>\$ 6,471,651</u>
Common stocks sold short	\$ (165,022)	\$ –	\$ –	\$ (165,022)
Options sold short	(204,532)	–	–	(204,532)
	<u>\$ (369,554)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (369,554)</u>

Section 3862 amendments also require additional disclosures relating to liquidity risk. The adoption of these amendments did not have a significant impact on the financial statements of the Fund.

For the year ended December 31, 2009, the Fund has adopted CICA Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 clarifies that credit risk and counterparty credit risk should be considered in determining the fair value of financial instruments. The adoption of EIC-173 did not have an impact on the financial statements of the Fund.

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

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## 1. Significant accounting policies (continued):

### (b) Valuation of investments:

Security transactions are recorded on the trade date. Realized gains and losses on security transactions are determined on an average cost basis.

In accordance with the CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), investments are classified as held-for-trading and, therefore, recorded at fair value. Section 3855 also requires that transaction costs, such as brokerage commissions incurred in the purchase and sale of securities by the Fund be charged to net income during the year. Accordingly, these costs are included in brokerage commission and other charges in the statement of investment operations.

Securities listed on a recognized public stock exchange are valued at their closing bid for long securities and ask price for securities sold short on the valuation date. Securities with no closing bid/ask prices are valued at their closing sale prices. Investments in securities of another investment fund are valued on a business day at the net asset value per security calculated in accordance with the offering documents of such mutual fund. Securities not listed upon a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner established by the Manager.

The Fund may make short sales, whereby a security that it does not own is sold short in anticipation of a decline in the market value of a security. To enter a short sale, the Fund may need to borrow the security for delivery to the buyer. On each day the short position is open, the liability for the obligation to replace the borrowed security is marked-to-market and an unrealized gain or loss equal to the difference between the price at which the security was sold and the cost of replacing the borrowed security is recorded. While the transaction is open, the Fund will also incur a liability for any accrued dividends or interest, which is paid to the lender of the security. Gains and losses on short sales are reflected in the statement of investment operations.

The premium received upon writing a call option is recorded as a deferred credit. Upon expiry of the option or when the option is exercised by its holder, the premium is recognized as a realized gain or loss. Options are valued at the latest sale price reported by the principal exchange or over-the-counter market on which the contract is traded. If no sale is reported, the average of the latest bid and ask price is used.

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

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## 1. Significant accounting policies (continued):

### (c) Investment income and expenses:

Interest income and expenses are recorded on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis.

### (d) Unit valuation and valuation date:

Net assets per unit are computed by dividing net assets attributable to each series determined in accordance with GAAP, by the total number of units of the series outstanding. Net increase in net assets per unit from operations represents the net increase in net assets of the series from operations for the year divided by the weighted average units outstanding for the year.

Net asset value ("pricing NAV") per unit is computed by dividing the net asset value attributable to the series of the Fund, determined for the purchase and redemption of units in accordance with the Fund's Offering Memorandum, by the total number of units of the series outstanding. This amount may be different from the net asset value per unit calculation, which is presented on the statement of net assets. Generally, any difference is due to valuing securities at bid and ask prices for GAAP purposes, while pricing NAV typically utilizes closing price to determine fair value for the purchase and redemption of units. See note 6 for net asset values per unit as at December 31, 2009.

### (e) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term deposits with terms to maturity of less than one year at acquisition. Cash is classified as held-for-trading and, therefore, carried at fair value.

### (f) Other assets and liabilities:

For the purposes of categorization in accordance with Section 3855, accrued interest and dividends receivable, receivable for investments sold and other assets are classified as loans and receivables and recorded at cost or amortized cost. Similarly, management fees payable, performance fees payable for investments purchased, due to broker, subscriptions received in advance and other liabilities are designated as other financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities.

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

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## 1. Significant accounting policies (continued):

### (g) Foreign currency translation:

Investment transactions and income and expenses denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction. The market value of investments quoted in foreign currencies has been translated into Canadian dollars at the rate of exchange prevailing at the year end. Foreign exchange gains and losses on the sale of investments are included in the gain or loss on the sale of investments.

### (h) Taxation of the Fund and distributions to unitholders:

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its income, including net realized capital gains, for the fiscal year which is not paid or payable to its unitholders as at the end of the fiscal year. It is the intention of the Fund that sufficient net taxable investment income and net taxable capital gains realized will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized.

The Fund is subject to withholding taxes on foreign income. In general, the Fund treats withholding tax as a charge against income for tax purposes.

As at December 31, 2009, the Fund had tax capital losses carried forward of nil (2008 - \$1,032,842) and non-capital losses carried forward of \$14,460 (2008 - \$7,297).

### (i) Future accounting change:

On February 13, 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for all Canadian publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant differences on recognition, measurement and disclosures that may materially impact the net assets of the Fund. Management has developed a plan to meet the timetable published by the AcSB for a changeover to IFRS.

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

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## 1. Significant accounting policies (continued):

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager believes there will be no material impact on the net assets of the Fund. However, management is of the view that the conversion to IFRS will result in some additional disclosures and potentially different presentation of unitholder interests and certain other items.

## 2. Management fees, performance fees and expenses:

### (a) Management fees:

In consideration of the services provided by the Manager, the Fund pays the Manager a monthly management fee, payable in arrears, calculated as a percentage of the net asset value of each unit that comprises the Fund on the last business day of the preceding month. The management fee will be deducted as an expense of the Fund in the calculation of the net profits of the Fund. The management fee for each Class of unit is as follows:

- (i) Class A: Up to 1/12 of 1.0% (1.0% per annum) of the net asset value of the units of the Fund on the last business day of the preceding month; and
- (ii) Class B: Up to 1/12 of 2.0% (2.0% per annum) of the net asset value of the units of the Fund on the last business day of the preceding month.

