

September 30, 2018

FINANCIAL STATEMENTS OF
NCM MARKET NEUTRAL
INCOME FUND





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INDEPENDENT AUDITORS' REPORT

To the Unitholders of NCM Market Neutral Income Fund:

We have audited the accompanying financial statements of NCM Market Neutral Income Fund, which comprise the statement of financial position as at September 30, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the nine months ended September 30, 2018, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NCM Market Neutral Income Fund as at September 30, 2018, and its financial performance and its cash flows for the nine months ended September 30, 2018, in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style.

Chartered Professional Accountants
December 13, 2018
Calgary, Canada

NCM MARKET NEUTRAL INCOME FUND

Statements of Financial Position

(in Canadian dollars, except units outstanding)

As at	September 30 2018	December 31 2017
Assets		
Cash and cash equivalents	2,443,136	997,030
Dividends and interest receivable	405,051	309,329
Due from Manager (note 8)	17,500	14,600
Portfolio assets sold	2,281,060	1,703,213
Investments, at fair value through profit or loss	58,787,734	70,327,707
Total assets	63,934,481	73,351,879
Liabilities		
Accrued expenses (note 8)	81,700	100,600
Distributions payable	171,114	152,975
Dividends payable on investments sold short	65,823	74,922
Portfolio assets purchased	1,602,611	1,387,841
Units redeemed	3,227,120	1,576,501
Investments - short, at fair value through profit or loss	29,257,852	35,103,353
Total liabilities (excluding net assets attributable to holders of redeemable units)	34,406,220	38,396,192
Net assets attributable to holders of redeemable units	29,528,261	34,955,687
Net assets attributable to holders of redeemable units:		
Class A	6,379,101	8,515,919
Class F	23,149,160	26,439,768
Redeemable units outstanding (note 6):		
Class A	706,672	907,921
Class F	2,356,901	2,611,955
Net assets attributable to holders of redeemable units per unit:		
Class A	9.03	9.38
Class F	9.82	10.12

See accompanying notes to financial statements.

On behalf of the Board of Directors of NCM Asset Management Ltd.:



Keith Leslie



Alex Sasso

NCM MARKET NEUTRAL INCOME FUND

Statements of Comprehensive Income

Nine months ended September 30, 2018 and year ended December 31, 2017

(in Canadian dollars)

	2018	2017
Dividend income	578,720	1,160,647
Interest for distribution purposes	1,240,225	2,016,492
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	(475,870)	(1,648,539)
Net change in unrealized appreciation (depreciation) in fair value of investments	(88,948)	1,719,576
Total investment revenue (loss)	1,254,127	3,248,176
Dividend expense on investments sold short	527,828	881,964
Management fees (note 8)	295,865	560,979
Risk management fees	166,674	311,601
Transaction costs	140,424	253,782
Administrative fees (note 8)	34,177	64,525
Custodian and record keeping fees	32,484	49,873
HST/GST	24,259	44,569
Audit and tax fees	15,010	22,123
Other	14,043	20,657
Computer services	9,579	17,113
Legal and filing fees	2,885	4,210
Independent review committee	1,819	6,637
Operating expense recovery (note 8)	(17,500)	(14,600)
Total operating expenses	1,247,547	2,223,433
Increase (decrease) in net assets attributable to holders of redeemable units:	6,580	1,024,743
Withholding tax expense	384	1,888
Increase (decrease) in net assets attributable to holders of redeemable units	6,196	1,022,855
Change in net assets attributable to holders of redeemable units (note 6):		
Class A	(35,168)	133,879
Class F	41,364	888,976
Change in net assets attributable to holders of redeemable units per unit (note 6):		
Class A	(0.04)	0.11
Class F	0.01	0.24

See accompanying notes to financial statements.

NCM MARKET NEUTRAL INCOME FUND

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

Nine months ended September 30, 2018 and year ended December 31, 2017

(in Canadian dollars)

