

INTERIM FINANCIAL STATEMENTS OF NORREP SHORT TERM INCOME FUND



For the six months ended June 30, 2017

TO THE UNITHOLDERS OF NORREP SHORT TERM INCOME FUND.

These unaudited interim financial statements are as at June 30, 2017. The unaudited interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and include statements of financial position as at June 30, 2017 and December 31, 2016, statements of comprehensive income, changes in net assets attributable to unitholders, and cash flows for the six months ended June 30, 2017 and 2016; and notes to the interim financial statements, comprising a summary of significant accounting policies, schedule of investment portfolio and other explanatory information.

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund. The external auditors will be auditing the annual financial statements of the Fund prepared in accordance with IFRS.

We would be pleased to respond to any inquiries regarding this Fund.

Norrep Short Term Income Fund.
August 4, 2017

NORREP SHORT TERM INCOME FUND

Interim Statements of Financial Position
(unaudited)

(In Canadian dollars, except units outstanding and where noted)

As at	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	19,394,171	10,222,739
Dividends and interest receivable	862,371	1,069,640
Portfolio assets sold	4,558,400	3,124,647
Units issued	23,881	39,544
Unrealized gain on derivative instruments	1,021,480	-
Investments - long, at fair value through profit or loss	93,983,667	83,150,764
Total assets	119,843,970	97,607,334
Liabilities		
Accrued expenses (note 7)	97,500	100,800
Distributions payable	75,503	389,862
Portfolio assets purchased	14,422,924	467,021
Units redeemed	58,233	-
Unrealized loss on derivatives	37,039	1,381,039
Total Liabilities (excluding net assets attributable to holders of redeemable units)	14,691,199	2,338,722
Net assets attributable to holders of redeemable units	105,152,771	95,268,612
Net assets attributable to holders of redeemable units:		
Series A	17,651,295	17,553,725
Series F	18,476,505	18,979,943
Series I	63,416,273	50,941,647
Series A (H)	1,110,296	1,247,717
Series F (H)	4,498,402	6,545,580
Redeemable units outstanding (note 6):		
Series A	1,913,591	1,896,276
Series F	1,940,111	1,991,113
Series I	6,415,141	5,169,988
Series A (H)	101,488	110,085
Series F (H)	396,765	558,574
Net assets attributable to holders of redeemable units per unit:		
Series A	9.22	9.26
Series F	9.52	9.53
Series I	9.89	9.85
Series A (H)	10.94	11.33
Series F (H)	11.34	11.72
Series A (H) USD	8.42	8.45
Series F (H) USD	8.73	8.74

See accompanying notes to interim financial statements

On behalf of the Board of Directors of Norrep Capital Management Ltd.:



Alex Sasso



Keith Leslie

NORREP SHORT TERM INCOME FUND

Interim Statements of Comprehensive Income

Six months ended June 30, 2017 and 2016
(unaudited)

(In Canadian dollars)

	2017	2016
Dividend income	135,994	156,590
Interest for distribution purposes	2,284,066	2,953,236
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	1,642,818	(1,941,495)
Net realized (loss) gain on derivative instruments	(716,978)	4,154,819
Net change in unrealized depreciation in fair value of investments	(3,724,945)	(3,618,378)
Net change in unrealized appreciation on derivative instruments	2,365,480	146,578
Total investment revenue	1,986,435	1,851,350
Management fees (note 7)	201,668	277,504
Administrative fees (note 7)	59,864	72,200
Custodian and record keeping fees	29,856	26,847
HST/GST	26,304	33,517
Legal and filing fees	21,064	23,456
Audit and tax fees	19,434	10,141
Computer services	17,259	19,676
Transaction costs	15,212	12,428
Other	15,115	20,463
Independent review committee	4,248	6,009
Total operating expenses	410,024	502,241
Increase in net assets attributable to holders of redeemable units before tax	1,576,411	1,349,109
Withholding tax (recovery) expense	(21,409)	23,488
Increase in net assets attributable to holders of redeemable units	1,597,820	1,325,621
Change in net assets attributable to holders of redeemable units (note 6):		
Series A	273,159	350,329
Series F	335,292	164,098
Series I	1,128,762	1,135,775
Series O	-	154,222
Series A (H)	(16,004)	(310,236)
Series F (H)	(123,389)	(168,567)
Change in net assets attributable to holders of redeemable units per unit (note 6):		
Series A	0.15	0.14
Series F	0.18	0.08
Series I	0.22	0.26
Series O	-	0.18
Series A (H)	(0.15)	(0.53)
Series F (H)	(0.29)	(0.58)

See accompanying notes to interim financial statements

NORREP SHORT TERM INCOME FUND

Interim Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

Six months ended June 30, 2017 and 2016

(unaudited)

(In Canadian dollars)

