

# INTERIM FINANCIAL STATEMENTS OF NORREP MARKET NEUTRAL INCOME FUND



TO THE UNITHOLDERS OF NORREP MARKET NEUTRAL INCOME FUND.

These unaudited interim financial statements are as at June 30, 2016. 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, 2016 and December 31, 2015, statements of comprehensive income, changes in net assets attributable to unitholders, and cash flows for the six months ended June 30, 2016 and 2015; 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 Market Neutral Income Fund.  
August 8, 2016

# NORREP MARKET NEUTRAL INCOME FUND

Interim Statements of Financial Position  
(unaudited)

*(in Canadian dollars, except units outstanding)*

As at	June 30, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	418,723	-
Dividends and interest receivable	1,417,691	1,750,315
Portfolio assets sold	10,597,541	7,649,548
Units issued	761,011	111,500
Investments - long, at fair value through profit or loss	221,342,936	240,078,437
Total assets	234,537,902	249,589,800
<b>Liabilities</b>		
Accrued expenses (note 8)	220,001	224,600
Bank overdraft	-	518,012
Dividends payable	694,713	973,913
Dividends payable on investments sold short	337,460	363,265
Portfolio assets purchased	10,100,938	7,767,027
Units redeemed	1,199,434	1,028,614
Investments - short, at fair value through profit or loss	112,192,833	119,829,637
Total Liabilities (excluding net assets attributable to holders of redeemable units)	124,745,379	130,705,068
Net assets attributable to holders of redeemable units	109,792,523	118,884,732
Net assets attributable to holders of redeemable units:		
Class A	21,884,448	22,456,880
Class F	87,908,075	96,427,852
Redeemable units outstanding (note 6):		
Class A	2,133,177	2,100,022
Class F	8,079,199	8,550,065
Net assets attributable to holders of redeemable units per unit (note 7):		
Class A	10.26	10.69
Class F	10.88	11.28

See accompanying notes to interim financial statements.

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



Keith Leslie



Alex Sasso

# NORREP MARKET NEUTRAL INCOME FUND

Interim Statements of Comprehensive (Loss) Income

Six months ended June 30, 2016 and 2015  
(unaudited)

*(in Canadian dollars)*

	2016	2015
Dividend income	1,558,991	1,947,483
Interest for distribution purposes	2,579,036	2,657,063
Net gain (loss) on investments at fair value through profit or loss		
Net realized (loss) gain on investments	(5,136,724)	2,201,924
Net change in unrealized appreciation in fair value of investments	2,493,227	1,373,045
Total investment income	1,494,530	8,179,515
Dividend expense on investments sold short	1,483,515	1,986,068
Management fees (note 8)	628,350	685,084
Transaction costs	377,604	373,760
Risk management fees	348,317	388,334
Administrative fees (note 8)	80,348	59,273
HST/GST	48,492	88,653
Custodian and record keeping fees	36,069	35,824
Computer services	21,645	22,320
Other expense (recoveries)	20,403	(2,177)
Audit and tax fees	7,963	4,439
Interest and borrowing costs	6,843	8,827
Independent review committee	6,667	5,538
Legal and filing fees	4,716	10,834
Performance bonus (note 8)	-	628,658
Total operating expenses	3,070,932	4,295,435
(Decrease) increase in net assets attributable to holders of redeemable shares before tax	(1,576,402)	3,884,080
Withholding tax expense	13,570	-
(Decrease) increase in net assets attributable to holders of redeemable units	(1,589,972)	3,884,080
Change in net assets attributable to holders of redeemable units:		
Class A	(420,044)	765,097
Class F	(1,169,928)	3,118,983
Change in net assets attributable to holders of redeemable units per unit:		
Class A	(0.20)	0.31
Class F	(0.13)	0.38

See accompanying notes to interim financial statements.

