



# FINANCIAL STATEMENTS OF NORREP CANADIAN ENHANCED EQUITY FUND

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For the year ended October 31, 2017



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## **INDEPENDENT AUDITORS' REPORT**

To the Unitholders of Norrep Canadian Enhanced Equity Fund:

We have audited the accompanying financial statements of Norrep Canadian Enhanced Equity Fund, which comprise the statement of financial position as at October 31, 2017, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, 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 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 Norrep Canadian Enhanced Equity Fund as at October 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Professional Accountants

December 14, 2017

Calgary, Canada

# NORREP CANADIAN ENHANCED EQUITY FUND

Statements of Financial Position


*(in Canadian dollars, except units outstanding)*

As at	October 31 2017	October 31 2016
<b>Assets</b>		
Cash and cash equivalents	773,817	499,441
Dividends and interest receivable	25,695	20,314
Portfolio assets sold	117,227	99,218
Investments, at fair value through profit or loss	16,484,374	8,906,040
<b>Total assets</b>	<b>17,401,113</b>	<b>9,525,013</b>
<b>Liabilities</b>		
Accrued expenses (note 7)	30,000	23,500
Dividends payable on investments sold short	3,194	3,867
Performance fee payable (note 7)	2,540	-
Portfolio assets purchased	260,901	532,279
Units redeemed	7,944	3,188
Investments - short, at fair value through profit or loss	4,066,818	2,212,878
<b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>4,371,397</b>	<b>2,775,712</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>13,029,716</b>	<b>6,749,301</b>
Net assets attributable to holders of redeemable units:		
Series A	98,486	126,299
Series F	10,020,126	3,916,630
Series I	2,911,104	2,706,372
Redeemable units outstanding (note 6):		
Series A	8,121	11,744
Series F	804,162	357,687
Series I	227,914	243,377
Net assets attributable to holders of redeemable units per unit:		
Series A	12.13	10.75
Series F	12.46	10.95
Series I	12.77	11.12

See accompanying notes to financial statements.

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

  
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 Keith Leslie

  
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 Alex Sasso

# NORREP CANADIAN ENHANCED EQUITY FUND

## Statements of Comprehensive Income

Years ended October 31, 2017 and 2016

*(in Canadian dollars)*

	2017	2016
Dividend income	262,759	208,119
Interest for distribution purposes	7,020	5,333
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	649,467	204,106
Net change in unrealized appreciation (depreciation) in fair value of investments	523,403	566,408
Total investment revenue (loss)	1,442,649	983,966
Management fees (note 7)	46,549	29,252
Dividend expense on investments sold short	43,683	53,077
Custodian and record keeping fees	30,688	2,740
Transaction costs	20,270	16,602
Risk management fees	16,107	13,257
Audit and tax fees	11,854	13,884
Administrative fees (note 7)	9,013	5,812
Other	8,830	12,149
HST/GST	6,383	3,295
Performance fee (note 7)	2,402	-
Computer services	2,243	1,542
Legal and filing fees	1,851	1,561
Independent review committee	917	411
Total operating expenses	200,790	153,582
Increase (decrease) in net assets attributable to holders of redeemable units before tax	1,241,859	830,384
Withholding tax expense	56	28
Increase (decrease) in net assets attributable to holders of redeemable units	1,241,803	830,356
Change in net assets attributable to holders of redeemable units (note 6):		
Series A	15,622	11,721
Series F	759,766	522,506
Series I	466,415	296,129
Change in net assets attributable to holders of redeemable units per unit (note 6):		
Series A	1.63	1.01
Series F	1.94	2.00
Series I	1.94	1.24

See accompanying notes to financial statements.

# NORREP CANADIAN ENHANCED EQUITY FUND

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

Years ended October 31, 2017 and 2016

(in Canadian dollars)

	All Series		Series A		Series F		Series I	
	2017	2016	2017	2016	2017	2016	2017	2016
Net assets attributable to holders of redeemable units, beginning of year	6,749,301	2,720,517	126,299	114,583	3,916,630	219,049	2,706,372	2,386,885
Increase (decrease) in net assets, attributable to holders of redeemable units	1,241,803	830,356	15,622	11,721	759,766	522,506	466,415	296,129
Transactions attributable to holders of redeemable units:								
Issuance of units	5,778,244	3,361,409	–	–	5,773,244	3,332,569	5,000	28,840
Reinvestment of distributions	87,136	76,073	3,163	3,478	9,550	5,234	74,423	67,361
Amounts paid on redemptions of redeemable units	(624,939)	(83,576)	(43,435)	–	(319,677)	(83,576)	(261,827)	–
	5,240,441	3,353,906	(40,272)	3,478	5,463,117	3,254,227	(182,404)	96,201
Distributions declared	(201,829)	(155,478)	(3,163)	(3,483)	(119,387)	(79,152)	(79,279)	(72,843)
	(201,829)	(155,478)	(3,163)	(3,483)	(119,387)	(79,152)	(79,279)	(72,843)
Net assets attributable to holders of redeemable units, end of year	13,029,716	6,749,301	98,486	126,299	10,020,126	3,916,630	2,911,104	2,706,372
Distributions per unit to holders of redeemable units			0.32	0.30	0.32	0.31	0.33	0.31