	All Series		Series A		Series F		Series I	
	2017	2016	2017	2016	2017	2016	2017	2016
Net assets attributable to holders of redeemable units, beginning of period	95,268,612	118,002,301	17,553,725	25,882,828	18,979,943	31,452,644	50,941,647	41,513,439
Increase in net assets, attributable to holders of redeemable units	1,597,820	1,325,621	273,159	350,329	335,292	164,098	1,128,762	1,135,775
Transactions attributable to holders of redeemable units:								
Issuance of units	24,325,490	12,105,665	2,625,285	409,831	4,542,687	2,332,367	14,855,127	8,607,698
Reinvestment of distributions	1,357,642	1,578,516	275,791	376,217	255,801	329,421	737,663	693,321
Amounts paid on redemptions of redeemable units	(15,597,375)	(32,437,015)	(2,741,459)	(5,793,045)	(5,291,063)	(16,112,002)	(3,242,633)	(764,486)
	10,085,757	(18,752,834)	159,617	(5,006,997)	(492,575)	(13,450,214)	12,350,157	8,536,533
Distributions declared	(1,799,418)	(2,021,060)	(335,206)	(437,599)	(346,155)	(413,740)	(1,004,293)	(868,607)
Net assets attributable to holders of redeemable units, end of period	105,152,771	98,554,028	17,651,295	20,788,561	18,476,505	17,752,788	63,416,273	50,317,140
Distributions per unit to holders of redeemable units			0.18	0.18	0.19	0.19	0.19	0.19

	Series O		Series A (H)		Series F (H)	
	2017	2016	2017	2016	2017	2016
Net assets attributable to holders of redeemable units, beginning of period	-	8,562,089	1,247,717	6,733,786	6,545,580	3,857,515
Increase (decrease) in net assets, attributable to holders of redeemable units	-	154,222	(16,004)	(310,236)	(123,389)	(168,567)
Transactions attributable to holders of redeemable units:						
Issuance of units	-	-	91,761	513,347	2,210,630	242,422
Reinvestment of distributions	-	-	20,519	119,826	67,868	59,731
Amounts paid on redemptions of redeemable units	-	(8,603,734)	(211,196)	(248,903)	(4,111,024)	(914,845)
	-	(8,603,734)	(98,916)	384,270	(1,832,526)	(612,692)
Distributions declared	-	(112,577)	(22,501)	(125,025)	(91,263)	(63,512)
Net assets attributable to holders of redeemable units, end of period	-	-	1,110,296	6,682,795	4,498,402	3,012,744
Distributions per unit to holders of redeemable units	-	0.13	0.22	0.21	0.22	0.22

See accompanying notes to interim financial statements.

NORREP SHORT TERM INCOME FUND

Interim Statements of Cash Flows

Six months ended June 30, 2017 and 2016
(unaudited)

(In Canadian dollars)

	2017	2016
Cash flows from (used in) operating activities		
Increase in net assets attributable to holders of redeemable units	1,597,820	1,325,621
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit or loss	(1,642,818)	1,941,495
Net change in unrealized depreciation of investments at fair value through profit or loss	3,724,945	3,618,378
Net change in unrealized appreciation on derivative instruments	(2,365,480)	(146,578)
Purchase of investments	(35,072,627)	(21,450,475)
Proceeds from the sale and maturity of investments	34,621,923	30,430,599
Dividends and interest receivable	207,269	238,304
Accrued expenses	(3,300)	(11,000)
Net cash from operating activities	1,067,732	15,946,344
Cash flows from (used in) financing activities		
Proceeds from the issuance of redeemable units	24,341,153	12,129,511
Amounts paid on redemption of redeemable units	(15,539,142)	(30,891,803)
Dividends to holders of redeemable units	(756,135)	(840,824)
Net cash from (used in) financing activities	8,045,876	(19,603,116)
Net increase (decrease) in cash and cash equivalents	9,113,608	(3,656,772)
Effect of exchange rates on cash and cash equivalents	57,824	(141,816)
Cash and cash equivalents at beginning of period	10,222,739	11,845,603
Cash and cash equivalents at end of period	19,394,171	8,047,015
Dividends received, net of withholding tax paid	165,363	133,102
Interest received, net of withholding tax paid	2,483,375	3,103,902

See accompanying notes to interim financial statements.

NORREP SHORT TERM INCOME FUND

Schedule of Investment Portfolio

As at June 30, 2017
(unaudited)

(in Canadian dollars)