The management fee for the year ended December 31, 2009 amounted to \$83,758 (2008 - \$32,362), including GST.

### (b) Performance fees:

The Manager is entitled to a performance fee paid equal to 20% of the amount by which the performance of each series of the fund exceeds the previous high watermark for that series. The highest quarter-end net asset value per series from time to time establishes a high watermark for each series which must be exceeded in subsequent quarters for the performance fee applicable to each series to be payable. The performance fee is accrued monthly and becomes payable at the end of each calendar quarter. The performance fee is paid by the Fund within 10 business days from the quarter end. Upon redemption of units, the accrued portion of the performance fee allocated to the redeemed units will be payable by the Fund within 10 business days of the month in which the units were redeemed.

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

## 2. Management fees, performance fees and expenses (continued):

The performance fee for the year ended December 31, 2009 was \$77,200 (2008 - nil).

### (c) Expenses:

The Fund is responsible for the payment of its own operating expenses, including legal, audit, valuation, trading service fee and all other expenses incurred in the ordinary course of operations.

## 3. Unitholders' equity and unit transactions:

### (a) Unit transactions:

The Fund has authorized an unlimited number of Class A and Class B units with no par value, redeemable at the option of the unitholder in accordance with the Declaration of Trust. Units also refer to series of units. Series means a series of units with different management and performance fees for which units are issued. Each unit ranks pari passu with all other issued units and entitles the unitholders to a proportionate interest in the net assets of the Fund.

The following units were issued and redeemed during the year:

	2009	2008
Class A - Master Series:		
Balance, beginning of year	391,713	–
Issued	–	441,713
Redeemed	(710)	(50,000)
Balance, end of year	391,003	391,713
Class A - September 2008 Series:		
Balance, beginning of year	113,553	–
Issued	–	113,553
Redeemed	(2,500)	–
Balance, end of year	111,053	113,553
Class A - October 2008 Series:		
Balance, beginning of year	210,269	–
Issued	–	210,269
Balance, end of year	210,269	210,269

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

## 3. Unitholders' equity and unit transactions (continued):

	2009	2008
Class A - March 2009 Series: Issued, being balance, end of year	41,031	—
Class A - April 2009 Series: Issued, being balance, end of year	50,633	—
Class A - May 2009 Series: Issued, being balance, end of year	12,800	—
Class A - June 2009 Series: Issued, being balance, end of year	11,408	—
Class A - July 2009 Series: Issued, being balance, end of year	57,303	—
Class A - August 2009 Series: Issued, being balance, end of year	9,200	—
Class A - October 2009 Series: Issued, being balance, end of year	17,877	—
Class A - November 2009 Series: Issued, being balance, end of year	2,000	—
Class A - December 2009 Series: Issued, being balance, end of year	13,212	—
Class B - Master Series: Issued, being balance, end of year	24,110	—

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

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### 3. Unitholders' equity and unit transactions (continued):

#### (b) Subscriptions:

All subscriptions will be subject to acceptance by the Manager; provided however, that the Manager may authorize the Trustee to accept or reject any subscription agreement. The Manager, in its discretion, may prescribe any acquisition charges, redemption charges, minimum initial subscription amounts, minimum subsequent subscription amounts and minimum aggregate net asset value balances to be maintained by unitholders, and may, in its discretion prescribe any procedures in connection therewith (including a procedure, whereby a unitholder is required to redeem his units in the Fund) and the Manager may prescribe in its discretion the maximum number of units or maximum dollar amount of units that may be sold in the Fund; provided no such amounts or balances may be prescribed by the Manager and no procedures in connection therewith shall be prescribed by the Manager, except as provided in any current prospectus or offering memorandum (or other like document) of the Fund.

#### (c) Redemptions:

A unitholder shall be entitled to require payment of the net asset value of all or any of his units by giving written notice to the Manager at least 90 days prior to the valuation date.

### 4. Cash collateral on securities sold short:

The Fund borrows securities to carry out its investments strategies. The broker requires cash or securities as collateral. As at December 31, 2009, the collateral due from the broker was \$2,000,000 (2008 - \$2,000,000).

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

## 5. Reconciliation of pricing NAV to GAAP NAV:

2009	Net asset value			Net asset value per unit		
	Pricing NAV	Section 3855 adjustment	GAAP NAV	Pricing NAV	Section 3855 adjustment	GAAP NAV
Class A - Master Series	\$ 3,937,957	\$ (5,126)	\$ 3,932,831	\$ 10.07	\$ (0.01)	\$ 10.06
Class A - September 2008	1,088,670	(1,477)	1,087,193	9.80	(0.01)	9.79
Class A - October 2008	2,027,180	(3,011)	2,024,169	10.12	(0.01)	10.11
Class A - March 2009	494,198	1,244	495,442	12.04	0.03	12.07
Class A - April 2009	582,850	1,135	583,985	11.51	0.02	11.53
Class A - May 2009	140,761	189	140,950	11.00	0.01	11.01
Class A - June 2009	122,371	122	122,493	10.73	0.01	10.74
Class A - July 2009	613,317	597	613,914	10.70	0.01	10.71
Class A - August 2009	96,613	69	96,682	10.50	0.01	10.51
Class A - October 2009	182,613	57	182,670	10.22	-	10.22
Class A - November 2009	20,627	9	20,636	10.31	0.01	10.32
Class A - December 2009	133,712	23	133,735	10.12	-	10.12
	9,440,869	(6,169)	9,434,700			
Class B - Master Series	245,689	83	245,772	10.19	-	10.19
	\$ 9,686,558	\$ (6,086)	\$ 9,680,472			