# NORREP MARKET NEUTRAL INCOME FUND

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

Six months ended June 30, 2016 and 2015  
(unaudited)

(in Canadian dollars)

	All Series		Class A		Class F	
	2016	2015	2016	2015	2016	2015
Net assets attributable to holders of redeemable units, beginning of period	118,884,732	119,390,125	22,456,880	27,489,888	96,427,852	91,900,237
(Decrease) increase in net assets, attributable to holders of redeemable units	(1,589,972)	3,884,080	(420,044)	765,097	(1,169,928)	3,118,983
Transactions attributable to holders of redeemable units:						
Issuance of units	12,878,686	16,124,304	2,302,016	1,216,778	10,576,670	14,907,526
Reinvestment of dividends	1,052,196	1,027,971	365,082	406,336	687,114	621,635
Amounts paid on redemptions	(18,907,760)	(23,762,384)	(2,328,166)	(4,981,293)	(16,579,594)	(18,781,091)
	(4,976,878)	(6,610,109)	338,932	(3,358,179)	(5,315,810)	(3,251,930)
Distribution declared:	(2,525,359)	(2,544,023)	(491,320)	(554,868)	(2,034,039)	(1,989,155)
Net assets attributable to holders of redeemable units, end of period	109,792,523	114,120,073	21,884,448	24,341,938	87,908,075	89,778,135
Distributions per unit to holders of redeemable units			0.23	0.23	0.24	0.24

See accompanying notes to interim financial statements.

# NORREP MARKET NEUTRAL INCOME FUND

## Interim Statements of Cash Flows

Six months ended June 30, 2016 and 2015

(unaudited)

*(in Canadian dollars)*

	2016	2015
<b>Cash flows from (used in) operating activities</b>		
(Decrease) increase in net assets attributable to holders of of redeemable units	(1,589,972)	3,884,080
Adjustments for:		
Net realized loss (gain) on sale of investments at fair value through profit or loss	5,136,724	(2,201,924)
Net change in unrealized appreciation of investments at fair value through profit or loss	(2,493,227)	(1,373,045)
Purchase of investments	(434,163,856)	(385,977,112)
Proceeds from the sale and maturity of investments	442,007,061	388,070,538
Dividends and interest receivable	332,624	(87,111)
Accrued expenses	(4,599)	(24,100)
Dividends payable on short positions	(25,805)	118,460
<b>Net cash from operating activities</b>	<b>9,198,950</b>	<b>2,409,786</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from the issuance of redeemable units	12,229,175	15,727,495
Amounts paid on redemption of redeemable units	(18,736,940)	(24,665,990)
Dividends to holders of redeemable units	(2,804,559)	(2,805,242)
Reinvestment of dividends	1,052,196	1,027,971
<b>Net cash used in financing activities</b>	<b>(8,260,128)</b>	<b>(10,715,766)</b>
Net increase (decrease) in cash and cash equivalents	938,822	(8,305,980)
Effect of exchange rates on cash and cash equivalents	(2,087)	(9,282)
Cash and cash equivalents at beginning of period	(518,012)	2,976,577
<b>Cash and cash equivalents at end of period</b>	<b>418,723</b>	<b>(5,338,685)</b>
Dividends received, net of withholding tax paid	1,687,012	2,639,226
Interest received	2,872,849	1,554,650
Interest and borrowing costs paid	6,843	8,827
Dividend expenses on investments sold short	1,509,320	1,878,149

See accompanying notes to interim financial statements.

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio

As at June 30, 2016  
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - LONG</b>				
<b>Consumer Discretionary</b>				
Boston Pizza Royalties Income Fund	84,000	1,563,199	1,679,160	
Dollarama Inc.	28,000	2,324,292	2,525,600	
Gildan Activewear Inc.	70,000	2,711,200	2,648,800	
Hardwoods Distribution Inc.	230,000	3,480,101	3,606,400	
Spin Master Corp.	85,000	2,208,653	2,265,250	
Stingray Digital Group Inc.	68,600	475,083	479,514	
		12,762,528	13,204,724	12.0%
<b>Consumer Staples</b>				
Alimentation Couche-Tard Inc., Class 'B'	60,000	3,579,372	3,328,800	
Clearwater Seafoods Inc.	165,000	2,062,187	2,306,700	
George Weston Ltd.	27,000	3,056,441	3,018,870	
North West Co. Inc. (The)	45,000	1,279,682	1,325,700	
		9,977,682	9,980,070	9.1%
<b>Energy</b>				
Crescent Point Energy Corp.	174,000	3,627,395	3,551,340	
Inter Pipeline Ltd.	84,000	2,110,787	2,301,600	
Peyto Exploration & Development Corp.	50,000	1,591,544	1,734,000	
Whitecap Resources Inc.	200,000	1,848,296	1,976,000	
		9,178,022	9,562,940	8.7%
<b>Financials</b>				
Artis REIT	235,000	3,021,542	3,172,500	
Bank of Montreal	15,000	1,111,614	1,229,250	
Choice Properties REIT	155,000	1,924,710	2,201,000	
CI Financial Corp.	91,000	2,773,624	2,452,450	
Cominar REIT	172,000	2,783,456	2,896,480	
CREIT	60,000	2,808,092	2,898,000	
FirstService Corp.	50,800	2,818,392	3,001,772	
National Bank of Canada	30,000	1,259,664	1,325,700	
Northview Apartment REIT	100,000	2,210,773	2,243,000	
OneREIT	725,000	2,447,916	2,834,750	
Pure Multi-Family REIT L.P., Class 'A'	330,000	2,348,045	2,488,200	
Sun Life Financial Inc.	85,000	3,615,158	3,607,400	
		29,122,986	30,350,502	27.7%