Description	Number of Shares /		Fair Value (\$)	% of Net Assets
	Par Value	Cost (\$)		
CANADIAN BONDS - LONG (Par Value in CAD except as otherwise stated)				
Canada Other Corporate				
Brookfield Residential Properties Inc., Callable, 6.125%, 2023/05/15	1,400,000	1,400,000	1,446,200	
Canadian Energy Services & Technology Corp., Callable, 7.375%, 2020/04/17	2,500,000	2,645,524	2,597,917	
Canbriam Energy Inc., Callable, 9.750%, 2019/11/15 (Par Value in USD)	2,000,000	2,771,801	2,689,023	
DHX Media Ltd., Restricted, Callable, 5.875%, 2021/12/02	3,000,000	3,016,250	3,186,500	
Exchange Income Corp., Convertible Bonds, Callable, 5.500%, 2019/09/30	1,000,000	1,015,000	1,021,045	
Exchange Income Corp., Convertible Bonds, Callable, 5.350%, 2020/03/31	886,000	906,706	912,105	
Gibson Energy Inc., Callable, 6.750%, 2021/07/15 (Par Value in USD)	495,000	635,030	667,401	
Great Canadian Gaming Corp., Callable, 6.625%, 2022/07/25	3,000,000	3,127,000	3,118,000	
Iron Mountain Canada Operations ULC, Callable, 6.125%, 2021/08/15	2,509,000	2,603,974	2,607,269	
Lundin Mining Corp., Callable, 7.500%, 2020/11/01 (Par Value in USD)	1,550,000	1,768,774	2,121,485	
Mattamy Group Corp., Callable, 6.500%, 2020/11/15 (Par Value in USD)	1,000,000	1,325,850	1,327,921	
Mattamy Group Corp., Callable, 6.875%, 2020/11/15	2,000,000	2,065,000	2,054,583	
Parkland Fuel Corp., Callable, 5.500%, 2021/05/28	2,000,000	2,085,000	2,066,250	
River Cree Enterprises Ltd., Callable, 11.000%, 2021/01/20	3,119,000	3,220,232	3,267,680	
Timbercreek Financial Corp., Convertible Bonds, Callable, 6.350%, 2019/03/31	1,000,000	1,021,244	1,018,750	
Wajax Corp., Restricted, Callable, 6.125%, 2020/10/23	2,000,000	2,070,000	2,066,250	
TOTAL CANADIAN BONDS		31,677,385	32,168,379	30.6%
UNITED STATES BONDS - LONG (Par Value in USD)				
Alliance Data Systems Corp., Callable, 6.375%, 2020/04/01	2,000,000	2,667,757	2,639,608	
Bluescope Steel (Finance) Ltd., Callable, 6.500%, 2021/05/15	2,000,000	2,785,437	2,741,997	
Cemex Finance LLC, Callable, 9.375%, 2022/10/12	1,000,000	1,431,141	1,383,115	
Dean Foods Co., Callable, 6.500%, 2023/03/15	815,000	1,176,959	1,119,301	
HRG Group Inc., Callable, 7.875%, 2019/07/15	695,000	974,275	925,387	
NCR Corp., Callable, 6.375%, 2023/12/15	1,300,000	1,757,538	1,817,043	
Northgroup Preferred Capital Corp., Variable Rate, Callable, 6.378%, 2049/01/29	1,000,000	1,332,623	1,288,960	
Real Alloy Holding Inc., Callable, 10.000%, 2019/01/15	1,000,000	1,364,667	1,262,986	
		13,490,397	13,178,397	12.5%
Exchange Traded Funds				
iShares iBoxx \$ High Yield Corporate Bond ETF	27,200	3,093,494	3,122,345	
SPDR Bloomberg Barclays Short Term High Yield Bond ETF	73,500	2,710,973	2,669,861	
		5,804,467	5,792,206	5.5%
TOTAL UNITED STATES BONDS		19,294,864	18,970,603	18.0%
TOTAL BONDS		50,972,249	51,138,982	48.6%

NORREP SHORT TERM INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2017
(unaudited)

(in Canadian dollars)