	All Series		Class A		Class F	
	2018	2017	2018	2017	2018	2017
Net assets attributable to holders of redeemable units, beginning of period	34,955,687	71,168,673	8,515,919	14,030,626	26,439,768	57,138,047
Increase (decrease) in net assets, attributable to holders of redeemable units	6,196	1,022,855	(35,168)	133,879	41,364	888,976
Transactions attributable to holders of redeemable units:						
Issuance of units	3,712,604	5,219,761	–	1,166,745	3,712,604	4,053,016
Reinvestment of distribution	614,848	1,086,695	187,571	329,339	427,277	757,356
Amounts paid on redemptions	(8,630,700)	(41,615,062)	(2,059,813)	(6,687,548)	(6,570,887)	(34,927,514)
	(4,303,248)	(35,308,606)	(1,872,242)	(5,191,464)	(2,431,006)	(30,117,142)
Distributions declared:	(1,130,374)	(1,927,235)	(229,408)	(457,122)	(900,966)	(1,470,113)
	(1,130,374)	(1,927,235)	(229,408)	(457,122)	(900,966)	(1,470,113)
Net assets attributable to holders of redeemable units, end of period	29,528,261	34,955,687	6,379,101	8,515,919	23,149,160	26,439,768
Distributions per unit to holders of redeemable units			0.30	0.40	0.32	0.43

See accompanying notes to financial statements.

NCM MARKET NEUTRAL INCOME FUND

Statements of Cash Flows

Nine months ended September 30, 2018 and year ended December 31, 2017

(in Canadian dollars)

	2018	2017
Cash flows from (used in) operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	6,196	1,022,855
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit or loss	475,870	1,648,539
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	88,948	(1,719,576)
Purchase of investments	(182,210,371)	(333,640,643)
Proceeds from the sale and maturity of investments	186,977,472	368,220,177
Dividends and interest receivable	(95,722)	443,463
Due from Manager	(2,900)	(14,600)
Accrued expenses	(18,900)	(103,900)
Dividends payable on investments sold short	(9,099)	(143,229)
Net cash from (used in) operating activities	5,211,494	35,713,086
Cash flows from (used in) financing activities		
Proceeds from the issuance of redeemable units	3,712,604	5,219,761
Amounts paid on redemption of redeemable units	(6,980,081)	(54,385,981)
Distributions to holders of redeemable units, net of reinvestments	(497,387)	(1,300,282)
Net cash from (used in) financing activities	(3,764,864)	(50,466,502)
Net increase (decrease) in cash and cash equivalents	1,446,630	(14,753,416)
Effect of exchange rates on cash and cash equivalents	(524)	(206)
Cash and cash equivalents at beginning of period	997,030	15,750,652
Cash and cash equivalents at end of period	2,443,136	997,030
Dividends received, net of withholding tax paid	621,352	1,250,507
Interest received	1,101,487	2,368,207
Dividend expenses on investments sold short	536,927	1,025,193

See accompanying notes to financial statements

NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio

As at September 30, 2018

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES - LONG				
Communication Services				
Quebecor Inc., Class 'B'	23,500	622,286	608,650	
Rogers Communications Inc., Class 'B'	8,700	544,574	577,941	
		1,166,860	1,186,591	4.1%
Consumer Discretionary				
A&W Revenue Royalties Income Fund	20,300	730,710	735,875	
BRP Inc.	9,800	595,212	593,782	
Great Canadian Gaming Corp.	5,800	271,498	268,540	
Leon's Furniture Ltd.	39,000	694,830	686,790	
		2,292,250	2,284,987	7.7%
Consumer Staples				
Alimentation Couche-Tard Inc., Class 'B'	11,700	686,847	755,937	
		686,847	755,937	2.6%
Energy				
Canadian Natural Resources Ltd.	22,600	1,022,371	953,720	
Enerplus Corp.	49,100	753,774	783,145	
Husky Energy Inc.	39,700	872,090	900,396	
Parex Resources Inc.	81,400	1,693,389	1,786,730	
TransCanada Corp.	12,100	682,174	632,346	
Whitecap Resources Inc.	128,400	1,095,070	1,006,656	
		6,118,868	6,062,993	20.5%
Financials				
AGF Management Ltd., Class 'B'	159,300	1,080,273	973,323	
Canadian Imperial Bank of Commerce	2,400	269,413	290,472	
goeasy Ltd.	7,700	312,873	393,393	
Great-West Lifeco Inc.	19,200	621,274	601,728	
National Bank of Canada	4,800	304,288	309,648	
Sun Life Financial Inc.	4,400	232,378	225,940	
TMX Group Ltd.	6,100	523,970	528,809	
Toronto-Dominion Bank (The)	3,700	291,873	290,413	
		3,636,342	3,613,726	12.2%
Health Care				
Medical Facilities Corp.	68,500	1,071,437	982,975	
		1,071,437	982,975	3.3%
Industrials				
Badger Daylighting Ltd.	12,900	355,667	381,840	
CAE Inc.	16,900	422,763	443,118	
Canadian Pacific Railway Ltd.	2,200	532,871	601,106	
Hardwoods Distribution Inc.	56,800	1,011,831	971,280	
Russel Metals Inc.	21,700	605,219	581,560	
TFI International Inc.	12,200	478,971	571,936	
Wajax Corp.	22,500	561,969	587,700	
		3,969,291	4,138,540	14.0%

NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2018

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
Information Technology				
Constellation Software Inc.	800	745,350	759,896	
Open Text Corp.	7,800	354,417	383,370	
		1,099,767	1,143,266	3.9%
Materials				
Canfor Pulp Products Inc.	35,400	847,884	865,884	
Conifex Timber Inc.	252,600	1,318,024	1,043,238	
Fortuna Silver Mines Inc.	78,100	502,224	440,484	
Hudbay Minerals Inc.	43,500	397,048	284,490	
IAMGOLD Corp.	179,700	1,176,467	853,575	
Kirkland Lake Gold Ltd.	60,200	1,404,445	1,473,696	
Nutrien Ltd.	2,200	163,951	164,076	
		5,810,043	5,125,443	17.4%
Real Estate				
BTB REIT	149,800	634,821	720,538	
Killam Apartment REIT	20,100	287,830	324,213	
Northview Apartment REIT	11,300	284,346	289,732	
Slate Retail REIT, Class 'U'	78,900	985,776	1,004,397	
SmartCentres REIT	28,800	895,545	878,688	
		3,088,318	3,217,568	10.9%
Utilities				
Superior Plus Corp.	27,900	349,556	353,772	
TransAlta Renewables Inc.	33,700	404,519	387,550	
		754,075	741,322	2.5%
TOTAL CANADIAN EQUITIES - LONG		29,694,098	29,253,348	99.1%
TOTAL EQUITIES - LONG		29,694,098	29,253,348	99.1%
CANADIAN BONDS - LONG (Par Value in CAD except as otherwise stated)				
Canada Other Corporate				
Aimia Inc., Callable, 6.850%, 2019/05/17	3,400,000	3,475,389	3,451,000	
Cameco Corp., Callable, Series 'D', 5.670%, 2019/09/02	2,000,000	2,080,981	2,049,300	
Canadian Natural Resources Ltd., Callable, 2.600%, 2019/12/03	500,000	502,093	499,451	
Cominar REIT, Series '7', 3.620%, 2019/06/21	2,000,000	2,024,161	2,007,400	
Co-operators Financial Services Ltd., Callable, 5.778%, 2020/03/10	2,700,000	2,884,798	2,797,551	
First National Financial Corp., Callable, 4.010%, 2020/04/09	3,000,000	3,017,589	3,013,350	
Ford Credit Canada Co., Callable, 2.923%, 2020/09/16	1,400,000	1,393,727	1,387,271	
Genworth MI Canada Inc., Callable, 5.680%, 2020/06/15	2,900,000	3,079,577	3,012,404	
H&R REIT, Callable, Series 'O', 3.416%, 2023/01/23	1,400,000	1,395,770	1,384,390	
Teranet Holdings L.P., Callable, 4.807%, 2020/12/16	3,100,000	3,285,370	3,191,357	
Transcontinental Inc., Callable, 3.897%, 2019/05/13	1,400,000	1,424,011	1,407,588	
		24,563,466	24,201,062	81.9%

NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2018

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
Exchange Traded Funds				
iShares Core Canadian Short Term Corporate + Maple Bond Index ETF	38,700	765,329	729,495	
		<u>765,329</u>	<u>729,495</u>	2.5%
Mutual Fund Shares				
NCM Short Term Income Fund, Series 'I'	474,401	4,857,886	4,603,829	
		<u>4,857,886</u>	<u>4,603,829</u>	15.6%
TOTAL CANADIAN BONDS - LONG - Long		<u>30,186,681</u>	<u>29,534,386</u>	100.0%