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2016  
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Industrials</b>				
AG Growth International Inc.	58,000	2,202,731	2,375,100	
Air Canada	400,000	3,702,804	3,556,000	
Bird Construction Inc.	190,000	2,564,774	2,540,300	
Chorus Aviation Inc.	420,000	2,541,050	2,520,000	
MacDonald, Dettwiler and Associates Ltd.	27,000	2,287,118	2,275,290	
Magellan Aerospace Corp.	80,000	1,315,768	1,440,800	
New Flyer Industries Inc.	62,000	2,088,401	2,494,260	
Toromont Industries Ltd.	55,000	1,841,538	2,070,200	
TransForce Inc.	95,000	2,311,384	2,279,050	
		20,855,568	21,551,000	19.6%
<b>Information Technology</b>				
Avigilon Corp.	165,000	2,347,082	2,189,550	
Constellation Software Inc.	800	410,660	400,008	
Vecima Networks Inc.	324,300	3,467,756	3,301,374	
		6,225,498	5,890,932	5.4%
<b>Materials</b>				
Barrick Gold Corp.	124,000	3,148,781	3,419,920	
CCL Industries Inc., Class 'B'	8,000	1,668,164	1,798,720	
Fortuna Silver Mines Inc.	185,000	1,284,156	1,670,550	
Kirkland Lake Gold Inc.	290,000	3,040,104	3,085,600	
OceanaGold Corp.	630,000	2,333,613	3,105,900	
Richmont Mines Inc.	120,900	1,309,647	1,449,591	
Western Forest Products Inc.	870,000	1,775,763	1,774,800	
		14,560,228	16,305,081	14.9%
<b>Telecommunications</b>				
BCE Inc.	35,000	2,047,998	2,139,900	
		2,047,998	2,139,900	1.9%
<b>Utilities</b>				
TransAlta Renewables Inc.	240,000	2,668,067	3,206,400	
		2,668,067	3,206,400	2.9%
<b>TOTAL CANADIAN EQUITIES - LONG</b>		<b>107,398,577</b>	<b>112,191,549</b>	<b>102.2%</b>



# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2016  
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN BONDS - LONG</b>				
<b>Corporate</b>				
Aimia Inc., 4.35%, 2018/01/22	9,800,000	10,142,063	9,877,420	
Algonquin Power Co., Callable, 5.50%, 2018/07/25	5,500,000	5,994,351	5,815,408	
Artis REIT, Series 'A', 3.75%, 2019/03/27	6,300,000	6,298,146	6,332,130	
Canadian Natural Resources Ltd., Callable, 2.60%, 2019/12/03	7,100,000	7,002,731	7,065,210	
Canadian Western Bank, 2.75%, 2020/06/29	500,000	502,307	501,740	
Capital Power Corp., 4.85%, 2019/02/21	9,900,000	10,557,894	10,131,660	
Fairfax Financial Holdings Ltd., Callable, 7.50%, 2019/08/19	10,300,000	12,106,207	11,588,087	
Home Trust Co. (The), 3.40%, 2018/12/10	9,500,000	9,627,769	9,639,650	
Reliance L.P., Callable, 4.57%, 2017/03/15	5,500,000	5,737,185	5,578,705	
TransAlta Corp., Callable, 6.40%, 2019/11/18	9,500,000	10,535,464	9,559,898	
Transcontinental Inc., Callable, 3.90%, 2019/05/13	9,100,000	9,420,305	9,278,269	
Veresen Inc., Callable, 4.00%, 2018/11/22	5,100,000	5,201,828	5,269,065	
		<b>93,126,250</b>	<b>90,637,242</b>	<b>82.6%</b>
<b>Exchange Traded Funds</b>				
iShares Core Canadian Short Term Corporate + Maple Bond Index ETF	250,000	4,963,366	4,917,500	
Vanguard Canadian Short-Term Corporate Bond Index ETF	200,000	5,022,738	4,980,000	
		<b>9,986,104</b>	<b>9,897,500</b>	<b>9.0%</b>
<b>Mutual Fund Shares</b>				
Norrep Short Term Income Fund, Series I	879,512	9,041,338	8,616,645	
		<b>9,041,338</b>	<b>8,616,645</b>	<b>7.8%</b>
<b>TOTAL CANADIAN BONDS - LONG</b>		<b>112,153,692</b>	<b>109,151,387</b>	<b>99.40%</b>

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2016  
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - SHORT</b>				
<b>Consumer Discretionary</b>				
DHX Media Ltd.	(300,000)	(2,048,127)	(1,980,000)	
Dorel Industries Inc., Class 'B'	(88,000)	(2,739,777)	(3,025,440)	
Leon's Furniture Ltd.	(170,600)	(2,529,261)	(2,581,178)	
Pizza Pizza Royalty Corp.	(115,000)	(1,568,343)	(1,692,800)	
Shaw Communications Inc., Class 'B'	(72,000)	(1,784,662)	(1,785,600)	
Yellow Pages Ltd.	(117,000)	(1,997,891)	(2,143,440)	
		(12,668,061)	(13,208,458)	(12.0)%
<b>Consumer Staples</b>				
Cott Corp.	(80,000)	(1,275,441)	(1,444,800)	
High Liner Foods Inc.	(123,000)	(1,787,006)	(2,318,550)	
Jean Coutu Group (PJC) Inc. (The), Class 'A'	(171,000)	(3,314,013)	(3,420,000)	
Rogers Sugar Inc.	(475,000)	(2,247,404)	(2,807,250)	
		(8,623,864)	(9,990,600)	(9.1)%
<b>Energy</b>				
AltaGas Ltd.	(73,000)	(2,250,693)	(2,292,200)	
Cenovus Energy Inc.	(111,000)	(2,037,914)	(1,983,570)	
Husky Energy Inc.	(225,000)	(3,393,120)	(3,548,250)	
PrairieSky Royalty Ltd.	(71,000)	(1,751,180)	(1,740,920)	
		(9,432,907)	(9,564,940)	(8.7)%
<b>Financials</b>				
Allied Properties REIT	(75,000)	(2,732,627)	(2,901,000)	
Canadian Apartment Properties REIT	(78,000)	(2,283,963)	(2,586,480)	
Canadian Western Bank	(55,000)	(1,382,776)	(1,355,750)	
Crombie REIT	(147,000)	(2,238,069)	(2,256,450)	
Dream Office REIT	(152,000)	(2,990,419)	(2,824,160)	
First Capital Realty Inc.	(120,000)	(2,393,864)	(2,659,200)	
H&R REIT	(140,000)	(3,049,625)	(3,151,400)	
IGM Financial Inc.	(70,000)	(2,678,639)	(2,461,900)	
Intact Financial Corp.	(39,000)	(3,443,904)	(3,599,310)	
Laurentian Bank of Canada	(25,000)	(1,194,136)	(1,206,000)	
Onex Corp.	(31,000)	(2,530,440)	(2,449,000)	
RioCan REIT	(100,000)	(2,659,473)	(2,933,000)	
		(29,577,935)	(30,383,650)	(27.7)%