Description	Number of Shares /		Fair Value (\$)	% of Net Assets
	Par Value	Cost (\$)		
CANADIAN TERM LOANS (Par Value in CAD except as otherwise stated)				
Gateway Casinos & Entertainment Ltd., Term Loans, 5.000%, 2023/02/22	2,000,000	1,990,000	2,000,000	
DHX Media Ltd., Term Loans, 3.750%, 2021/05/10 (Par Value in USD)	2,000,000	2,632,173	2,605,530	
TOTAL CANADIAN TERM LOANS		4,622,173	4,605,530	4.4%
UNITED STATES TERM LOANS (Par Value in USD)				
Atkins Nutritional Holdings Inc., Term Loans, 4.000%, 2024/06/21	500,000	658,043	650,973	
Berlin Packaging LLC, Term Loans, 4.298%, 2021/10/01	1,945,891	2,206,024	2,531,071	
Blue Ribbon LLC, Term Loans, 5.145%, 2021/11/15	2,721,875	3,117,287	3,443,204	
Bob's Discount Furniture Inc., Term Loans, 5.795%, 2021/02/12	2,425,000	2,651,268	3,070,614	
Canam Group Inc., Term Loans, 5.500%, 2024/06/29	1,000,000	1,259,739	1,259,739	
Confie Seguros Holding II Co., Term Loans, 6.545%, 2022/04/19	1,990,000	2,626,537	2,548,335	
Consolidated Container Co. LLC, Term Loans, 4.545%, 2024/05/10	2,000,000	2,675,315	2,607,686	
DTZ US Borrower LLC, Term Loans, 4.440%, 2021/11/04	2,445,075	3,183,628	3,169,068	
Equian LLC, Term Loans, 3.750%, 2024/05/15, Delayed Draw	29,560	40,165	38,653	
Equian LLC, Term Loans, 3.750%, 2024/05/15	191,176	258,510	249,989	
Fairpoint Communications Inc., Term Loans, 7.500%, 2019/02/14	1,237,113	1,592,593	1,606,977	
LANDesk Group Inc., Term Loans, 5.300%, 2020/12/31	997,643	1,323,407	1,286,738	
Mergermarket USA, Term Loans, 7.584%, 2021/01/29	1,422,575	1,883,992	1,845,189	
MWI Holdings Inc., Term Loans, 6.647%, 2020/06/23	742,500	937,662	966,695	
Packers Holdings LLC, Term Loans, 4.551%, 2021/12/02	2,437,828	2,800,154	3,173,922	
SiteOne Landscape Supply Holding LLC, Term Loans, 4.760%, 2022/04/29	987,550	1,236,660	1,290,547	
Travel Leaders Group LLC, Term Loans, 6.295%, 2024/01/19	1,496,250	1,997,351	1,950,467	
Vencore Inc., Term Loans, 5.897%, 2019/11/14	1,477,259	1,631,813	1,927,303	
		32,080,148	33,617,170	32.0%
Exchange Traded Funds				
PowerShares Senior Loan Portfolio	153,800	4,760,158	4,621,985	
		4,760,158	4,621,985	4.4%
TOTAL UNITED STATES TERM LOANS		36,840,306	38,239,155	36.4%
TOTAL TERM LOANS		41,462,479	42,844,685	40.8%
Less: Transaction costs included in average cost		(3,172)		
TOTAL INVESTMENTS		92,431,556	93,983,667	89.4%
Derivative Assets, less liabilities			984,441	0.9%
Other assets, less liabilities			10,184,663	9.7%
TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			105,152,771	100.0%

NORREP SHORT TERM INCOME FUND

Schedule of Derivative Investments – Forward Foreign Currency Contracts

As at June 30, 2017
(unaudited)

Counterparty	Credit Rating	Settlement Date	Currency to be Delivered	Fair Value in Cdn Dollars	Currency to be Received	Contract Price	Unrealized Gain
Bank of Nova Scotia	A-1	July 17, 2017	47,082,000 USD	61,130,327	62,151,536 CAD	1.3201	1,021,209
Bank of Nova Scotia	A-1	July 17, 2017	1,449,597 USD	1,882,128	1,882,399 CAD	1.2986	271
Unrealized Gain							1,021,480

Counterparty	Credit Rating	Settlement Date	Currency to be Delivered	Fair Value in Cdn Dollars	Currency to be Received	Contract Price	Unrealized loss
Bank of Nova Scotia	A-1	July 17, 2017	2,182,000 CAD	2,144,961	1,652,029 USD	0.7571	(37,039)

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

1. Reporting Entity:

Norrep Short Term Income Fund (the “Fund”) is an open-ended mutual fund trust established under the laws of Alberta pursuant to a Declaration of Trust dated August 16, 2011, as amended April 14, 2014, June 26, 2015 and September 9, 2016. The Fund’s principal place of business is Suite 1100, 606 - 4th Street SW, Calgary, Alberta, T2P 1T1.

The Fund may issue an unlimited number of units. Each unit represents an equal undivided interest in the net assets of the Fund; however, the value of a Trust Unit in one Class may differ from the value of a Trust Unit in another Class, depending on the Net Asset Value of that particular Class.

Norrep Capital Management Ltd. (“Manager and Portfolio Manager”) provides investment management services and manages the day-to-day operation of the Fund. TMX Group is the trustee, CIBC Mellon Trust Company (“CIBC Mellon”) is the custodian of the Fund and Norrep Investment Management Group Inc. (“Norrep”) is the Sponsor of the Fund.

2. Basis of preparation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Fund’s significant accounting policies under IFRS are presented in note 3. These policies have been applied consistently to all periods presented.

These interim financial statements have also been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting.

The financial statements of the Fund were approved and were authorized for issue by the Manager’s Board of Directors on August 4, 2017.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for investments at fair value through profit or loss and derivative instruments which are measured at fair value.

(c) Functional and presentation currency:

The financial statements are presented in Canadian dollars, which is the Fund’s functional currency, and all values are rounded to the nearest dollar except where otherwise indicated.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

2. Basis of preparation (continued):

(d) Use of judgements and estimates:

These financial statements include estimates and assumptions made by management that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and gains and losses during the reporting period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant estimates include the valuation of investments and investment income accruals.