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES - Short				
Communication Services				
Cogeco Communications Inc.	(9,200)	(646,547)	(595,240)	
TELUS Corp.	(12,300)	(581,373)	(585,603)	
		<u>(1,227,920)</u>	<u>(1,180,843)</u>	-4.0%
Consumer Discretionary				
Dorel Industries Inc., Class 'B'	(10,000)	(242,592)	(228,900)	
MTY Food Group Inc.	(12,100)	(646,599)	(777,425)	
Recipe Unlimited Corp.	(20,600)	(573,305)	(599,254)	
Restaurant Brands International Inc.	(8,800)	(668,026)	(673,024)	
		<u>(2,130,522)</u>	<u>(2,278,603)</u>	-7.7%
Consumer Staples				
Cott Corp.	(18,900)	(386,021)	(394,065)	
Maple Leaf Foods Inc.	(11,600)	(365,726)	(360,296)	
		<u>(751,747)</u>	<u>(754,361)</u>	-2.6%
Energy				
Advantage Oil & Gas Ltd.	(65,400)	(258,731)	(235,440)	
ARC Resources Ltd.	(23,800)	(345,902)	(342,720)	
Cenovus Energy Inc.	(69,100)	(855,099)	(896,227)	
Freehold Royalties Ltd.	(46,600)	(597,220)	(519,124)	
Imperial Oil Ltd.	(22,800)	(983,731)	(953,040)	
Inter Pipeline Ltd.	(28,200)	(679,349)	(631,680)	
Paramount Resources Ltd., Class 'A'	(34,900)	(465,537)	(528,037)	
Peyto Exploration & Development Corp.	(44,400)	(483,926)	(494,172)	
PrairieSky Royalty Ltd.	(24,300)	(588,136)	(551,367)	
Seven Generations Energy Ltd., Class 'A'	(20,700)	(299,053)	(318,780)	
Tourmaline Oil Corp.	(26,900)	(599,393)	(611,706)	
		<u>(6,156,077)</u>	<u>(6,082,293)</u>	-20.6%
Financials				
Bank of Montreal	(2,800)	(284,328)	(298,312)	
Brookfield Asset Management Inc., Class 'A'	(6,400)	(342,462)	(367,936)	
Canadian Western Bank	(8,600)	(306,136)	(293,260)	
CI Financial Corp.	(14,300)	(333,814)	(293,293)	
ECN Capital Corp.	(205,100)	(751,460)	(773,227)	
Fiera Capital Corp.	(52,400)	(629,657)	(653,952)	
Intact Financial Corp.	(5,800)	(573,446)	(622,920)	
Laurentian Bank of Canada	(7,100)	(338,667)	(302,460)	
		<u>(3,559,970)</u>	<u>(3,605,360)</u>	-12.2%

NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2018

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
Health Care				
Chartwell Retirement Residences	(30,400)	(466,996)	(445,056)	
Sienna Senior Living Inc.	(31,300)	(538,030)	(535,856)	
		(1,005,026)	(980,912)	-3.3%
Industrials				
Boyd Group Income Fund	(4,600)	(569,268)	(579,508)	
Cargojet Inc.	(4,100)	(272,239)	(342,268)	
Dirtt Environmental Solutions Ltd.	(114,400)	(673,972)	(747,032)	
GDI Integrated Facility Services Inc.	(15,500)	(252,211)	(287,525)	
Héroux-Devtek Inc.	(35,100)	(484,644)	(543,348)	
K-Bro Linen Inc.	(11,700)	(439,574)	(448,578)	
Richelieu Hardware Ltd.	(19,300)	(530,025)	(577,070)	
Stantec Inc.	(9,900)	(319,683)	(318,087)	
Westshore Terminals Investment Corp.	(11,000)	(243,888)	(295,240)	
		(3,785,504)	(4,138,656)	-14.0%
Information Technology				
Absolute Software Corp.	(93,100)	(672,475)	(697,319)	
Solium Capital Inc.	(39,500)	(444,170)	(446,745)	
		(1,116,645)	(1,144,064)	-3.9%
Materials				
Acadian Timber Corp.	(28,900)	(542,632)	(526,558)	
Agnico Eagle Mines Ltd.	(9,800)	(479,094)	(432,376)	
AirBoss of America Corp.	(41,400)	(534,967)	(480,654)	
Alamos Gold Inc., Class 'A'	(66,900)	(411,315)	(396,717)	
Barrick Gold Corp.	(54,700)	(732,667)	(781,663)	
Cascades Inc.	(22,500)	(274,708)	(283,725)	
First Quantum Minerals Ltd.	(19,700)	(351,907)	(289,787)	
Goldcorp Inc.	(31,900)	(493,177)	(419,804)	
NovaGold Resources Inc.	(60,000)	(343,217)	(286,200)	
SSR Mining Inc.	(39,100)	(473,731)	(439,093)	
Western Forest Products Inc.	(240,500)	(527,047)	(507,455)	
Winpak Ltd.	(6,100)	(287,286)	(290,604)	
		(5,451,748)	(5,134,636)	-17.4%
Real Estate				
Boardwalk REIT	(6,900)	(317,422)	(346,173)	
Cominar REIT	(36,200)	(473,481)	(422,092)	
Crombie REIT	(44,600)	(602,269)	(580,246)	
CT REIT	(28,700)	(393,786)	(368,795)	
Dream Unlimited Corp., Class 'A'	(61,700)	(485,215)	(498,536)	
H&R REIT	(16,300)	(330,015)	(323,881)	
InterRent REIT	(32,400)	(368,999)	(380,700)	
Morguard North American Residential REIT	(18,300)	(268,186)	(292,983)	
		(3,239,373)	(3,213,406)	-10.9%