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2016  
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>Industrials</b>				
Cervus Equipment Corp.	(145,600)	(1,881,515)	(1,639,456)	
Dirtt Environmental Solutions Ltd.	(523,100)	(2,719,602)	(2,814,278)	
Exco Technologies Ltd.	(85,000)	(1,240,876)	(1,037,000)	
Finning International Inc.	(104,000)	(2,057,965)	(2,188,160)	
Héroux-Devtek Inc.	(92,000)	(1,041,678)	(1,380,000)	
K-Bro Linen Inc.	(51,500)	(2,107,035)	(2,161,970)	
Rocky Mountain Dealerships Inc.	(368,900)	(2,365,987)	(2,597,056)	
Student Transportation Inc.	(380,000)	(2,406,736)	(2,523,200)	
Wajax Corp.	(113,900)	(1,941,385)	(1,706,222)	
WestJet Airlines Ltd.	(165,000)	(3,041,471)	(3,478,200)	
		(20,804,250)	(21,525,542)	(19.6)%
<b>Information Technology</b>				
Celestica Inc.	(83,000)	(1,173,482)	(997,660)	
Evertz Technologies Ltd.	(85,000)	(1,518,184)	(1,555,500)	
Pure Technologies Ltd.	(230,000)	(1,164,767)	(1,354,700)	
Sierra Wireless Inc.	(57,700)	(1,253,512)	(1,263,053)	
Solium Capital Inc.	(117,300)	(826,208)	(696,762)	
		(5,936,153)	(5,867,675)	(5.3)%
<b>Materials</b>				
Agrium Inc.	(18,000)	(2,129,597)	(2,104,020)	
Alamos Gold Inc., Class 'A'	(220,000)	(1,731,088)	(2,444,200)	
Eldorado Gold Corp.	(110,000)	(465,049)	(639,100)	
Franco-Nevada Corp.	(35,000)	(3,127,386)	(3,438,400)	
Goldcorp Inc.	(125,000)	(2,804,696)	(3,090,000)	
Methanex Corp.	(30,000)	(1,293,411)	(1,127,700)	
Silver Wheaton Corp.	(55,000)	(1,339,536)	(1,672,550)	
West Fraser Timber Co. Ltd.	(47,400)	(2,053,984)	(1,790,298)	
		(14,944,747)	(16,306,268)	(14.9)%
<b>Telecommunications</b>				
Rogers Communications Inc., Class 'B'	(41,000)	(2,007,354)	(2,144,300)	
		(2,007,354)	(2,144,300)	(2.0)%
<b>Utilities</b>				
Boralex Inc., Class 'A'	(100,000)	(1,432,851)	(1,947,000)	
Just Energy Group Inc.	(160,000)	(1,298,892)	(1,254,400)	
		(2,731,743)	(3,201,400)	(2.9)%
<b>TOTAL CANADIAN EQUITIES - SHORT</b>		<b>(106,727,014)</b>	<b>(112,192,833)</b>	<b>(102.2)%</b>
Less: Transaction costs included in average cost		(94,414)		
<b>TOTAL INVESTMENTS</b>		<b>112,825,255</b>	<b>109,150,103</b>	<b>99.40%</b>
Other Assets, less Liabilities			642,420	0.6%
<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>109,792,523</b>	<b>100.0%</b>

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016  
(unaudited)

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## 1. Reporting Entity:

Norrep Market Neutral Income Fund (the “Fund”) is an unincorporated open-ended mutual fund trust established under the laws of Alberta pursuant to a Declaration of Trust dated January 1, 2011 as amended and restated June 14, 2012, May 15, 2013 and August 8, 2013. The Fund’s principal place of business is Suite 4330, 77 King Street West, Toronto, Ontario, M5K 2A1.

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. Equity Financial Trust Company is the trustee, Scotia Capital Inc. is the Prime Broker, CIBC Mellon Global Securities Services Company is the custodian, transfer agent, administrator and registrar 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”).

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

The interim financial statements of the Fund were approved and were authorized for issue by the Manager’s Board of Directors on August 8, 2016.

### (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 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.

### (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 year. Actual results could differ from those estimates.

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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## 2. Basis of preparation (continued):

### (d) Use of judgements and estimates (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

## 3. Significant accounting policies:

The Fund has consistently applied the following accounting policies to all years 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.

#### (ii) Classification

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

Financial assets at fair value through profit or loss:

- Designated at fair value through profit and loss: all investments

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents and receivables

Financial liabilities at amortised cost:

- Other liabilities: all liabilities, other than investments – short, at fair value through profit and 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.

