

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, 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 Market Neutral Income Fund.
August 4, 2017

NORREP MARKET NEUTRAL INCOME FUND

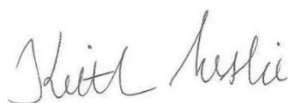
Interim Statements of Financial Position
(unaudited)

(in Canadian dollars, except Units outstanding)

As at	June 30, 2017	December 31, 2016
Assets		
Cash	-	15,750,652
Dividends and interest receivable	463,657	752,792
Due from manager (note 8)	5,500	-
Portfolio assets sold	4,501,882	6,925,641
Units issued	50,930	-
Investments - long, at fair value through profit or loss	94,977,094	140,984,964
Total assets	99,999,063	164,414,049
Liabilities		
Bank overdraft	280,018	-
Accrued expenses (note 8)	108,200	204,500
Distributions payable	226,273	612,717
Dividends payable on investments sold short	122,666	218,151
Portfolio assets purchased	4,433,338	6,941,856
Units redeemed	1,084,663	14,347,420
Investments - short, at fair value through profit or loss	46,428,248	70,920,732
Total Liabilities (excluding net assets attributable to holders of redeemable units)	52,683,406	93,245,376
Net assets attributable to holders of redeemable units	47,315,657	71,168,673
Net assets attributable to holders of redeemable units:		
Class A	10,745,233	14,030,626
Class F	36,570,424	57,138,047
Redeemable units outstanding (note 6):		
Class A	1,144,770	1,452,134
Class F	3,630,111	5,540,480
Net assets attributable to holders of redeemable units per unit:		
Class A	9.39	9.66
Class F	10.07	10.31

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

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

(in Canadian dollars)

	2017	2016
Dividend income	654,695	1,558,991
Interest for distribution purposes	1,064,006	2,579,036
Net gain (loss) on investments at fair value through profit or loss		
Net realized loss on investments	(1,795,513)	(5,136,724)
Net change in unrealized appreciation in fair value of investments	1,155,919	2,493,227
Total investment revenue	1,079,107	1,494,530
Dividend expense on investments sold short	508,436	1,483,515
Management fees (note 8)	313,238	628,350
Risk management fees	161,192	348,317
Transaction costs	153,060	377,604
Administrative fees (note 8)	35,938	80,348
Custodian and record keeping fees	24,982	36,069
HST/GST	24,819	48,492
Audit and tax fees	13,470	7,963
Computer services	10,641	21,645
Other	10,041	20,403
Legal and filing fees	3,354	4,716
Independent review committee	2,433	6,667
Interest and borrowing costs	-	6,843
Operating expense recovery (note 8)	(5,500)	-
Total operating expenses	1,256,104	3,070,932
Decrease in net assets attributable to holders of redeemable units before tax	(176,997)	(1,576,402)
Withholding tax expense	1,888	13,570
Decrease in net assets attributable to holders of redeemable units	(178,885)	(1,589,972)
Change in net assets attributable to holders of redeemable units (note 6):		
Class A	(94,145)	(420,044)
Class F	(84,740)	(1,169,928)
Change in net assets attributable to holders of redeemable units per unit (note 6):		
Class A	(0.07)	(0.20)
Class F	(0.02)	(0.13)

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, 2017 and 2016
(unaudited)

(in Canadian dollars)

	All Series		Class A		Class F	
	2017	2016	2017	2016	2017	2016
Net assets attributable to holders of redeemable units, beginning of period	71,168,673	118,884,732	14,030,626	22,456,880	57,138,047	96,427,852
Decrease in net assets, attributable to holders of redeemable units	(178,885)	(1,589,972)	(94,145)	(420,044)	(84,740)	(1,169,928)
Transactions attributable to holders of redeemable units:						
Issuance of units	4,262,728	12,878,686	1,066,746	2,302,016	3,195,982	10,576,670
Reinvestment of dividends	584,535	1,052,196	174,351	365,082	410,184	687,114
Amounts paid on redemptions of redeemable units	(27,469,389)	(18,907,760)	(4,183,868)	(2,328,166)	(23,285,521)	(16,579,594)
	(22,622,126)	(4,976,878)	(2,942,771)	338,932	(19,679,355)	(5,315,810)
Distributions declared:	(1,052,005)	(2,525,359)	(248,477)	(491,320)	(803,528)	(2,034,039)
Net assets attributable to holders of redeemable units, end of period	47,315,657	109,792,523	10,745,233	21,884,448	36,570,424	87,908,075
Distributions per unit to holders of redeemable units			0.20	0.23	0.21	0.24

See accompanying notes to interim financial statements.