NCM MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (continued)

As at September 30, 2018

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
Utilities				
ATCO Ltd., Class 'I'	(9,800)	(378,233)	(369,950)	
Canadian Utilities Ltd., Class 'A'	(11,800)	(378,740)	(374,768)	
		(756,973)	(744,718)	-2.5%
TOTAL CANADIAN EQUITIES - SHORT		(29,181,505)	(29,257,852)	-99.1%
Less: Transaction costs included in average cost		(33,823)		
TOTAL INVESTMENTS		30,665,451	29,529,882	100.0%
Other assets, less liabilities			(1,621)	-%
TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			29,528,261	100.0%

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

1. Reporting Entity:

On August 27, 2018, Norrep Market Neutral Income Fund changed its name to NCM Market Neutral Income Fund. NCM Market Neutral Income Fund (the "Fund") is an unincorporated open-ended mutual fund trust established under the laws of Ontario pursuant to a Declaration of Trust dated January 1, 2011 as amended and restated June 14, 2012, May 15, 2013, August 8, 2013 and March 24, 2017. The Fund's principal place of business is Suite 310, 99 Yorkville Avenue, Toronto, ON M5R 3K5.

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.

Effective August 27, 2018, NCM Market Neutral Income Fund change its year end from December 31 to September 30.

NCM Asset Management Ltd. (formerly, 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").

The financial statements of the Fund were approved and were authorized for issue by the Manager's Board of Directors on December 13, 2018.

(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.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

Effective January 1, 2018, the Fund adopted IFRS 9 Financial Instruments. The new standard requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI) based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Assessment and decision on the business model approach used is an accounting judgement.

Upon transition to IFRS 9, the Fund's financial assets and financial liabilities that were classified as fair value through profit and loss (FVTPL) under IAS 39 continued to be categorized as fair value through profit and loss. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

Under IFRS 9, derivatives are classified as FVTPL like other financial assets and liabilities, so there is no requirement to present separately the different component amounts on the Statement of Comprehensive Income as they fall within the same classification; this is a change from the requirement under IAS 39 where derivatives were classified as Held for Trading.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

3. Significant accounting policies: (continued)

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

(ii) Classification (continued)

However, Canadian Security Administrators (“CSA”) regulatory requirements under NI 81-106 prescribe the individual line items that are required to be disclosed which includes separate disclosure for derivatives.

The Funds classify financial assets and financial liabilities into the following categories.

Financial assets at fair value through profit or loss:

- All investments, including derivatives

Financial assets at amortized cost:

- Cash and cash equivalents and receivables

Financial liabilities at amortised cost:

- All liabilities other than redeemable units

The Funds designate all financial assets and liabilities at fair value through profit or loss on initial recognition because it manages securities on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these securities and the Fund as a whole is on a fair value basis. The Manager also receives management fees which are based on the overall fair value of the Fund.

(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.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

3. Significant accounting policies (continued):

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

(iii) Fair value measurement (continued)

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 Net Asset Value (“NAV”) and accounting NAV.

(iv) Amortized cost measurement

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

(v) Specific instruments

Cash and cash equivalents

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

Redeemable units

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

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

3. Significant accounting policies (continued):

(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.

(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 September 30, 2018 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.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

3. Significant accounting policies (continued):

(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 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.