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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### 3. Significant accounting policies (continued):

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

##### (ii) Classification (continued)

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.

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 units 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.

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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### 3. Significant accounting policies (continued):

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

(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. 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.

(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.

The Fund incurs expenses on short positions in equity securities equal to the dividends due on these securities. Such dividend expense is recognized in profit or loss as operating expense when the shareholders' right to receive payment is established.

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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### 3. Significant accounting policies (continued):

(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 on the record date.

(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.

(f) Income tax:

As at June 30, 2016 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, some 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.

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

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

(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 year; 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) Short selling:

The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities that are sold short are valued at the last traded



# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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### 3. Significant accounting policies (continued):

(i) Short selling (continued):

price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter into a short sale, the Fund will need to borrow the security for delivery to the buyer. Also, while the transaction is open, the Fund will incur a liability for any paid dividends or interest that is due to the lender of the security.

Should the security increase in value during the shorting year, the Fund will incur a loss. There is, in theory, no upper limit to how high the price of a security may go. Another risk involved in shorting is the loss of a borrow, a situation where the lender of the security requests its return. In cases like this, the Fund must either find securities to replace those borrowed or step into the market and repurchase the securities. Depending on the liquidity of the security shorted, if there are insufficient securities available at current market prices, the Fund may have to bid up the price of the security in order to cover the short, resulting in losses to the Fund.

(j) Future accounting pronouncements:

*IFRS 9 Financial Instruments*; IFRS 9 (2009) 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 additions relating to financial liabilities. In July 2014 new requirements were added to address the impairment of financial assets.

The mandatory effective date of IFRS 9 is for years beginning on or after January 1, 2018.

The Manager has not yet addressed the impact of the standard 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);

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

## 4. Fair value measurement (continued):

### (a) Investments (continued)

- 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 recognizes transfers between levels of the fair value hierarchy as at the end of the reporting year during which the change occurred.

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

The tables below analyze investments measured at fair value at the reporting dates by the fair value hierarchy into which the fair value measurement is categorized.

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
June 30, 2016				
Public securities – bonds/ETFs	18,514,145	90,637,242	–	109,151,387
Public securities - equities	112,191,549	–	–	112,191,549
Total investments - long	130,705,694	90,637,242	–	221,342,936
Public securities - equities short (112,192,833)		–	–	(112,192,833)
Total investments	18,512,861	90,637,242	–	109,150,103

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

## 4. Fair value measurement (continued):

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

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
December 31, 2015				
Public securities – bonds/ETFs	18,447,748	101,801,211	–	120,248,959
Public securities - equities	119,829,478	–	–	119,829,478
Total investments - long	138,277,226	101,801,211	–	240,078,437
Public securities - equities short (119,829,637)		–	–	(119,829,637)
Total investments	18,447,589	101,801,211	–	120,248,800

There were no transfers between the levels for the six months ended June 30, 2016 and year ended December 31, 2015

(c) Financial instruments not measured at fair value

The carrying values of cash and cash equivalents, bank indebtedness, 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 derived for the level of 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 investments as presented on the statement of investment portfolio represents the maximum credit risk exposure as at June 30, 2016. 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.

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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

### Credit risk (continued):

As at June 30, 2016 and December 31, 2015, the Fund was invested in debt securities with the following credit rating:

Debt Security by Credit Rating	% of Assets Under Management in each category	
	2016	2015
A-	0.5%	6.7%
BBB+	15.2%	11.5%
BBB	33.3%	38.9%
BBB-	33.6%	28.5%
Bond Index Funds and Exchange Traded Funds	16.8%	15.4%
Cash and other equities	0.6%	(1.0)%
Total	100.0%	100.0%

Credit risk arising on transactions for units issued 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 year 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.

Substantially all of the assets of the Fund are held by Scotia Capital Inc., 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 monthly cash redemptions of redeemable units. Investments in small, mid-capitalization and micro-capitalization companies may involve greater risks than in larger, more established companies since such companies may have more limited markets and financial resources

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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

### Liquidity risk (continued):

and their securities may be more sensitive to market changes. As well, the liquidity of the securities may be limited. Consequently, in order to fund redemptions, the Fund may have to liquidate shareholdings in the more liquid large and medium-sized companies.