Functional currency is the currency of the primary economic environment in which the Fund operates and requires judgement. If indicators of the primary environment are mixed, then management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. All of the Fund's operating expenses are denominated in Canadian dollars. Investments are a mixture of Canadian and United States securities. Investor subscriptions and redemptions for the Series A, Series F, Series I, and Series O are all in Canadian dollars. Investor subscriptions and redemptions for the Series A (H) and Series F (H) are in U.S. dollars. Although Series A (H) and Series F (H) are denominated in U.S. dollars for investor subscriptions and redemptions, the Series are meant to replicate the Series A and Series F, respectively. The Fund's NAV is calculated in Canadian dollars with the NAV per unit for the Series A (H) and Series F (H) being converted to USD after the Canadian NAV per unit is calculated. Accordingly, management has determined that the functional currency of the Fund is Canadian dollars.

3. Significant accounting policies:

The Fund has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Financial assets and financial liabilities:

(i) Recognition and initial measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they originated.

Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value, with transaction costs recognized in profit or loss.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

3. Significant accounting policies (continued):

(a) Financial assets and financial liabilities (continued):

(ii) Classification

The Fund classifies financial assets and financial liabilities into the following categories.

Financial assets at fair value through profit or loss:

- Held for trading: derivatives
- Designated at fair value through profit and loss: all investments

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents, receivables and units issued

Financial liabilities at amortised cost:

- Other liabilities: all liabilities other than unrealized loss on derivative instruments, which are designated at fair value through profit or loss

A financial instrument is classified as held for trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio that is managed together and for which there is evidence of a recent pattern of short-term profit taking; or
- it is a derivative, other than a designated and effective hedging instrument.

The Fund designates all debt and equity investments at fair value through profit or loss on initial recognition because it manages these securities on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these securities is on a fair value basis.

(iii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at last traded price.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

3. Significant accounting policies (continued):

(a) Financial assets and financial liabilities (continued):

(iii) Fair value measurement (continued)

For securities where market quotes are not available, the Fund values the initial investment at the amount paid. After initial investment, the Fund uses estimation techniques to determine fair value including observable market data, discounted cash flows and internal models that compare the investments to its peer group.

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

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

Fair value of investments in bonds, asset-backed securities and secured loans represents a price that may fall between the last bid and ask price provided by an independent security pricing service, depending on which service provider is used.

There is no difference between pricing NAV and accounting NAV.

(iv) Amortized cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at recognition, minus principal repayments (if applicable), plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount (if applicable), minus any reduction for impairment (if applicable).

(v) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments, other than cash collateral provided in respect of derivatives and securities borrowing transactions.

Redeemable units

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

3. Significant accounting policies (continued):

(a) Financial assets and financial liabilities (continued):

(v) Specific instruments (continued):

Redeemable units (continued)

The Fund has multiple classes of redeemable units that do not have identical features and therefore, do not qualify as equity under IAS 32, Financial Instruments. The redeemable units, which are classified as financial liabilities and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund's valuation policies at each redemption date. The units represent the residual interest in the Fund.

For U.S. dollar pricing, net asset values are calculated by converting the Canadian dollar net asset value per unit to the U.S. dollar equivalent using the then current rate of exchange.

(b) Interest for distribution purposes:

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis and is recognized through profit or loss. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities.

(c) Dividend income and dividend expense:

Dividend income is recognized in profit or loss on the date on which the right to receive payment is established. This is usually the ex-dividend date.

(d) Distributions to holders of redeemable units:

Any distribution made will be in proportion to the number of units held by each unitholder.

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

(e) Net gain (loss) from financial instruments at fair value through profit or loss:

Net unrealized/realized gain/loss from financial instruments at fair value through profit or loss is calculated using the average cost method.

Average cost does not include amortization of premiums or discounts on fixed income securities.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

3. Significant accounting policies (continued):

(f) Income tax:

As at June 30, 2017 the Fund was a “mutual fund trust” under the Income Tax Act (Canada) and, accordingly, is not taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund pays out sufficient net income and net realized capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made in these financial statements.

However, certain dividend and interest income received by the Fund is subject to withholding tax imposed in certain countries of origin. Income that is subject to such tax is recognized gross of the taxes and the corresponding withholding tax is recognized as a tax expense. The Fund recovered withholding tax of \$21,409 (2016 expense - \$23,488) for the six months ended June 30, 2017.

(g) Increase (decrease) in net assets attributable to holders of redeemable units:

Increase (decrease) in net assets attributable to unitholders per unit is calculated as increase (decrease) in net assets attributable to unitholders, divided by the weighted average units outstanding during the period.

(h) Translation of foreign currency:

Foreign currency amounts are expressed in Canadian dollars as follows:

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

Foreign currency differences are recognized as a component of net gain/loss from financial instruments at fair value through profit or loss.

(i) Derivative financial instruments:

The Fund may use derivative financial instruments to reduce their exposure to fluctuations in foreign currency exchange rates. Derivative financial instruments are recorded at mark to market with changes in fair value recorded in the statement of comprehensive income.