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);

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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
September 30, 2018				
Public securities – bonds/ETFs	5,333,324	24,201,062	—	29,534,386
Public securities - equities	29,253,348	—	—	29,253,348
	34,586,672	24,201,062	—	58,787,734
Public securities – equities short	(29,257,852)	—	—	(29,257,852)
Total Investments	5,328,820	24,201,062	—	29,529,882

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
December 31, 2017				
Public securities - bonds/ETF's	7,632,617	27,591,650	—	35,224,267
Public securities - equities	35,103,440	—	—	35,103,440
	42,736,057	27,591,650	—	70,327,707
Public securities – equities short	(35,103,353)	—	—	(35,103,353)
Total Investments	7,632,704	27,591,650	—	35,224,354

There were no transfers into or out of Level 1, 2 or 3 during the periods.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

4. Fair value measurement (continued):

(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 September 30, 2018. This also applies to cash and cash equivalents and receivables as they have a short-term settlement.

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

As at September 30, 2018 and December 31, 2017, the Fund was invested in debt securities with the following credit rating:

Debt Security by Credit Rating	% of Assets Under Management in each category	
	September 30, 2018	December 31, 2017
AA	-%	8.4%
A	10.2%	5.8%
BBB	53.2%	54.6%
BB	18.5%	10.1%
	81.9%	78.9%

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.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

5. Financial instruments and associated risks (continued):

Credit risk (continued):

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 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.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

5. Financial instruments and associated risks (continued):

Market risk (continued):

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 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 September 30, 2018 are disclosed in the schedule of investment portfolio.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

5. Financial instruments and associated risks (continued):

Market risk (continued):

(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 September 30, 2018 and December 31, 2017 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.

September 30, 2018	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
All amounts stated in Canadian dollars					
Corporate bonds	8,915,288	13,901,384	1,384,390	—	24,201,062
December 31, 2017	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
All amounts stated in Canadian dollars					
Corporate bonds	4,656,959	22,934,691	—	—	27,591,650

(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.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

5. Financial instruments and associated risks (continued):

Market risk (continued):

(c) Other price risk (continued):

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.

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 September 30, 2018 and December 31, 2017:

	% of Investments	
	2018	2017
Investments:		
Listed equities held long	99.1%	99.7%
Listed Equities held short	(99.1)%	(99.7)%
Over-the-counter debt instruments - long	100.0%	100.0%

Sensitivity analysis:

There is no direction on any index at September 30, 2018 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.

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

6. Net assets attributable to holders of 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.

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	2018	2017
Balance, opening	907,921	1,452,134
Issued on dividends reinvested	20,438	34,742
Issued for cash	–	122,226
Redeemed for cash	(221,687)	(701,181)
Balance, September 30, 2018 and December 31, 2017	706,672	907,921

Class F	2018	2017
Balance, opening	2,611,955	5,540,480
Issued on dividends reinvested	42,914	74,357
Issued for cash	364,375	395,522
Redeemed for cash	(662,343)	(3,398,404)
Balance, September 30, 2018 and December 31, 2017	2,356,901	2,611,955

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.:

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

September 30, 2018	Series A	Series F
Increase (decrease) in net assets attributable to holders of redeemable units	\$(35,168)	\$41,364
Average units outstanding during the period	802,734	2,776,230
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$(0.04)	\$0.01

December 31, 2017	Series A	Series F
Increase (decrease) in net assets attributable to holders of redeemable units	\$133,879	\$888,976
Average units outstanding during the year	1,189,151	3,651,447
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$0.11	\$0.24

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

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

	Class A	Class F
September 30, 2018	\$9.03	\$9.82
December 31, 2017	\$9.38	\$10.12
December 31, 2016	\$9.66	\$10.31
December 31, 2015	\$10.69	\$11.28
December 31, 2014	\$10.80	\$11.27

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 1.9% of the average net asset value of the Class calculated and paid monthly. Class F units paid an annual management fee to the Manager of 0.9% of the average net asset value of the Class calculated and paid monthly. Included in accrued expenses is \$30,295 (December 31, 2017 - \$35,079) 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

NCM MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Nine months ended September 30, 2018 and year ended December 31, 2017

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

(a) Manager and management fees (continued):

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.

As at September 30, 2018, included in accounts payable is \$nil (December 31, 2017 - \$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 \$3,706 (December 31, 2017 - \$4,347) related to these fees.

(c) Operating expense Recoveries:

The Manager has agreed to absorb certain expenses associated with the Fund. Such absorptions may be terminated at any time without notice.

Included in accounts receivable is \$17,500 (December 31, 2017 - \$14,600) related to this absorption.

9. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$140,365 (December 31, 2017 - \$253,094) 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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