

## Fund Review

The recent witnessing of the first meaningful correction in the equity markets since the start of the bull market in early 2009 appears to have been the result of investors being alarmed by the problems in Europe as well as the emerging evidence of a slowing in China's economic growth. We anticipated this vulnerability in the market with some timely sales and new short positions which helped to moderate losses for the month. The Fund declined by a modest 1.6% during May as compared to declines of 9.5% for the TSX Venture and 3.5% for the TSX Composite.

Our short positions were successful in offsetting some of the downside. This is integral to our strategy of moderating losses when equities are weak while capturing above market returns during better performing periods. The majority of the Fund's core holdings performed quite well during May considering the poor equity backdrop. The smaller, less liquid positions, of which many have experienced significant positive returns over the previous several months, gave back some ground during the month.

We typically do not mention specific holdings in this forum. However, we are particularly excited about one recent addition to the portfolio for which we believe the prospects are quite exciting. Primary Petroleum is a junior energy company which holds a sizeable land position in Montana. Evidence is building from work done by several NYSE listed companies that the Bakken shale oil formation extends south into Montana from Alberta. The Bakken has been one of the hottest investment themes in the Canadian energy patch in recent years as land values alone for Bakken exposure has skyrocketed in Alberta. It is quite possible that this scenario will also play out in Montana and that Primary will benefit greatly as it has acquired a sizeable land position. Investors are quickly catching on to the potential of this company as the share price and volume have increased considerably in May. The Fund was fortunate to accumulate a sizeable position at a very early stage as our analysis quickly realized the potential of the situation. This illustrates that even in a poor equity market, it is often possible to find attractive opportunities which can perform well regardless of overall market conditions.

Investors should be reminded that when we anticipate an overall market decline, it is impractical to rearrange our small cap portfolio to be insulated over the short term. Instead, we are confident that our investment choices are strong enough to weather the downside.

## Monthly Performance (%)\*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2007												7.4	7.4
2008	(5.0)	21.6	(10.1)	(5.6)	8.1	19.2	(20.7)	0.7	(29.1)	(31.9)	(4.9)	0.7	(53.3)
2009	9.0	(3.5)	4.0	21.2	9.0	14.1	11.5	9.0	19.1	1.2	4.1	3.7	160.6
2010	(8.5)	1.7	14.0	6.4	(1.6)								11.1

## Performance Analysis

	AlphaNorth Partners Fund	S&P/TSX Venture	S&P/TSX Composite
<b>Returns **</b>			
1 Month	(1.6%)	(9.5%)	(3.5%)
3 Month	19.4%	(1.1%)	1.9%
YTD	11.1%	(0.4%)	1.2%
1 Year	100.1%	34.7%	16.7%
2 Year	12.9%	(24.5%)	(7.7%)
Since Inception	45.1%	(44.7%)	(7.2%)
Avg. Monthly Return (Since Inception)	2.2%	(1.2%)	(0.1%)
Best Month	21.6%	11.4%	11.5%
Worst Month	(31.9%)	(35.3%)	(16.7%)
Advancing Months	66.7%	53.3%	53.3%
Current NNAV (Class A)	14.5073		

\*\*Returns are presented are for Class A shares on a compound annual return basis stated net of all fees except for since inception returns which are cumulative.

## Outlook

In May, equity markets experienced their most meaningful correction since the bull run began in the spring of 2009. We continue to forecast volatile markets over the summer months with no meaningful upside in the broader indices. Beyond this period, we see the potential for the bull run to extend its gains. There remains considerable skepticism for equities as evidenced by recent data from Bank of America Merrill Lynch which recently reported that flows into equity funds have been negative since January 2009 while fixed income flows have been in excess of \$300 billion. This is one of several data points which supports our view that retail investors remain underweight in equities and they will drive markets higher when they ultimately reallocate from fixed income investments offering trivial returns to equities in the longer term.