(j) Future accounting pronouncements:

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 (2010) introduces new additions relating to financial liabilities. In July 2014 new requirements were added to address the impairment of financial assets.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

3. Significant accounting policies (continued):

(j) Future accounting pronouncements (continued):

The mandatory effective date of IFRS 9 for the Fund is for the fiscal year beginning January 1, 2018.

Based on the initial assessment of the Manager, the standard is not expected to have a material impact on the Fund.

4. Fair value measurement:

(a) Investments

The fair values of financial assets and financial liabilities that are traded on active markets are based on quoted market prices. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

A three-tier hierarchy is used as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Inputs that are quoted prices (unadjusted) in active markets for identical instruments (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for instruments, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Inputs for the instruments that are not based on observable market data (unobservable inputs) (Level 3). This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on the quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change occurred.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

4. Fair value measurement (continued):

(b) Fair value hierarchy – Financial instruments measured at fair value

The tables below analyze investments measured at fair value at June 30, 2017 and December 31, 2016 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position. All derivative fair values in the statement of financial position are classified as level 2.

<i>(in Canadian dollars)</i>	(Level 1)	(Level 2)	(Level 3)	Total
June 30, 2017				
Public securities				
Bonds/Secured Loans	10,414,191	83,569,476	–	93,983,667
Unrealized gain on derivative instruments	–	1,021,480	–	1,021,480
Unrealized loss on derivative instruments	–	(37,039)	–	(37,039)
Total investments	10,414,191	84,553,917	–	94,968,108
December 31, 2016				
Public securities				
Bonds/Secured Loans	6,734,968	76,415,796	–	83,150,764
Unrealized loss on derivative instruments	–	(1,381,039)	–	(1,381,039)
Total investments	6,734,968	75,034,757	–	81,769,725

There were no transfers between the levels for the six months ended June 30, 2017 and year ended December 31, 2016.

(c) Financial instruments not measured at fair value

The carrying values of cash and cash equivalents, dividends and interest receivable, accrued expenses, other receivables and payables approximate their fair values due to their short term nature.

5. Financial instruments and associated risks:

The Fund's activities expose it to a variety of risks associated with financial instruments as follows: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Fund's overall risk management program seeks to maximize the returns for the level of

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

5. Financial instruments and associated risks (continued):

risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments result in a risk of loss of capital.

Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of bonds and secured loans as presented on the statement of investment portfolios represents the maximum credit risk exposure as at June 30, 2017. This also applies to cash and cash equivalents and receivables as they have a short-term settlement.

A portion of the Fund's portfolio may consist of instruments that have a credit quality rated below investment grade by internationally recognized credit rating organizations or may be unrated. These securities involve significant risk exposure as there is uncertainty regarding the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Low rated and unrated debt instruments generally offer a higher current yield than that available from higher grade issuers, but typically involve greater risk.

As at June 30, 2017 and December 31, 2019, the Fund was invested in debt securities with the following credit rating:

Debt Security by Credit Rating	% of Net Assets	
	2016	2016
BBB	1.2%	2.1%
BB	23.3%	20.4%
B	52.6%	56.2%
Unrated (includes Exchange Traded Funds)	12.3%	8.5%
Cash and other	10.6%	12.8%
	100.0%	100.0%

Credit risk arising on transactions for units purchased and portfolio assets sold relates to transactions awaiting settlement, also known as settlement risk.

'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

For the majority of the transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Also, legal entitlement will not pass until all monies have been received for the units purchased or the portfolio assets sold. If either party does not meet its obligation then the transaction will fail.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

5. Financial instruments and associated risks (continued):

Credit risk (continued):

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

Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

The Fund is exposed to daily cash redemptions of redeemable units. The Fund's investments may include unlisted equity and debt instruments which are not traded on an organized public market and which may be illiquid. As a result, the Fund may not be able to quickly liquidate some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements. The Fund believes it maintains sufficient cash and cash equivalent positions to maintain liquidity.

The Fund's liquidity risk is managed on a daily basis by the Portfolio Manager. Minimum cash balances will be required to be maintained in the Fund at the discretion of the Portfolio Manager to allow for monies to cover redemptions. At June 30, 2017 the Fund had a cash balance equal to 18% (December 31, 2016 - 11%) of the net assets. The Fund's redemption policy allows for redemptions at any time during any given month. In certain circumstances, the Fund is required to settle the transaction by trade day plus two days.

The Fund is subject to regulatory requirements whereby the Fund shall not purchase an illiquid asset if, immediately after the purchase, more than ten percent of the net assets of the Fund, taken at market value at the time of purchase, would consist of illiquid assets. Residual contractual maturities of financial liabilities are all due on demand.