2008	Net asset value			Net asset value per unit		
	Pricing NAV	Section 3855 adjustment	GAAP NAV	Pricing NAV	Section 3855 adjustment	GAAP NAV
Class A - Master Series	\$ 3,360,695	\$ (13,890)	\$ 3,346,805	\$ 8.58	\$ (0.04)	\$ 8.54
Class A - September 2008	946,494	(3,834)	942,660	8.34	(0.04)	8.30
Class A - October 2008	1,815,511	(7,355)	1,808,156	8.63	(0.03)	8.60
	\$ 6,122,700	\$ (25,079)	\$ 6,097,621			

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

## 6. Related party transactions:

The Manager, its officers and directors invest in units of the Fund from time to time in the normal course of business. All transactions with the Manager are measured at the exchange amounts. As at December 31, 2009, parties related to the Manager owned the following number of units of each series:

	2009	2008
Class A - Master Series	123,504	169,213
Class A - September 2008 Series	61,917	61,927
Class A - April 2009 Series	10,000	–
Class A - May 2009 Series	12,800	–
Class A - June 2009 Series	5,000	–
Class A - July 2009 Series	11,398	–
Class A - October 2009 Series	5,000	–
Class A - November 2009 Series	2,000	–

## 7. Financial instruments and risk management:

The Fund's investment activities expose it to a variety of financial risks. The Fund's exposure to financial risks is concentrated in its investment holdings. The statement of investments presents the securities held by the Fund as at December 31, 2009, and groups the securities by asset type, geographic region and market segment. Significant risks that are relevant to the Fund are discussed below.

The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objective, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager also uses internal guidelines that identify the target exposures for each type of risk, maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy, internal guidelines and securities regulations.

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

## 7. Financial instruments and risk management (continued):

### (a) Liquidity risk:

The Fund is exposed to monthly cash redemptions of units. In accordance with its Offering Memorandum, the Fund maintains a significant amount of its assets in liquid investments (i.e., investments that are traded in an active market and can be readily disposed). The Fund also has the ability to borrow up to 40% of its net assets for the purposes of implementing the investment strategy.

All financial liabilities of the Fund have a maturity of less than three months.

### (b) Currency risk:

Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The Fund may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

The table below indicates the foreign currencies to which the Fund had significant exposure as at year end in Canadian dollar terms, including the underlying principal amount of forward currency contracts, if any. The table also illustrates the potential impact to the Fund's net assets, all other variables held constant, as a result of 5% changes in these currencies relative to the Canadian dollar. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

2009		Exposure				Sensitivity	
Currency	Investments	Cash	Other net assets	Foreign currency forward contracts	Total	Impact on net assets	
U.S. dollars	\$ 3,140,295	\$ (3,119,314)	\$ 2,394,003	\$ (1,948,478)	\$ 466,506	\$ 23,335	
As percent of net assets					4.82%	0.24%	

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

## 7. Financial instruments and risk management (continued):

2008	Exposure				Sensitivity Impact on net assets	
	Currency	Investments	Cash	Other net assets		Total
U.S. dollars	\$ 1,094,450	\$ (2,472,246)	\$ 1,058,455	\$ (319,341)	\$ 15,967	
As percent of net assets					5.21%	0.26%

### (c) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments. The Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its investments. The majority of the Fund's assets are non-interest bearing and, therefore, the interest rate risk is not considered material.

### (d) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The Fund's investment portfolio is monitored on a daily basis by the Manager. Except for written options and securities sold short, the maximum risk resulting from financial instruments is equivalent to their fair value as reported in the statement of investments. Possible losses from written options and securities sold short can be unlimited.

For the Fund, the most significant exposure to other price risk arises from its investment in equity securities. As at December 31, 2009, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$609,000 (2008 - \$220,000) (approximately 7.05% (2008 - 3.61%) of total net assets). In practice, the actual trading results may differ and the difference could be material.)

# SHERPA DIVERSIFIED RETURNS FUND

Notes to Financial Statements (continued)  
(Expressed in Canadian dollars)

Year ended December 31, 2009

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## 7. Financial instruments and risk management (continued):

### (e) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund's investments in debt and derivative instruments, including bonds and foreign exchange forward contracts, represent the main concentration of credit risk. The market value of debt and derivative instruments includes consideration of the creditworthiness of the issuer and, accordingly, represents the maximum credit risk exposure of the Fund.

Credit risk arising on debt securities is mitigated by investing primarily in investment grade-rated instruments.

## 8. Soft dollars:

Soft dollar transactions during the year amounted to nil (2008 - nil).

## 9. Filing of financial statements:

The Fund is relying on the exemption pursuant to Section 2.11 of National Instrument 81-106 not to file its financial statements with the Ontario Securities Commission.

B

**UNAUDITED FINANCIALS**

Interim financial statements of

**SHERPA DIVERSIFIED RETURNS FUND**

For the six months ended June 30, 2010

*(unaudited)*

# SHERPA DIVERSIFIED RETURNS FUND

Interim financial statements (unaudited)

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# SHERPA DIVERSIFIED RETURNS FUND