See accompanying notes to financial statements

# NORREP CANADIAN ENHANCED EQUITY FUND

## Statements of Cash Flows

Years ended October 31, 2017 and 2016

*(in Canadian dollars)*

	2017	2016
<b>Cash flows from (used in) operating activities</b>		
Increase (Decrease) in net assets attributable to holders of redeemable units	1,241,803	830,356
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit or loss	(649,467)	(204,106)
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	(523,403)	(566,408)
Purchase of investments	(26,073,249)	(19,600,904)
Proceeds from the sale and maturity of investments	21,232,338	16,735,688
Dividends and interest receivable	(5,381)	(12,014)
Due from Manager	–	18,000
Accrued expenses	6,500	9,200
Performance fees payable	2,540	–
Dividends payable on investments sold short	(673)	2,782
<b>Net cash from (used in) operating activities</b>	<b>(4,768,992)</b>	<b>(2,787,406)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from the issuance of redeemable units	5,778,244	3,361,409
Amounts paid on redemption of redeemable units	(620,183)	(80,388)
Distributions to holders of redeemable units, net of reinvestments	(114,693)	(79,405)
<b>Net cash from (used in) financing activities</b>	<b>5,043,368</b>	<b>3,201,616</b>
Net increase (decrease) in cash and cash equivalents	274,376	414,210
Effect of exchange rates on cash and cash equivalents	–	(78)
Cash and cash equivalents at beginning of year	499,441	85,309
<b>Cash and cash equivalents at end of year</b>	<b>773,817</b>	<b>499,441</b>
Dividends received, net of withholding tax paid	257,322	196,077
Interest received	7,020	5,333
Dividend expenses on investments sold short	44,356	50,295

See accompanying notes to financial statements

# NORREP CANADIAN ENHANCED EQUITY FUND

Schedule of Investment Portfolio

As at October 31, 2017

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - Long</b>				
<b>Consumer Discretionary</b>				
Dollarama Inc.	1,100	101,378	157,971	
Gildan Activewear Inc.	6,500	252,825	256,620	
Leon's Furniture Ltd.	10,300	185,651	201,571	
Magna International Inc.	3,800	257,981	267,444	
Quebecor Inc., Class 'B'	6,600	294,952	321,288	
		1,092,787	1,204,894	9.3%
<b>Consumer Staples</b>				
Alimentation Couche-Tard Inc., Class 'B'	5,200	312,873	314,548	
Maple Leaf Foods Inc.	11,200	371,007	374,752	
Premium Brands Holdings Corp.	1,800	155,823	187,920	
		839,703	877,220	6.7%
<b>Energy</b>				
Advantage Oil & Gas Ltd.	56,100	443,910	383,163	
Enerplus Corp.	39,000	433,248	461,370	
Parex Resources Inc.	23,500	335,293	403,260	
TransCanada Corp.	5,500	332,612	336,875	
Whitecap Resources Inc.	44,400	409,418	411,144	
		1,954,481	1,995,812	15.3%
<b>Financials</b>				
AGF Management Ltd., Class 'B'	40,600	309,146	337,386	
Bank of Montreal	7,100	618,921	701,693	
Canadian Imperial Bank of Commerce	7,300	761,543	828,988	
Manulife Financial Corp.	17,200	392,505	446,168	
National Bank of Canada	6,200	332,608	388,182	
Power Corp. of Canada	11,700	370,218	387,036	
Royal Bank of Canada	6,400	543,013	645,568	
		3,327,954	3,735,021	28.7%
<b>Industrials</b>				
AG Growth International Inc.	6,100	315,040	308,050	
Canadian National Railway Co.	5,600	494,646	581,336	
Hardwoods Distribution Inc.	5,400	87,095	118,314	
New Flyer Industries Inc.	5,400	283,095	295,596	
Russel Metals Inc.	14,600	398,957	421,064	
SNC-Lavalin Group Inc.	4,500	250,575	261,540	
Transcontinental Inc., Class 'A'	7,000	176,011	200,480	
WSP Global Inc.	4,800	245,599	277,536	
		2,251,018	2,463,916	18.9%
<b>Information Technology</b>				
Constellation Software Inc.	300	188,184	220,194	
Open Text Corp.	7,300	302,720	329,303	
		490,904	549,497	4.2%
<b>Materials</b>				
Centerra Gold Inc.	28,500	220,315	249,660	
Conifex Timber Inc.	63,600	296,276	295,740	
Hudbay Minerals Inc.	42,900	408,492	411,411	
Kirkland Lake Gold Ltd.	21,300	278,306	322,269	



# NORREP CANADIAN ENHANCED EQUITY FUND

Schedule of Investments Portfolio (continued)