To the extent that the liquidity is limited, the Fund's ability to realize profits and/or minimize losses may be limited, which could adversely affect the net asset value of the Fund. 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 Manager. The Fund's redemption policy allows for redemptions on the last business day of any given month when at least 14 days' notice is given by the unitholder.

The Fund may borrow to make investments or maintain liquidity and may pledge its assets to secure the borrowings.

### Market risk:

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

The Fund is an alternative investment fund that seeks to generate absolute returns with low volatility and minimal exposure and correlation to equity markets and other indices, while generating an annual distribution. To achieve its objective, the Fund employs a market neutral investment strategy and generally maintains long and short exposures of similar values. The Fund will also invest a large portion of its net assets in corporate investment grade bonds (BBB rated or greater). The Fund may, from time to time, invest a portion of its bond component in non-investment grade bonds or in fixed income mutual funds. The Fund will also maintain a passive corporate bond strategy, whereby bonds are shorter term in nature and are generally held to maturity, with the intention of generating at least a 3% annual distribution to Unitholders, payable quarterly.

The success of the Fund's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments. Unexpected volatility or illiquidity could reduce the Fund's profitability or result in losses.

The Fund may invest in bonds or other fixed income securities of U.S., Canadian and other issuers, including, without limitation, bonds, notes and debentures issued by corporations, debt securities issued or guaranteed by the federal, state or provincial government in the United States or Canada or a governmental agency and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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

### Market risk (continued):

fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk). If fixed income investments are not held to maturity, the Fund may suffer a loss at the time of sale of such securities.

No material change in the investment objectives, policies or restrictions of the Fund may be made without provision of at least 60 days prior written notice to unitholders.

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, 2016 are disclosed in the schedule of investment portfolio.

#### (a) Currency risk:

Investments in securities denominated in a currency other than Canadian dollars will be affected by the changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated. Therefore the value of securities held by the Fund may be worth more or less depending on their susceptibility to foreign exchange rates. At June 30, 2016 and December 31, 2014 the Fund did not hold any foreign currency denominated investments.

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

As at June 30, 2016	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
All amounts stated in Canadian dollars					
Corporate bonds	24,092,850	56,343,602	28,714,935	-	109,151,387

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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

### Market risk (continued):

#### (b) Interest rate risk (continued):

As at December 31, 2015	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
All amounts stated in Canadian dollars					
Corporate bonds	23,791,018	44,171,642	52,286,300	-	120,248,960

#### (c) Other price risk:

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer, or factors affecting all instruments traded in the market. All securities present a risk of loss of capital. However, the Funds which hold short positions are subject to certain inherent risks. The ultimate cost to the Funds to acquire these securities may exceed the liability reflected in these financial statements.

Approximately 40% of the equity portion of the Fund will be managed with “pairs” trades, meaning the Fund will match a “long” position with a “short” position of two different stocks in the sub-sector of the market with the intention of eliminating market risk. The strategy looks to take advantage of profitable opportunities based on differences in valuation and market momentum (i.e. the perceived strength of a downward or upward movement in prices), of companies in the same line of business.

Approximately 60% of the equity portion will primarily be managed using our back tested quantitative models. Earnings surprises (i.e. actual company performance in comparison to analysts’ expectations) will have a significant influence on securities selection. Other factors of importance in the long positions include low valuations, high profitability, strong earnings and price momentum and low debt levels. The short positions tend to have the opposite characteristics. This portion of the portfolio will generally have zero sector exposure. The Portfolio is rebalanced daily to ensure that the Fund has close to zero net market exposure at all times.

Price risk is managed by the Fund’s Manager by constructing a diverse portfolio of securities. The price of a stock is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the stock is located, does business or where the stock is listed for trading. A portion of the bonds may not have a liquid market for resale.

The 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 MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

## 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, 2016 and December 31, 2015:

	% of Investments	
	2016	2015
Investments:		
Listed equities held long	102.8%	99.7%
Listed equities held short	(102.8)%	(99.7)%
Over-the-counter debt instruments	100.0%	100.0%

#### Sensitivity analysis:

There is no direction on any index at June 30, 2016 that would have impacted the net assets attributable to holders of redeemable units. The Fund relies on the ability of the Manager to actively manage the Fund.