Statement of net assets (unaudited)  
as at June 30, 2010 and December 31, 2009

	2010	(audited) 2009
	\$	\$
<b>Assets</b>		
Investments at fair value	6,063,221	6,471,651
Cash	9,784,273	-
Subscription receivable	-	-
Accrued interest and dividends receivable	27,366	13,348
Due from broker	2,000,000	2,000,000
Receivable for investments sold	7,052,040	3,445,389
Other assets	-	2,625
	<b>24,926,900</b>	<b>11,933,013</b>
<b>Liabilities</b>		
Investments sold short at fair value	1,754,624	369,554
Management and performance fees payable	12,938	37,348
Operating expenses payable	18,127	24,361
Subscriptions received in advance	973,500	291,000
Due to broker	-	445,694
Payable for investments purchased	9,409,495	1,084,584
	<b>12,168,685</b>	<b>2,252,541</b>
<b>Net assets represented by unitholders' equity</b>	<b>12,758,215</b>	<b>9,680,472</b>
<b>Unitholders' equity</b>		
Class A - Master Series	7,717,129	3,932,831
Class A - September 2008 Series	1,065,656	1,087,193
Class A - October 2008 Series	-	2,024,169
Class A - March 2009 Series	-	495,442
Class A - April 2009 Series	-	583,985
Class A - May 2009 Series	-	140,950
Class A - June 2009 Series	-	122,493
Class A - July 2009 Series	-	613,914
Class A - August 2009 Series	-	96,682
Class A - October 2009 Series	-	182,670
Class A - November 2009 Series	-	20,636
Class A - December 2009 Series	-	133,735
Class A - March 2010 Series	215,470	-
Class A - April 2010 Series	114,911	-
Class A - May 2010 Series	664,588	-
Class B - Master Series	2,932,969	245,772
Class F - Master Series	47,492	-
	<b>12,758,215</b>	<b>9,680,472</b>
<b>Number of units outstanding</b>		
Class A - Master Series	785,382	391,004
Class A - September 2008 Series	111,053	111,053
Class A - October 2008 Series	-	200,269
Class A - March 2009 Series	-	41,031
Class A - April 2009 Series	-	50,633
Class A - May 2009 Series	-	12,800
Class A - June 2009 Series	-	11,408
Class A - July 2009 Series	-	57,303
Class A - August 2009 Series	-	9,200
Class A - October 2009 Series	-	17,877
Class A - November 2009 Series	-	2,000
Class A - December 2009 Series	-	13,212
Class A - March 2010 Series	22,397	-
Class A - April 2010 Series	12,142	-
Class A - May 2010 Series	70,000	-
Class B - Master Series	296,014	24,110
Class F - Master Series	5,000	-

# SHERPA DIVERSIFIED RETURNS FUND

Statement of net assets (unaudited)  
as at June 30, 2010 and December 31, 2009

	2010	(audited) 2009
	\$	\$
<b>Net assets per unit</b>		
Class A - Master Series	9.83	10.06
Class A - September 2008 Series	9.60	9.79
Class A - October 2008 Series	-	10.11
Class A - March 2009 Series	-	12.07
Class A - April 2009 Series	-	11.53
Class A - May 2009 Series	-	11.01
Class A - June 2009 Series	-	10.74
Class A - July 2009 Series	-	10.71
Class A - August 2009 Series	-	10.51
Class A - October 2009 Series	-	10.22
Class A - November 2009 Series	-	10.32
Class A - December 2009 Series	-	10.12
Class A - March 2010 Series	9.62	-
Class A - April 2010 Series	9.46	-
Class A - May 2010 Series	9.49	-
Class B - Master Series	9.91	10.19
Class F - Master Series	9.50	-

Signed on behalf of the Manager,  
Sherpa Asset Management Inc.

..... Director

..... Director

# SHERPA DIVERSIFIED RETURNS FUND

Statement of investment operations (unaudited)  
for the six months ended June 30, 2010 and 2009

	2010	2009
	\$	\$
Income		
Dividends, net	53,775	53,075
Interest and other income	35,534	(6,638)
	89,309	46,437
Less: Foreign withholding taxes	(3,887)	(4,014)
	85,423	42,423
Expenses		
Performance fees	78,476	24,839
Management fees	65,493	35,264
Brokerage commission and other charges	52,242	47,171
Valuation fees	14,554	10,424
Audit fees	9,600	9,000
Trading fees	-	5,493
Professional fees	20,258	-
Miscellaneous fees	286	-
	240,909	132,191
Net investment loss	(155,487)	(89,768)
Net realized gains on sale of investments	289,819	241,768
Net realized losses on foreign exchange forward contracts	(18,263)	-
Net unrealized gains on foreign currency	176,429	141,986
Change in unrealized (depreciation) appreciation on investments	(659,149)	271,027
Net (loss) gain on investments	(211,164)	654,781
<b>(Decrease) increase in net assets from investment operations</b>	<b>(366,651)</b>	<b>565,013</b>

**(Decrease) increase in net assets from investment operations:**

Class A - Master Series	(189,378)	266,556.00
Class A - September 2008 Series	(21,537)	72,208.75
Class A - October 2008 Series	-	137,775.19
Class A - March 2009 Series	-	36,081.55
Class A - April 2009 Series	-	49,597.91
Class A - May 2009 Series	-	2,994.00
Class A - June 2009 Series	-	(200.46)
Class A - July 2009 Series	-	-
Class A - August 2009 Series	-	-
Class A - October 2009 Series	-	-
Class A - November 2009 Series	-	-
Class A - December 2009 Series	-	-
Class A - March 2010 Series	(8,504)	-
Class A - April 2010 Series	(6,508)	-
Class A - May 2010 Series	(35,412)	-
Class B - Master Series	(102,803)	-
Class F - Master Series	(2,508)	-
	(366,651)	565,013

**(Decrease) increase in net assets from investment operations per unit:**

Class A - Master Series	(0.23)	0.68
Class A - September 2008 Series	(0.19)	0.64
Class A - October 2008 Series	-	0.68
Class A - March 2009 Series	-	1.24
Class A - April 2009 Series	-	0.75
Class A - May 2009 Series	-	0.27
Class A - June 2009 Series	-	0.02
Class A - July 2009 Series	-	-
Class A - August 2009 Series	-	-
Class A - October 2009 Series	-	-
Class A - November 2009 Series	-	-
Class A - December 2009 Series	-	-
Class A - March 2010 Series	(0.38)	-
Class A - April 2010 Series	(0.54)	-
Class A - May 2010 Series	(0.51)	-
Class B - Master Series	(0.78)	-
Class F - Master Series	(0.50)	-

# SHERPA DIVERSIFIED RETURNS FUND

Statement of changes in net assets (unaudited)  
for the six months ended June 30, 2010 and 2009