Market risk:

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

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund is designed to provide holders of the units with capital preservation and a highly liquid portfolio comprised primarily of government and corporate debt securities targeting a level of income consistent with investments in short-term fixed income securities. The portfolio may consist of all types of debt obligations of issuers that may or may not be listed for trading upon the facilities of stock exchanges or other organized and regulated trading facilities. Assets of

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

5. Financial instruments and associated risks (continued):

Market risk (continued):

the Fund may also be invested in equity or equity-like securities or held in cash to the extent that economic, market or other conditions make it appropriate.

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

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

Details of the nature of the Fund's investment portfolio at June 30, 2017 are disclosed in the schedule of investment portfolio.

(a) Currency risk:

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than the Canadian dollar. Consequently, the Funds are exposed to risks that the exchange rate of the Canadian dollar to other foreign currencies may fluctuate.

The Fund uses forward contracts to hedge a portion of the Fund's foreign exchange risk.

At the reporting date the Fund had 6.8% (December 31, 2016 – 8.3%) of its net asset value in U.S. currency.

Sensitivity Analysis:

At June 30, 2017, had the Canadian dollar strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to the holders of redeemable units and the change in net assets attributable to holders of redeemable units would have increased or decreased by \$71,546 (December 31, 2015 - \$79,386). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(b) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing market interest rates.

High yield corporate bond prices are impacted by the credit metrics, liquidity and business fundamentals of the corporate entity with a minimal correlation to interest rates. Thus, the high yield corporate bonds held in the Fund are empirically correlated with the related stock indices for those corporate investments. The table below summarizes the Fund's exposure to

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

5. Financial instruments and associated risks (continued):

Market risk (continued):

(b) Interest rate risk (continued):

interest rate risks. It includes the Fund's assets at fair values, categorized by the maturity dates.

	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
As at December 31, 2016					

All amounts stated in Canadian dollars

Corporate bonds/Secured loans	10,414,191	17,567,796	44,466,023	21,535,657	93,983,667
-------------------------------	------------	------------	------------	------------	------------

	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
As at December 31, 2016					

All amounts stated in Canadian dollars

Corporate bonds/Secured loans	8,929,076	9,419,673	54,048,261	10,753,754	83,150,764
-------------------------------	-----------	-----------	------------	------------	------------

(c) Other price risk:

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

Price risk is managed by the Fund's Portfolio Manager by constructing a diverse portfolio of securities. The price of a security is affected by individual company developments and by general economic and financial conditions in those industries and countries where the issuer of the security is located, does business or where the security, if applicable, is listed for trading. Certain securities are not listed on any prescribed stock exchange and thus a liquid market for resale may not exist.

The Portfolio Manager will monitor these factors daily and make decisions regarding the portfolio based on their knowledge of the market conditions and diversify the portfolio of investments accordingly. The risk resulting from financial instruments is equivalent to their fair value.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

5. Financial instruments and associated risks (continued):

Market risk (continued):

(c) Other price risk (continued):

The Fund will primarily invest in government and corporate debt securities of varying types. The following table details the breakdown of the investment assets and liabilities held by the Fund as at June 30, 2017 and December 31, 2016:

	% of Net Assets	
	2017	2016
Investments:		
Over-the-counter debt instruments	79.5%	80.1%
Exchange traded funds	9.9%	7.1%

Sensitivity analysis:

A 1% increase or decrease in the Blended Index: FTSE TMX Short Term Bond Index (50%), Credit Suisse Leveraged Loan Index (30%) and the Merrill Lynch High Yield Canadian Issuer's Index (20%) at June 30, 2017 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by approximately \$939,837 (December 31, 2016 - \$831,508).

The Fund's investments exposed to other price risk were concentrated in the following industries at June 30, 2017 and December 31, 2016:

	2017	2016
Bonds and Secured Loans	100.0%	100.0%

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

6. Redeemable units:

The authorized capital of the Fund consists of an unlimited number of units, each representing an equal undivided interest in the net assets of the Fund. Currently, there are five series outstanding, Series A, Series A (H), Series F, Series F (H), and Series I. Series O ceased operations on May 20, 2016. Each series ranks equally with respect to dividends and return of capital in the event of liquidation, dissolution or winding up based on their respective series' net asset values. Each series pays its own fees and expenses. The general expenses that are not series specific are allocated in proportion to the annual weighted average units of each series. Series A and Series A (H) are sold under the front end sales charge option. A commission ranging from 0% to 5% is paid by the investor to the dealer with a 2% redemption fee being charged if the units are redeemed in the first 30 days.

On July 4, 2017, the MF Series and MF(H) Series were renamed as Series A and Series A(H), respectively.

Series F and Series F (H) are sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. A 2% redemption fee is charged if the Series F or Series F (H) is redeemed in the first 30 days.

Series O and Series I units are sold without commission and are available to certain investors at the Portfolio Manager's discretion. A 2% redemption fee is charged if the units are redeemed in the first 30 days.

Series A (H) and Series F (H) units are offered for purchase in U.S. dollars only.