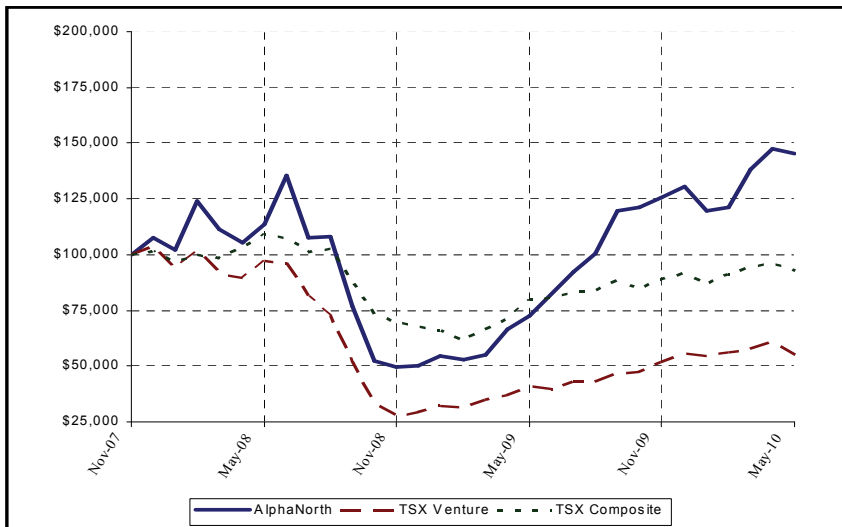
Despite the recent weakness, Canadian equity markets continue to be one of the best performing industrialized markets worldwide in 2010. The strength of our economic recovery was further demonstrated by the strong GDP showing of 6.1% in the last quarter. However, one of the biggest risks to this strong performance is the outlook for commodity stocks. The Canadian equity market is particularly vulnerable to weakness in commodities as over 50% of the index weighting is comprised of resource companies. Unlike the majority of Canadian alternative funds, which focus almost entirely on the resource sectors, we prefer to maintain a diversified portfolio which includes meaningful weightings in non-resource sectors. Going forward, this strategy should contribute to the Fund's strong track record and further set it apart from its peer group.

Regards,



Steven Palmer, CFA  
President and CEO

## Growth of Initial Investment (\$100,000)



## Terms

<b>Lead Manager:</b>	Steven Palmer
<b>Inception:</b>	December 1, 2007
<b>Minimum Investment:</b>	\$150,000
<b>Subsequent Investments:</b>	\$25,000
<b>Sub/Redemption:</b>	Monthly, 90 day notice
<b>Valuation:</b>	Monthly
<b>Lock-up:</b>	None
<b>Redemption Fee:</b>	Class A – none Class D – 3% in yr 1, 1.5% in yr 2
<b>High Water Mark:</b>	Yes (no reset)
<b>Management Fee:</b>	Class A 2%, Class D 2.5%
<b>Performance fee:</b>	20%
<b>Auditor:</b>	Deloitte
<b>Administration:</b>	Harmonic Fund Services
<b>Prime Broker:</b>	Scotia Capital

## Investment Strategy

The AlphaNorth Partners Fund (the "Fund") is a long biased small cap hedge fund focusing primarily on Canadian companies. The Fund's investment objective is to achieve industry leading long term capital growth through superior selection of principally Canadian securities. AlphaNorth believes that superior long term investment returns are achievable by exploiting inefficiencies in the Canadian small cap universe through careful security selection on both a long and short basis. The firm combines both a bottom-up and top-down strategy in the selection of investments offering the best risk/reward characteristics. AlphaNorth employs various technical analysis techniques, which have proven to be successful, to assist in the timing of buy/sell decisions.

## Company Profile

Founded in 2007, AlphaNorth Asset Management's goal is to achieve superior long term returns for investors. Our value added approach combines the successful track record and investment experience of Steven Palmer and Joey Javier who have worked together as a team since 1998 in the investment industry. Presently, AlphaNorth manages the AlphaNorth Partners Fund, a long biased small cap focused hedge fund and the AlphaNorth 2010 Flow-Through LP.

### Key Personnel:

**Steven Palmer** is the President, CEO and Director of AlphaNorth Asset Management. Mr. Palmer started his career in the investment industry in 1995 on the sell side of the business before transitioning to the buy side in 1997. Most recently, from July 1998 to August 2007 he was employed as Vice President - Canadian Equities at one of the world's largest financial institutions where he managed the Canadian equity assets of approximately \$350 million. Mr. Palmer managed a pooled fund focused on small capitalization companies from inception in 1998 to August 2007 achieving returns that were ranked #1 in performance by a major fund ranking service in their small cap pooled fund category (35.8% over 9 years as compared to 10.0 for the S&P/TSX Composite and 13.0% for the BMO Weighted Small Cap Total Return Index) over the same period. Mr. Palmer also managed a large cap fund which was ranked in the first quartile for the following time periods: one year, two year, 3 year, 4 year, 5 year and 10 year. Mr. Palmer earned a BA in Economics from the University of Western Ontario and is a CFA.

**Joey Javier** is Vice President, Secretary and a Director of AlphaNorth Asset Management. Mr. Javier started his career in the investment industry in 1997 as an Equity Trader for one of the world's largest financial institutions where he worked together with Mr. Palmer as the equity team. Mr. Javier was responsible for all equity and money market trading as well as back-up for the fixed income portfolio manager. Mr. Javier has a BA in Economics from York University.

## Disclaimer

*\*The information contained in this document is not a solicitation to sell any investment products offered by AlphaNorth Asset Management. The information contained herein is for discussion purposes only. Please refer to the Offering Memorandum for complete details of any investment products offered by AlphaNorth Asset Management. There is no guarantee of performance and past performance is not indicative of future results. Returns are presented for Class A shares on a compound annual basis and stated net of all fees. Returns subsequent to 2009 are unaudited. The inception date is December 1, 2007.*