	Net Assets		Share Capital		Net Increase in		Net Assets
	December 31,	Share Capital	Share Capital	Share Capital	Net Assets	Net Assets	Net Assets
	2009	Subscription	Redemptions	Resulting from	Operations	June 30,	2010
<b>Class A</b>							
Class A - Master	\$ 3,932,831	\$ 4,485,578	\$ (511,902)	\$ (189,378)	\$	\$ 7,717,129	
Class A - Sep2008	1,087,193	-	-	(21,537)		1,065,656	
Class A - Oct2008	2,024,169	-	(2,024,169)	-		-	
Class A - Apr2009	583,985	-	(583,985)	-		-	
Class A - Mar2009	495,442	-	(495,442)	-		-	
Class A - May2009	140,950	-	(140,950)	-		-	
Class A - June2009	122,493	-	(122,493)	-		-	
Class A - July2009	613,914	-	(613,914)	-		-	
Class A - Aug2009	96,682	-	(96,682)	-		-	
Class A - Oct2009	182,670	-	(182,670)	-		-	
Class A - Nov2009	20,636	-	(20,636)	-		-	
Class A - Dec2009	133,735	-	(133,735)	-		-	
Class A - March 2010	-	223,974	-	(8,504)		215,470	
Class A - April 2010	-	121,419	-	(6,508)		114,911	
Class A - May 2010	-	700,000	-	(35,412)		664,588	
	\$ 9,434,700	\$ 5,530,971	\$ (4,926,578)	\$ (261,340)	\$	\$ 9,777,754	
<b>Class B</b>							
Class B - Master	\$ 245,772	\$ 2,790,000	\$ -	\$ (102,803)	\$	\$ 2,932,969	
<b>Class F</b>							
Class F - Master	\$ -	\$ 50,000	\$ -	\$ (2,508)	\$	\$ 47,492	
<b>Total net assets</b>						<b>\$ 12,758,215</b>	

	Net Assets		Share Capital		Net Increase in		Net Assets
	December 31,	Share Capital	Share Capital	Share Capital	Net Assets	Net Assets	Net Assets
	2008	Subscription	Redemptions	Resulting from	Operations	June 30,	2009
<b>Class A</b>							
Class A - Master	\$ 3,346,920	\$ 45,000	\$ (51,000)	\$ 266,556	\$	\$ 3,607,476	
Class A - Sep2008	942,620	-	(19,398)	72,209		995,431	
Class A - Oct2008	1,808,081	-	(86,342)	137,775		1,859,514	
Class A - Apr2009	-	506,326	-	36,082		542,408	
Class A - Mar2009	-	410,310	-	49,598		459,908	
Class A - May2009	-	128,000	-	2,994		130,994	
Class A - June2009	-	114,079	-	(200)		113,879	
	\$ 6,097,621	\$ 1,203,716	\$ (156,740)	\$ 565,013	\$	\$ 7,709,610	
<b>Total net assets</b>						<b>\$ 7,709,610</b>	

# SHERPA DIVERSIFIED RETURNS FUND

Statement of investments (unaudited)  
as at June 30, 2010

Description	Number of shares	Average cost	Fair value
		\$	\$
<b>INVESTMENTS</b>			
<b>CANADIAN COMMON STOCKS</b>			
ENERGY -	<b>1.39%</b>		
SUNCOR ENERGY INC	2,688	76,012	84,215
		<b>76,012</b>	<b>84,215</b>
FINANCIAL -	<b>10.28%</b>		
MANULIFE FINANCIAL CORP	2,000	44,530	30,900
ROYAL BANK OF CANADA	7,600	432,468	385,320
TORONTO-DOMINION BANK	1,500	104,678	103,350
WORLD FINANCIAL SPLIT	11,200	105,407	103,600
		<b>687,083</b>	<b>623,170</b>
OTHER -	<b>22.92%</b>		
CANADIAN NATIONAL RAILWAY	2,000	109,628	122,000
ISHARES S&P TSX60 IDX ETF	65,000	1,091,666	1,080,300
PREMIUM INCOME CORP PREFERRED SHARES	12,500	187,500	187,250
		<b>1,388,794</b>	<b>1,389,550</b>
<b>TOTAL CANADIAN COMMON STOCKS -</b>	<b>34.58%</b>	<b>2,151,889</b>	<b>2,096,935</b>
<b>CANADIAN BONDS</b>			
CITIGROUP FINANCE CDA INC	1,000,000	1,025,100	1,007,714
<b>TOTAL CANADIAN BONDS -</b>	<b>16.62%</b>	<b>1,025,100</b>	<b>1,007,714</b>
<b>UNITED STATES COMMON STOCKS</b>			
ENERGY -	<b>2.67%</b>		
ENCANA CORP	2,000	126,634	64,576
ENERGY SELECT SECTOR SPDR	1,500	87,310	79,176
EXXON MOBIL CORP	300	24,903	18,220
		<b>238,847</b>	<b>161,972</b>
TECHNOLOGY -	<b>1.65%</b>		
APPLE INC	100	27,537	26,763
MICROSOFT CORP	3,000	87,503	73,430
		<b>115,040</b>	<b>100,193</b>
FINANCIAL -	<b>7.83%</b>		
BANK OF AMERICA CORP	9,000	126,893	137,633
BERKSHIRE HATHAWAY INC. CLASS A	2	225,147	255,408
WELLS FARGO & CO	3,000	77,498	81,731
		<b>429,538</b>	<b>474,772</b>
HEALTHCARE -	<b>3.53%</b>		
PFIZER INC	5,000	79,446	75,877
TEVA PHARM LTD-ADR	2,500	150,527	138,319
		<b>229,973</b>	<b>214,196</b>
CONGLOMERATES -	<b>2.53%</b>		
GENERAL ELECTRIC CO	10,000	166,917	153,458
		<b>166,917</b>	<b>153,458</b>