The rights attached to the redeemable units are as follows:

- The units may be redeemed daily at the net asset value per unit of the respective series;
- Redeemable units carry a right to receive notice of, attend and vote at meetings called in accordance with the Declaration of Trust; and
- The holders of redeemable units are entitled to receive all distributions declared by the Fund. Each series will rank equally with respect to the distributions based on their respective series net asset values. Distributions paid in cash will be paid in the currency in which the investor bought the units.

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

6. Redeemable units (continued):

The analysis of movements in the number of redeemable units and net assets attributable to holders of redeemable units during the six months ended June 30, 2017 and 2016 was as follows:

Series A	2017	2016
Balance, opening	1,896,276	2,791,683
Issued on distributions reinvested	29,816	41,113
Issued for cash	283,212	44,458
Redeemed for cash	(295,713)	(634,466)
Balance, June 30	1,913,591	2,242,788

Series F	2017	2016
Balance, opening	1,991,113	3,311,860
Issued on distributions reinvested	26,817	35,116
Issued for cash	475,334	248,146
Redeemed for cash	(553,153)	(1,730,279)
Balance, June 30	1,940,111	1,864,843

Series I	2017	2016
Balance, opening	5,169,988	4,264,327
Issued on distributions reinvested	74,630	71,831
Issued for cash	1,498,281	879,512
Redeemed for cash	(327,758)	(80,743)
Balance, June 30	6,415,141	5,134,927

Series O	2017	2016
Balance, opening	–	879,512
Issued on distributions reinvested	–	–
Issued for cash	–	–
Redeemed for cash	–	(879,512)
Balance, June 30	–	–

Series A (H)	2017	2016
Balance, opening	110,085	572,914
Issued on distributions reinvested	1,827	10,875
Issued for cash	8,251	46,923
Redeemed for cash	(18,675)	(22,415)
Balance, June 30	101,488	608,297

Series F (H)	2017	2016
Balance, opening	558,574	319,060
Issued on distributions reinvested	5,845	5,259
Issued for cash	187,831	20,189
Redeemed for cash	(355,485)	(78,584)
Balance, June 30	396,765	265,924

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

6. Redeemable units (continued):

The calculation of the increase (decrease) in net assets attributable to holders of redeemable units per unit is presented below. Due to rounding, numbers presented may not calculate precisely and may not reflect the absolute figures.

Series A	2017	2016
Increase in net assets attributable to holders of redeemable units	273,159	350,329
Average units outstanding during the period	1,864,466	2,475,225
Increase in net assets attributable to holders of redeemable units per unit	0.15	0.14
Series F	2017	2016
Increase in net assets attributable to holders of redeemable units	335,292	164,098
Average units outstanding during the period	1,881,589	2,339,953
Increase in net assets attributable to holders of redeemable units per unit	0.18	0.08
Series I	2017	2016
Increase in net assets attributable to holders of redeemable units	1,128,762	1,135,775
Average units outstanding during the period	5,170,041	4,436,967
Increase in net assets attributable to holders of redeemable units per unit	0.22	0.26
Series O	2017	2016
Increase in net assets attributable to holders of redeemable units	–	154,222
Average units outstanding during the period	–	879,512
Increase in net assets attributable to holders of redeemable units per unit	–	0.18
Series A (H)	2017	2016
Decrease in net assets attributable to holders of redeemable units	(16,004)	(310,236)
Average units outstanding during the period	106,186	583,862
Decrease in net assets attributable to holders of redeemable units per unit	(0.15)	(0.53)
Series F (H)	2017	2016
Decrease in net assets attributable to holders of redeemable units	(123,389)	(168,567)
Average units outstanding during the period	432,644	291,527
Decrease in net assets attributable to holders of redeemable units per unit	(0.29)	(0.58)

NORREP SHORT TERM INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

7. Management fees, expenses and key contracts:

(a) Manager and management fees:

The Series A and Series A (H) paid an annual management fee to the Manager of 1.25% of the net asset value of the series. Series F and Series F (H) paid an annual management fee to the Manager of 0.75% of the net asset value of the series. The management fee is calculated and paid monthly. Included in accrued expenses at June 30, 2017 is \$34,220 (December 31, 2016 - \$35,340) related to these fees. No management fee is charged to the Series I. Instead, the investors pay a management fee directly to the Manager in an amount determined through negotiation with the Manager. No management fee was charged to the Series O since it was owned entirely by other funds within the Norrep Group of Funds.

(b) Expenses:

All fees and expenses applicable to the administration and operation of the Fund, including recordkeeping and communication costs, custodian fees, legal and filing fees, audit, applicable taxes and bank charges are payable by the Fund. The Manager has charged the Fund for administration services. As at June 30, 2017 \$10,505 (December 31, 2016 - \$10,372) is included in accrued expenses.

8. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$2,437 (June 30, 2016 - \$2,737) in connection with portfolio transactions during the period.



Norrep Capital Management Ltd.
1100,606 4 Street SW
Calgary, Alberta T2P 1T1
www.norrep.com
1.877.431.1407