NORREP MARKET NEUTRAL 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		
Decrease in net assets attributable to holders of redeemable units	(178,885)	(1,589,972)
Adjustments for:		
Net realized loss on sale of investments at fair value through profit or loss	1,795,513	5,136,724
Net change in unrealized appreciation of investments at fair value through profit or loss	(1,155,919)	(2,493,227)
Purchase of investments	(200,481,182)	(434,163,856)
Proceeds from the sale and maturity of investments	221,272,494	442,007,061
Dividends and interest receivable	289,135	332,624
Accrued expenses	(96,300)	(4,599)
Due from Manager	(5,500)	-
Dividends payable on investments sold short	(95,485)	(25,805)
Net cash from operating activities	21,343,871	9,198,950
Cash flows from (used in) financing activities		
Proceeds from the issuance of redeemable units	4,211,798	12,229,175
Amounts paid on redemption of redeemable units	(40,732,146)	(18,736,940)
Dividends to holders of redeemable units	(1,438,449)	(2,804,559)
Reinvestment of dividends	584,535	1,052,196
Net cash used in financing activities	(37,374,262)	(8,260,128)
Net (decrease) increase in cash	(16,030,391)	938,822
Effect of exchange rates on cash	(279)	(2,087)
Cash (bank indebtedness) at beginning of period	15,750,652	(518,012)
(Bank indebtedness) cash at end of period	(280,018)	418,723
Dividends received, net of withholding tax paid	649,669	1,687,012
Interest received	1,356,279	2,872,849
Interest and borrowing costs paid	-	6,843
Dividend expenses on investments sold short	603,921	1,509,320

See accompanying notes to interim financial statements.

NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio

As at June 30, 2017
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES - LONG				
Basic Materials				
Centerra Gold Inc.	165,000	1,143,969	1,168,200	
Kirkland Lake Gold Ltd.	59,000	565,056	723,930	
Labrador Iron Ore Royalty Corp.	86,000	1,526,851	1,351,920	
Norbord Inc.	27,000	1,050,036	1,089,990	
Richmont Mines Inc.	85,000	938,304	858,500	
Teck Resources Ltd., Class 'B'	37,000	996,829	831,760	
West Fraser Timber Co. Ltd.	18,000	1,076,166	1,104,840	
		7,297,211	7,129,140	15.1%
Consumer Discretionary				
Dollarama Inc.	4,000	380,628	495,640	
Gildan Activewear Inc.	27,000	1,051,617	1,075,950	
Keg Royalties Income Fund (The)	35,500	804,031	795,200	
Quebecor Inc., Class 'B'	2,000	85,667	85,840	
Shaw Communications Inc., Class 'B'	17,000	508,490	480,930	
Sleep Country Canada Holdings Inc.	12,000	428,441	493,800	
		3,258,874	3,427,360	7.2%
Consumer Staples				
Maple Leaf Foods Inc.	28,000	899,723	916,720	
North West Co. Inc. (The)	30,000	948,298	937,800	
Premium Brands Holdings Corp.	5,000	336,629	465,200	
		2,184,650	2,319,720	4.9%
Energy				
Advantage Oil & Gas Ltd.	117,000	1,015,558	1,026,090	
Enbridge Inc.	14,000	784,274	723,240	
Inter Pipeline Ltd.	53,000	1,430,740	1,346,200	
Parex Resources Inc.	92,000	1,544,323	1,357,000	
TransCanada Corp.	8,000	492,519	494,560	
Whitecap Resources Inc.	102,000	1,010,479	944,520	
		6,277,893	5,891,610	12.5%
Financials				
Canadian Imperial Bank of Commerce	14,000	1,539,763	1,475,460	
CI Financial Corp.	18,000	504,165	497,520	
First National Financial Corp.	18,000	488,710	488,700	
Genworth MI Canada Inc.	17,000	566,253	606,560	
Manulife Financial Corp.	48,000	1,024,950	1,166,880	
		4,123,841	4,235,120	9.0%
Healthcare				
Extencare Inc.	98,000	1,004,407	1,014,300	
		1,004,407	1,014,300	2.1%
Industrials				
AG Growth International Inc.	9,000	486,992	519,480	
Air Canada	26,000	381,024	451,880	
CAE Inc.	48,000	1,044,837	1,073,280	
Cargojet Inc.	15,000	689,076	712,650	
Chorus Aviation Inc.	127,000	826,907	966,470	
Exco Technologies Ltd.	102,000	1,157,965	1,089,360	
Hardwoods Distribution Inc.	26,000	405,202	483,340	
SNC-Lavalin Group Inc.	15,000	829,615	841,050	
Transcontinental Inc., Class 'A'	37,000	900,842	950,900	
Waste Connections Inc.	6,000	395,740	501,180	
WSP Global Inc.	9,000	445,928	484,290	
		7,564,128	8,073,880	17.1%

NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2017
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES - LONG (continued)				
Information Technology				
Avigilon Corp.	35,000	506,113	503,650	
Constellation Software Inc.	800	495,566	542,728	
		<u>1,001,679</u>	<u>1,046,378</u>	<u>2.2%</u>
Real Estate				
Artis REIT	91,000	1,174,149	1,192,100	
Brookfield Real Estate Services Inc.	62,100	1,000,197	1,024,650	
BTB REIT	253,000	1,159,766	1,194,160	
Choice Properties REIT	85,000	1,150,552	1,176,400	
Killam Apartment REIT	93,000	1,198,029	1,184,820	
NorthWest Healthcare Properties REIT	108,000	1,145,917	1,153,440	
OneREIT	377,300	1,279,207	1,411,102	
		<u>8,107,817</u>	<u>8,336,672</u>	<u>17.6%</u>
Telecommunications				
BCE Inc.	9,700	570,973	566,480	
		<u>570,973</u>	<u>566,480</u>	<u>1.2%</u>
Utilities				
Capital Power Corp.	53,000	1,298,975	1,288,960	
Fortis Inc.	19,000	814,251	866,020	
Northland Power Inc.	32,000	747,209	739,200	
Polaris Infrastructure Inc.	47,000	713,493	803,230	
Valener Inc.	30,000	627,444	669,600	
		<u>4,201,372</u>	<u>4,367,010</u>	<u>9.2%</u>
TOTAL EQUITIES - LONG		<u>45,592,845</u>	<u>46,407,670</u>	<u>98.1%</u>

NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2017
(unaudited)

(in Canadian dollars)

Description	Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN BONDS - LONG (Par Value in CAD except as otherwise stated)				
Corporate				
Aimia Inc., Callable, 5.600%, 2019/05/17	3,600,000	3,715,777	3,357,000	
Artis REIT, Series 'A', 3.753%, 2019/03/27	3,700,000	3,719,433	3,749,654	
Cominar REIT, Series '7', 3.620%, 2019/06/21	3,900,000	3,971,791	3,890,250	
Co-operators Financial Services Ltd., Callable, 5.778%, 2020/03/10	2,200,000	2,392,868	2,372,656	
Crombie REIT, Restricted, Series 'B', 3.962%, 2021/06/01	3,400,000	3,475,967	3,429,036	
Equitable Group Inc., 5.399%, 2017/10/23	1,900,000	1,950,883	1,893,464	
First National Financial Corp., Callable, 4.010%, 2020/04/09	4,400,000	4,425,089	4,403,740	
Morguard Corp., Series 'A', 4.099%, 2018/12/10	1,200,000	1,238,449	1,225,164	
Teranet Holdings L.P., Callable, 4.807%, 2020/12/16	2,400,000	2,594,630	2,566,032	
TransAlta Corp., Callable, 6.400%, 2019/11/18	4,200,000	4,630,948	4,525,500	
Transcontinental Inc., Callable, 3.897%, 2019/05/13	2,500,000	2,585,835	2,553,100	
Veresen Inc., Callable, 3.430%, 2021/11/10	1,400,000	1,418,144	1,445,377	
		36,119,814	35,410,973	74.8%
Exchange Traded Funds				
BMO Short Corporate Bond Index ETF	150,000	2,169,895	2,149,500	
iShares Core Canadian Short Term Corporate + MapleBond Index ETF	136,300	2,703,055	2,649,672	
Vanguard Canadian Short-Term Corporate Bond Index ETF	96,500	2,422,838	2,363,285	
		7,295,788	7,162,457	15.1%
Mutual Fund Shares - Long				
Norrep Short Term Income Fund, Series I	606,550	6,235,312	5,995,994	
		6,235,312	5,995,994	12.7%
TOTAL CANADIAN BONDS - LONG		49,650,914	48,569,424	102.6%
TOTAL INVESTMENTS - LONG		95,243,759	94,977,094	200.7%

NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2017
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES - SHORT				
Basic Materials				
AirBoss of America Corp.	(99,000)	(1,175,248)	(1,296,900)	
Alacer Gold Corp.	(185,000)	(460,694)	(384,800)	
Alamos Gold Inc., Class 'A'	(48,000)	(452,220)	(441,600)	
Canfor Pulp Products Inc.	(86,900)	(924,396)	(1,091,464)	
Eldorado Gold Corp.	(123,000)	(509,678)	(423,120)	
Goldcorp Inc.	(12,000)	(243,422)	(200,640)	
Kinross Gold Corp.	(61,000)	(310,559)	(321,470)	
NovaGold Resources Inc.	(73,000)	(443,210)	(429,240)	
Osisko Gold Royalties Ltd.	(21,000)	(302,816)	(332,850)	
Stella-Jones Inc.	(11,000)	(459,450)	(486,860)	
Turquoise Hill Resources Ltd.	(229,000)	(800,857)	(790,050)	
Winpak Ltd.	(12,700)	(630,705)	(739,394)	
Yamana Gold Inc.	(60,000)	(219,182)	(187,800)	
		(6,932,437)	(7,126,188)	-15.1%
Consumer Discretionary				
Cara Operations Ltd.	(33,000)	(807,912)	(777,480)	
Cineplex Inc.	(9,000)	(451,180)	(475,740)	
DHX Media Ltd.	(94,100)	(559,321)	(540,134)	
Pizza Pizza Royalty Corp.	(10,000)	(173,366)	(171,800)	
Transat A.T. Inc.	(246,000)	(1,358,809)	(1,451,400)	
		(3,350,588)	(3,416,554)	-7.2%
Consumer Staples				
Clearwater Seafoods Inc.	(71,300)	(784,903)	(814,246)	
Jean Coutu Group (PJC) Inc. (The), Class 'A'	(33,500)	(673,117)	(666,650)	
SunOpta Inc.	(63,000)	(567,316)	(831,600)	
		(2,025,336)	(2,312,496)	-4.9%
Energy				
AltaGas Ltd.	(17,000)	(532,488)	(504,560)	
Enbridge Income Fund Holdings Inc.	(42,000)	(1,391,694)	(1,351,980)	
Husky Energy Inc.	(69,000)	(1,072,647)	(1,015,680)	
Imperial Oil Ltd.	(25,000)	(1,042,454)	(945,000)	
Keyera Corp.	(17,700)	(700,578)	(722,514)	
PrairieSky Royalty Ltd.	(46,000)	(1,351,933)	(1,358,380)	
		(6,091,794)	(5,898,114)	-12.5%
Financials				
AGF Management Ltd., Class 'B'	(76,000)	(465,982)	(512,240)	
Canadian Western Bank	(54,000)	(1,529,827)	(1,478,520)	
Fiera Capital Corp.	(78,800)	(1,106,031)	(1,083,500)	
Intact Financial Corp.	(12,000)	(1,127,380)	(1,175,520)	
		(4,229,220)	(4,249,780)	-9.0%
Healthcare				
Sienna Senior Living Inc.	(56,000)	(972,985)	(1,006,320)	
		(972,985)	(1,006,320)	-2.1%
Industrials				
Boyd Group Income Fund	(7,000)	(619,831)	(673,050)	
Dirtt Environmental Solutions Ltd.	(150,000)	(858,826)	(1,027,500)	
Héroux-Devtek Inc.	(77,000)	(993,143)	(1,126,510)	
K-Bro Linen Inc.	(27,000)	(1,108,428)	(1,093,500)	
MacDonald, Dettwiler and Associates Ltd.	(6,000)	(385,340)	(404,880)	
Ritchie Bros. Auctioneers Inc.	(19,700)	(747,361)	(734,022)	
Savaria Corp.	(30,000)	(426,234)	(478,200)	
Stuart Olson Inc.	(90,000)	(508,794)	(479,700)	
TFI International Inc.	(17,000)	(499,008)	(475,490)	
WestJet Airlines Ltd.	(20,000)	(451,365)	(463,000)	
Westshore Terminals Investment Corp.	(53,000)	(1,133,383)	(1,113,530)	
		(7,731,713)	(8,069,382)	-17.1%

NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at June 30, 2017
(unaudited)

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES - SHORT (continued)				
Information Technology				
Absolute Software Corp.	(105,400)	(690,833)	(809,472)	
Computer Modelling Group Ltd.	(25,000)	(252,550)	(254,500)	
		(943,383)	(1,063,972)	-2.2%
Real Estate				
Allied Properties REIT	(31,000)	(1,135,599)	(1,206,520)	
Boardwalk REIT	(16,000)	(786,126)	(760,800)	
Canadian Apartment Properties REIT	(34,900)	(1,164,652)	(1,171,593)	
Cominar REIT	(53,400)	(694,472)	(678,714)	
Crombie REIT	(83,000)	(1,147,424)	(1,164,490)	
Dream Office REIT	(36,000)	(704,313)	(703,800)	
Dream Unlimited Corp., Class 'A'	(163,000)	(1,095,684)	(1,199,680)	
First Capital Realty Inc.	(49,000)	(999,050)	(968,240)	
Smart REIT	(15,000)	(491,313)	(481,800)	
		(8,218,633)	(8,335,637)	-17.6%
Telecommunications				
Rogers Communications Inc., Class 'B'	(9,300)	(477,743)	(569,625)	
		(477,743)	(569,625)	-1.2%
Utilities				
Algonquin Power & Utilities Corp.	(59,000)	(678,931)	(805,350)	
Boralex Inc., Class 'A'	(36,500)	(786,814)	(801,540)	
Emera Inc.	(18,000)	(815,207)	(867,780)	
Hydro One Ltd.	(26,000)	(615,226)	(603,980)	
TransAlta Corp.	(157,000)	(1,160,622)	(1,301,530)	
		(4,056,800)	(4,380,180)	-9.2%
TOTAL CANADIAN EQUITIES - SHORT		(45,030,632)	(46,428,248)	-98.1%
Less: Transaction costs included in average cost		(54,002)		
TOTAL INVESTMENTS		50,159,125	48,548,846	102.6%
Other assets, less liabilities			(1,233,189)	-2.6%
TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			47,315,657	100.0%

NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

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. TSX 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 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 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, 2017
(unaudited)

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 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, 2017
(unaudited)

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, 2017
(unaudited)

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.

NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

3. Significant accounting policies (continued):

(c) Dividend income and dividend expense (continued):

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.

(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, 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, 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.

NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

3. Significant accounting policies (continued):

(h) Translation of foreign currency (continued):

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 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 period, 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 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 also introduces new requirements to address the impairment of financial assets.

The mandatory effective date of IFRS 9 is for years beginning on or after 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.

NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

4. Fair value measurement (continued):

(a) Investments (continued)

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 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, 2017				
Public securities – bonds/ETFs	13,158,451	35,410,973	–	48,569,424
Public securities - equities	46,407,670	–	–	46,407,670
Total investments - long	59,566,121	35,410,973	–	94,977,094
Public securities - equities short	(46,428,248)	–	–	(46,428,248)
Total investments	13,137,873	35,410,973	–	48,548,846

NORREP MARKET NEUTRAL 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 (continued)

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
December 31, 2016				
Public securities – bonds/ETFs	18,001,534	51,843,584	–	69,845,118
Public securities - equities	71,139,846	–	–	71,139,846
Total investments - long	89,141,380	51,843,584	–	140,984,964
Public securities - equities short	(70,920,732)	–	–	(70,920,732)
Total investments	18,220,648	51,843,584	–	70,064,232

There were no significant transfers into or out of level 1, level 2, and level 3 in the fair value hierarchy during 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, 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, 2017. This also applies to cash 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, 2017
(unaudited)

5. Financial instruments and associated risks (continued):

Credit risk (continued):

As at June 30, 2017 and December 31, 2016, the Fund was invested in debt securities with the following credit rating:

Debt Security by Credit Rating	% of Assets Under Management in each category	
	2017	2016
BBB	13.5%	72.8%
BBB-	61.3%	-
Bond Index Funds and Exchange Traded Funds	27.8%	25.3%
Cash and other equities	(2.6)%	1.9%
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, 2017
(unaudited)

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 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, 2017
(unaudited)

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, 2017 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, 2017 and December 31, 2016 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, 2017	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Corporate bonds	15,051,915	26,077,064	7,440,445	-	48,569,424

All amounts stated in Canadian dollars

NORREP MARKET NEUTRAL 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):

As at December 31, 2016	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
All amounts stated in Canadian dollars					
Corporate bonds	11,069,800	45,680,912	4,429,572	-	61,180,284

(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, 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 Investments	
	2017	2016
Investments:		
Listed equities held long	95.6%	101.5%
Listed equities held short	(95.6)%	(101.2)%
Over-the-counter debt instruments	100.0%	99.7%

Sensitivity analysis:

There is no direction on any index at June 30, 2017 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.

6. 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.

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.

NORREP MARKET NEUTRAL 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 year was as follows:

Class A	2017	2016
Balance, opening	1,452,134	2,100,022
Issued on dividends reinvested	18,345	35,462
Issued for cash	111,653	221,585
Redeemed for cash	(437,362)	(223,892)
Balance, June 30	1,144,770	2,133,177

Class F	2017	2016
Balance, opening	5,540,480	8,550,065
Issued on dividends reinvested	40,291	63,007
Issued for cash	312,202	960,649
Redeemed for cash	(2,262,862)	(1,494,522)
Balance, June 30	3,630,111	8,079,199

The calculation of the 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.

Class A	2017	2016
Decrease in net assets attributable to holders of redeemable units	(94,145)	(420,044)
Average units outstanding during the period	1,303,566	2,114,052
Decrease in net assets attributable to holders of redeemable units per unit	(0.07)	(0.20)

Class F	2017	2016
Decrease in net assets attributable to holders of redeemable units	(84,740)	(1,169,928)
Average units outstanding during the period	4,078,073	8,452,501
Decrease in net assets attributable to holders of redeemable units per unit	(0.02)	(0.13)

NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

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

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

	Class A	Class F
June 30, 2017	\$ 9.39	\$ 10.07
December 31, 2016	\$ 9.66	\$ 10.31
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

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 \$45,621 (December 31, 2016 -\$76,513) 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 31st 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 31st 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.

(a) Manager and management fees (continued):

As at June 30, 2017, included in accounts payable is \$nil (December 31, 2016 - \$nil) related to these fees.

NORREP MARKET NEUTRAL INCOME FUND

Notes to Interim Financial Statements

Six months ended June 30, 2017
(unaudited)

8. Management fees, expenses and key contracts (continued):

(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 \$6,401 (December 31, 2016 - \$10,372) related to these fees.

(c) Operating expense recoveries:

Norrep has agreed to absorb certain expenses associated with some of the Funds. Such absorptions may be terminated at any time without notice. Included in accounts receivable is \$5,500 (December 31, 2016 - \$nil).

9. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$152,882 (June 30, 2016 - \$377,604) 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.

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