# SHERPA DIVERSIFIED RETURNS FUND

Statement of investments (unaudited) (continued)  
as at June 30, 2010

Description	Number of shares	Average cost	Fair value	
			\$	
<b>INVESTMENTS</b>				
OTHER -	<b>20.90%</b>			
AT&T INC	8,200	215,072	211,093	
COSTCO WHOLESALE CORP	2,000	123,964	116,679	
ISHARES RUT-RUSSELL 2000	6,000	401,809	389,242	
POWERSHARES QQQ TRUST S-1	2,000	87,106	90,968	
PROSHARES ULTRASHORT LEHMAN 7-10 TREA ETF	2,000	113,179	92,330	
TECK RESOURCES LTD-CL B	2,000	71,505	62,703	
WAL-MART STORES INC	1,000	55,999	51,156	
WALT DISNEY CO.	3,665	52,425	122,859	
WELLPOINT INC	2,500	153,663	130,178	
		<b>1,274,722</b>	<b>1,267,208</b>	
<b>TOTAL UNITED STATES COMMON STOCKS -</b>	<b>39.12%</b>	<b>2,455,037</b>	<b>2,371,799</b>	
<b>UNITED STATES OPTIONS</b>				
CALL - BP - Exp January 2011 - Exercise @ \$35	50	23,639	17,825	
CALL - SPY - Exp July 2010 - Exercise @ \$106	150	33,698	20,912	
CALL - SPY - Exp July 2010 - Exercise @ \$110	600	195,199	19,156	
CALL - SPY - Exp December 2010 - Exercise @ \$115	75	63,731	21,869	
PUT - SPY - Exp July 2010 - Exercise @ \$108	100	25,989	60,447	
PUT - SPY - Exp July 2010 - Exercise @ \$110	300	77,432	232,741	
PUT - SPY - Exp July 2010 - Exercise @ \$112	120	29,342	116,338	
PUT - SPY - Exp December 2010 - Exercise @ \$110	100	100,608	130,045	
PUT - SPY - Exp December 2010 - Exercise @ \$115	75	80,855	124,112	
PUT - FINANCIAL SELECT SPDR (XLF) - Exp July 2010 - Exercise @ \$	50	2,860	6,492	
<b>TOTAL UNITED STATES OPTIONS -</b>	<b>12.37%</b>	<b>633,353</b>	<b>749,937</b>	
<b>FOREIGN EXCHANGE FORWARD CONTRACT</b>				
Expiration	Currency	Currency	Equivalent value	Unrealized
Date	Receivable (CAD)	Deliverable (USD)	June 30, 2010 (CAD)	Gain/Loss
July 9, 2010	1,005,300	1,000,000	1,063,956	(58,656)
August 19, 2010	523,450	500,000	532,104	(8,654)
August 19, 2010	1,047,300	1,000,000	1,064,208	(16,908)
September 23, 2010	751,275	750,000	798,377	(47,102)
October 22, 2010	500,550	500,000	532,394	(31,844)
<b>TOTAL EXCHANGE FORWARD CONTRACT -</b>	<b>-2.69%</b>			<b>(163,164)</b>
<b>TOTAL INVESTMENTS -</b>	<b>100.00%</b>	<b>6,265,379</b>	<b>6,063,221</b>	

# SHERPA DIVERSIFIED RETURNS FUND

Statement of investments (unaudited) (continued)  
as at June 30, 2010

Description	Number of shares	Average cost	Fair value
			\$            \$
<b>INVESTMENTS</b>			
<b>CANADIAN OPTIONS SOLD SHORT</b>			
CALL - ROYAL BANK OF CANADA - Exp July 2010 - Exercise @ \$58	(50)	(6,100)	(450)
<b>TOTAL CANADIAN OPTIONS SOLD SHORT -</b>	<b>0.03%</b>	<b>(6,100)</b>	<b>(450)</b>
<b>UNITED STATES COMMON STOCKS SOLD SHORT</b>			
OTHER -			
SPDR GOLD TRUST ETF	(500)	(59,310)	(64,671)
SPDR S&P 500 ETF	(4,400)	(494,492)	(482,155)
<b>TOTAL UNITED STATES COMMON STOCKS SOLD SHORT -</b>	<b>31.16%</b>	<b>(553,802)</b>	<b>(546,826)</b>
<b>UNITED STATES FUTURES SOLD SHORT</b>			
	<b>Expiry</b>	<b>Contracts</b>	<b>Average Price</b>
S&P 500 (E-MINI FUTURES) SEP10	Sep-10	(12)	1,026.60
<b>TOTAL UNITED STATES FUTURES SOLD SHORT -</b>	<b>-2.08%</b>		<b>36,571</b>
<b>UNITED STATES OPTIONS SOLD SHORT</b>			
CALL SPY (RDQ) - Exp December 2010 - Exercise @ \$125	(150)	(57,539)	(12,451)
CALL - SPY - Exp July 2010 - Exercise @ \$115	(100)	(14,243)	(639)
CALL - SPY - Exp September 2010 - Exercise @ \$125	(150)	(43,186)	(2,075)
CALL - AT&T - Exp July 2010 - Exercise @ \$27	(100)	(4,782)	(213)
CALL - TECK RESOURCES CL B - Exp July 2010 - Exercise @ \$38	(30)	(3,688)	(160)
PUT - BP - Exp January 2011 - Exercise @ \$25	(31)	(10,674)	(14,021)
PUT - APPLE - Exp July 2010 - Exercise @ \$260	(15)	(8,121)	(22,029)
PUT - SPY - Exp July 2010 - Exercise @ \$100	(150)	(21,410)	(27,935)
PUT - SPY - Exp July 2010 - Exercise @ \$103	(450)	(64,276)	(136,484)
PUT - SPY - Exp July 2010 - Exercise @ \$95	(250)	(32,358)	(20,752)
PUT - SPY - Exp September 2010 - Exercise @ \$90	(300)	(124,278)	(88,754)
PUT - SPY - Exp September 2010 - Exercise @ \$110	(100)	(45,354)	(103,760)
PUT - SPY - Exp December 2010 - Exercise @ \$90	(300)	(102,845)	(148,137)
PUT - SPY - Exp December 2010 - Exercise @ \$95	(50)	(22,944)	(33,629)
PUT - SPY (SWG) - Exp December 2010 - Exercise @ \$100	(200)	(59,762)	(163,248)
PUT - SPY (SWG) - Exp December 2010 - Exercise @ \$105	(200)	(70,135)	(207,732)
PUT - SPY (SWG) - Exp December 2010 - Exercise @ \$95	(150)	(74,325)	(95,459)
PUT - SPY - Exp March 2011 - Exercise @ \$110	(100)	(129,518)	(158,140)
PUT - FINANCIAL SELECT SPDR (XLF) - Exp July 2010 - Exercise @ \$14	(150)	(3,064)	(8,301)
<b>TOTAL UNITED STATES OPTIONS SOLD SHORT -</b>	<b>70.89%</b>	<b>(892,502)</b>	<b>(1,243,919)</b>
<b>TOTAL INVESTMENTS SOLD SHORT -</b>	<b>100.00%</b>	<b>(1,452,404)</b>	<b>(1,754,624)</b>