The Fund' investments exposed to credit risk and other price risk were concentrated in the following industries as a percentage of net investments at June 30, 2016 and December 31, 2015:

	2016	2015
Bonds and ETFs	100.0%	100.0%
Total	100.0%	100.0%

## 6. Net assets attributable to holders of redeemable units:

### Redeemable units

The authorized capital of the Fund consists of an unlimited number of units of each class, each representing an equal undivided interest in the net assets of the Fund. Currently there are two classes outstanding, Class A and Class F. Each Class ranks equally in the event of liquidation, dissolution or winding up based on their respective Class net asset values. Each Class 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. When purchasing Class A units, a commission ranging from 0 to 2% is paid to the dealer with a 3% redemption fee being charged if the units are redeemed in the first 180 days. Class F units are sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. A 3% redemption fee is charged if the Class F units are redeemed in the first 180 days.



# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

## 6. Net assets attributable to holders of redeemable units (continued):

The rights attached to the redeemable units are as follows:

- The units may be redeemed monthly 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 dividends 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.

The analysis of movements in the number of redeemable units and net assets attributable to holders of redeemable units during the year was as follows:

Class A	2016	2015
Balance, opening	2,100,022	2,545,475
Issued on dividends reinvested	35,462	37,088
Issued for cash	221,585	110,426
Redeemed for cash	(223,892)	(453,419)
Balance, June	2,133,177	2,239,570

Class F	2016	2015
Balance, opening	8,550,065	8,157,381
Issued on dividends reinvested	63,007	54,199
Issued for cash	960,649	1,292,737
Redeemed for cash	(1,494,522)	(1,628,524)
Balance, June	8,079,199	7,875,793

## 7. Net asset value per unit at end of year:

The net asset value per unit for the current year and previous 5 years:

	Class A	Class F
June 30, 2016	\$ 10.26	\$ 10.88
December 31, 2015	\$ 10.69	\$ 11.28
December 31, 2014	\$ 10.80	\$ 11.27
December 31, 2013	\$ 11.34	\$ 11.70
December 31, 2012	\$ 11.05	\$ 11.28
December 31, 2011	\$ 10.67	\$ 10.77

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2016

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## 8. Management fees, expenses and key contracts:

### (a) Manager and management fees:

The Class A units paid a monthly management fee to the Manager of 1/12 of 1.9% of the average net asset value of the Class. Class F units paid a monthly management fee to the Manager of 1/12 of 0.9% of the average net asset value of the Class. Included in accrued expenses is \$101,083 (December 31, 2015 -108,919 ) related to these fees.

The Performance Fee shall be calculated over a "Performance Measurement Period", which is a calendar quarter, and is based on the Fund's ability to generate an annualized return in excess of 5.0% (approximately 1.2272% per quarter due to compounding). In each Performance Measurement Period, 20% of the difference in performance from 1.2272% will be multiplied by the average net assets in the Fund to give the quarterly, positive or negative, bonus amount (the "Accrual"). A positive accrual is paid to the Manager. The Accrual will be reset annually to zero at December 31<sup>st</sup> of each year. For any Performance Measurement Period in which there is no Performance Fee payable, the previous quarterly Accruals shall be carried forward and added to the current quarterly Accrual until such time as the Performance Fee becomes payable, or until December 31<sup>st</sup> of each year.

No change in the Investment Manager's Performance Fee payment policy will be made without at least 60 days notice to the unitholders.

As at June 30, 2016, included in accounts payable is \$nil (December 31, 2015 - \$nil) related to these fees.

### (b) Expenses:

All fees and expenses applicable to the administration and operation of the Fund, including recordkeeping and communication costs, custodian fees, legal and filing fees, audit, applicable taxes and bank charges are payable by the Fund. The Manager has charged the Fund for administration services. Included in accrued expenses is \$12,695 (December 31, 2015 - \$11,901) related to these fees.

## 9. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$377,604 (December 31, 2015 - \$373,685) in connection with portfolio transactions during the period.

## 10. Filing of financial statements:

The Fund is relying on the exemption provided by Section 2.11 of National Instrument 81-106 and therefore does not file its financial statements with the Ontario Securities Commission.

## 11. Comparative Figures:

Certain 2015 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

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