# SHERPA DIVERSIFIED RETURNS FUND

## Notes to the financial statements (unaudited)

June 30, 2010

### 1. Formation of Sherpa Diversified Returns Fund

Sherpa Diversified Returns Fund (the "Fund") was created on June 11, 2008 as an open-ended trust in British Columbia pursuant to an original Trust Agreement dated June 11, 2008. The Fund commenced operations on June 11, 2008.

Sherpa Asset Management Inc. is the manager (the "Manager") and Caledon Trust Company is the trustee (the "Trustee") of the Fund.

### 2. Significant accounting policies

The interim financial statements of the Fund have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). They follow the same accounting policies and methods of application as the Fund's financial statements for the year ended December 31, 2009. The Partnership's interim financial statements do not include all disclosures required by Canadian GAAP for annual financial statements and accordingly, should be read in conjunction with the financial statements for the year ended December 31, 2009.

### 3. Future accounting changes

The Canadian Accounting Standards Board ("AcSB") has confirmed its plan to adopt all International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board, effective for fiscal years commencing on or after January 1, 2011. The Fund will adopt IFRS in accordance with AcSB's plan. The impact of adopting IFRS is expected to be mainly in presentation and additional disclosures in the financial statements of the Fund.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager believes there will be no material impact on the net assets of the Fund. However, management is of the view that the conversion to IFRS will result in some additional disclosures and potentially different presentation of unitholder interests and certain other items.

### 4. Net asset value and net assets

The Net Asset Value per unit calculated using the close or last traded price at June 30, 2010 is as follows and the difference between the Canadian GAAP Net Assets and Net Asset Value is on account of the use of the last bid price for the valuation of investments for Canadian GAAP.

	Net asset value			Net asset value per unit		
	Pricing NAV	Section 3855 adjustment	GAAP NAV	Pricing NAV	Section 3855 adjustment	GAAP NAV
2010						
Class A - Master Series	\$ 7,732,574	\$ (15,445)	\$ 7,717,129	\$ 9.85	\$ (0.02)	\$ 9.83
Class A - September 2008	1,068,617	(2,961)	1,065,656	9.62	(0.02)	9.60
Class A - March 2010	215,872	(402)	215,470	9.64	(0.02)	9.62
Class A - April 2010	115,218	(307)	114,911	9.49	(0.03)	9.46
Class A - May 2010	666,185	(1,597)	664,588	9.52	(0.03)	9.49
		(20,712)	9,777,754			
Class B - Master Series	2,937,879	(4,910)	2,932,969	9.92	(0.01)	9.91
Class F - Master Series	47,605	(113)	47,492	9.52	(0.02)	9.50
	\$12,783,950	\$ (25,735)	\$ 12,758,215			

# SHERPA DIVERSIFIED RETURNS FUND

Notes to the financial statements (unaudited)

June 30, 2010

## 4. Net asset value and net assets (continued)

	Net asset value			Net asset value per unit		
	Pricing NAV	Section 3855 adjustment	GAAP NAV	Pricing NAV	Section 3855 adjustment	GAAP NAV
2009						
Class A - Master Series	\$ 3,937,957	\$ (5,126)	\$ 3,932,831	\$ 10.07	\$ (0.01)	\$ 10.06
Class A - September 2008	1,088,670	(1,477)	1,087,193	9.80	(0.01)	9.79
Class A - October 2008	2,027,180	(3,011)	2,024,169	10.12	(0.01)	10.11
Class A - March 2009	494,198	1,244	495,442	12.04	0.03	12.07
Class A - April 2009	582,850	1,135	583,985	11.51	0.02	11.53
Class A - May 2009	140,761	189	140,950	11.00	0.01	11.01
Class A - June 2009	122,371	122	122,493	10.73	0.01	10.74
Class A - July 2009	613,317	597	613,914	10.70	0.01	10.71
Class A - August 2009	96,613	69	96,682	10.50	0.01	10.51
Class A - October 2009	182,613	57	182,670	10.22	-	10.22
Class A - November 2009	20,627	9	20,636	10.31	0.01	10.32
Class A - December 2009	133,712	23	133,735	10.12	-	10.12
	9,440,869	(6,169)	9,434,700			
Class B - Master Series	245,689	83	245,772	10.19	-	10.19
	\$ 9,686,558	\$ (6,086)	\$ 9,680,472			

Net assets per unit is calculated based on the total units outstanding for each class and series.

## 5. Commissions on securities transactions

The Fund paid brokers' commissions in the six-month period ended June 30, 2010 of \$52,242 (2009 - \$47,171). There were no receipts of soft dollar commissions by the Fund.

## 6. Financial instruments and risk management

The Fund's financial instruments consisted of cash and investments during the period. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include market risk, interest rate risk, derivative financial instruments risk and foreign currency risk. These risks and related risk management practices employed by the Fund are discussed below

### Market risk

The Fund's equity, debt securities and trading derivatives are susceptible to market price risk arising from uncertainties about future prices of the instruments. The investment portfolio consists of securities of companies in various industries which are subject to normal market fluctuations and the risks inherent in investment in equity markets. Net asset value per unit varies as the value of the securities in the portfolio varies. The Fund has no control over the factors that affect the value of the securities in the portfolio, including factors that affect all of the companies in those industries. The Fund's market risk is managed by taking a long-term perspective while focusing on quality businesses that consistently deliver strong returns for investors. The Fund's investment portfolio is monitored on a daily basis by the Investment Advisor.

# SHERPA DIVERSIFIED RETURNS FUND

## Notes to the financial statements (unaudited)

June 30, 2010

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### 6. Financial instruments and risk management *(continued)*

For the Fund, the most significant exposure to market risk arises from its investment in equity securities. As at June 30, 2010, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$449,750 (approximately 3.52% of total net assets). In practice, the actual trading results may differ and the difference could be material

#### *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 Fund does not have a significant credit risk exposure as at June 30, 2010. The carrying amount of other assets represents their maximum credit risk exposure, as they will be settled in the short term.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

The Fund's significant credit concentrations are with the Fund's prime broker. At June 30, 2010, RBC Capital Markets was the Fund's sole prime broker. RBC Capital Markets is a subsidiary of the Royal Bank of Canada (the "Bank"). The Bank guarantees all liabilities of RBC Capital Markets and RBC Capital Markets indemnifies the Bank for any losses arising from this guarantee. Free credit balances of the Fund held at RBC Capital Markets are not segregated and may be used in the ordinary conduct of RBC Capital Market's business. While the Fund has historically held significant free credit balances, both RBC Capital Markets and the Bank employ substantial leverage. The Bank is subject to the Basel II framework. Under Basel II, the Bank's total assets should be no greater than 20 times capital (or 23 times under certain circumstances).

The assets to capital multiple is calculated by dividing the institution's total assets, including specified off-balance sheet items, by the sum of its adjusted net tier 1 capital and adjusted tier 2 capital. Common equity is a subset of tier 1 capital.

#### *Currency risk*

Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The Fund may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

The table below indicates the foreign currencies to which the Fund had significant exposure as at period end in Canadian dollar terms, including the underlying principal amount of forward currency contracts, if any. The table also illustrates the potential impact to the Fund's net assets, all other variables held constant, as a result of 5% changes in these currencies relative to the Canadian dollar. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

2010	Exposure			Sensitivity	
Currency	Investments	Cash	Other net assets	Total	Impact on net assets
U.S. dollars	\$1,393,156	\$ 4,995,757	\$(2,173,870)	\$4,215,044.22	210,752
As percent of net assets (%)				32.97%	1.65%

# SHERPA DIVERSIFIED RETURNS FUND

Notes to the financial statements (unaudited)

June 30, 2010

## 6. Financial instruments and risk management *(continued)*

### *Currency risk (continued)*

2009	Exposure			Total	Sensitivity Impact on net assets
	Investments	Cash	Other net assets		
U.S. dollars	\$3,144,776	\$ (3,119,314)	\$2,391,335	\$2,416,797	\$120,840
As percent of net assets (%)				24.95%	1.25%

### *Fair value measurements*

The Fund has the following fair value hierarchy for the investments held at the balance sheet date:

2010	Level 1 Quoted Prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
Common stocks	\$ 4,468,734	\$ -	\$ -	\$ 4,468,734
Bonds	-	1,007,714	-	1,007,714
Options	749,937	-	-	749,937
Foreign exchange forward contracts	-	(163,164)	-	(163,164)
	\$ 5,218,671	\$ 844,550	\$ -	\$ 6,063,221
Common stocks sold short	\$ (546,826)	\$ -	\$ -	\$ (546,826)
Options sold short	(1,244,369)	-	-	(1,244,369)
Futures sold short	36,571	-	-	36,571
	\$ (1,754,624)	\$ -	\$ -	\$ (1,754,624)

  

2009	Level 1 Quoted Prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
Common stocks	\$ 5,342,645	\$ -	\$ -	\$ 5,342,645
Bonds	-	1,019,648	-	1,019,648
Options	96,366	-	-	96,366
Foreign exchange forward contracts	-	12,992	-	12,992
	\$ 5,439,011	\$ 1,032,640	\$ -	\$ 6,471,651
Common stocks sold short	\$ (165,022)	\$ -	\$ -	\$ (165,022)
Options sold short	(204,532)	-	-	(204,532)
	\$ (369,554)	\$ -	\$ -	\$ (369,554)

**CERTIFICATE**

DATED this 1<sup>st</sup> day of February, 2011

**This Confidential Offering Memorandum does not contain a misrepresentation.**

**SHERPA DIVERSIFIED RETURNS FUND**

by its Investment Manager, Sherpa Asset Management Inc.

(signed) \_\_\_\_\_  
David Guarasci  
Chief Executive Officer

(signed) \_\_\_\_\_  
Patrick Smart  
Chief Operating Officer

**SHERPA MARKET NEUTRAL INCOME FUND**

by its Investment Manager, Sherpa Asset Management Inc.

(signed) \_\_\_\_\_  
David Guarasci  
Chief Executive Officer

(signed) \_\_\_\_\_  
Patrick Smart  
Chief Operating Officer