As at October 31, 2017

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Materials (contd.)</b>				
Labrador Iron Ore Royalty Corp.	9,100	174,562	190,008	
Lundin Mining Corp.	33,700	331,802	331,608	
Norbord Inc.	4,300	187,628	199,950	
Richmont Mines Inc.	11,900	128,275	133,637	
Teck Resources Ltd., Class 'B'	14,000	404,937	369,040	
West Fraser Timber Co. Ltd.	2,300	138,069	180,481	
		2,568,662	2,683,804	20.6%
<b>Real Estate</b>				
Brookfield Real Estate Services Inc., Restricted	11,800	194,923	192,340	
BTB REIT	53,600	241,664	247,632	
Choice Properties REIT	18,900	248,176	256,284	
CREIT	5,400	251,429	251,640	
Northview Apartment REIT	10,300	231,964	239,784	
NorthWest Healthcare Properties REIT	22,400	238,833	254,688	
		1,406,989	1,442,368	11.1%
<b>Telecommunication Services</b>				
BCE Inc.	6,400	373,797	381,248	
		373,797	381,248	2.9%
<b>Utilities</b>				
Capital Power Corp.	10,100	244,380	246,743	
Fortis Inc.	6,900	303,866	327,819	
Northland Power Inc.	10,600	250,952	261,502	
Valener Inc.	14,200	313,443	314,530	
		1,112,641	1,150,594	8.8%
<b>TOTAL CANADIAN EQUITIES - Long</b>		<b>15,418,936</b>	<b>16,484,374</b>	<b>126.5%</b>
<b>TOTAL EQUITIES - Long</b>		<b>15,418,936</b>	<b>16,484,374</b>	<b>126.5%</b>
<hr/>				
Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - Short</b>				
<b>Consumer Discretionary</b>				
Aritzia Inc.	(2,000)	(26,558)	(21,900)	
Canada Goose Holdings Inc.	(8,600)	(215,182)	(237,704)	
Cara Operations Ltd.	(10,300)	(255,973)	(272,023)	
Transat A.T. Inc.	(7,800)	(43,469)	(83,148)	
		(541,182)	(614,775)	-4.7%
<b>Consumer Staples</b>				
AGT Food and Ingredients Inc.	(6,000)	(138,889)	(138,780)	
Cott Corp.	(8,400)	(163,770)	(162,456)	
		(302,659)	(301,236)	-2.3%
<b>Financials</b>				
Brookfield Asset Management Inc., Class 'A'	(2,400)	(121,952)	(129,888)	
		(121,952)	(129,888)	-1.0%
<b>Industrials</b>				
Dirtt Environmental Solutions Ltd.	(21,800)	(128,238)	(138,866)	
Héroux-Devtek Inc.	(12,700)	(179,925)	(186,944)	
Savaria Corp.	(12,000)	(176,184)	(191,040)	
Student Transportation Inc.	(16,900)	(120,369)	(127,595)	

# NORREP CANADIAN ENHANCED EQUITY FUND

Schedule of Investments Portfolio (continued)

As at October 31, 2017

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>Industrials (contd.)</b>				
Westshore Terminals Investment Corp.	(3,000)	(65,381)	(73,830)	
		(670,097)	(718,275)	-5.5%
<b>Information Technology</b>				
Absolute Software Corp.	(15,500)	(127,755)	(129,425)	
Computer Modelling Group Ltd.	(12,700)	(128,745)	(129,921)	
Enghouse Systems Ltd.	(2,300)	(117,455)	(125,396)	
		(373,955)	(384,742)	-2.9%
<b>Materials</b>				
AirBoss of America Corp.	(5,200)	(66,236)	(60,060)	
Canfor Pulp Products Inc.	(8,300)	(92,356)	(116,947)	
Domtar Corp.	(2,300)	(128,918)	(140,484)	
Kinross Gold Corp.	(29,900)	(158,339)	(152,490)	
Turquoise Hill Resources Ltd.	(37,800)	(145,326)	(148,932)	
Winpak Ltd.	(3,000)	(152,653)	(149,400)	
Yamana Gold Inc.	(38,500)	(131,499)	(128,975)	
		(875,327)	(897,288)	-6.9%
<b>Real Estate</b>				
Canadian Apartment Properties REIT	(3,700)	(119,824)	(126,059)	
Cominar REIT	(9,100)	(123,860)	(125,944)	
Crombie REIT	(9,500)	(127,500)	(127,110)	
Dream Unlimited Corp., Class 'A'	(17,400)	(119,943)	(127,890)	
First Capital Realty Inc.	(6,400)	(128,301)	(130,944)	
Morguard North American Residential REIT	(8,200)	(125,898)	(127,510)	
		(745,326)	(765,457)	-5.9%
<b>Utilities</b>				
Hydro One Ltd.	(5,600)	(129,802)	(127,736)	
TransAlta Corp.	(16,700)	(130,143)	(127,421)	
		(259,945)	(255,157)	-2.0%
<b>TOTAL CANADIAN EQUITIES - Short</b>				
		<b>(3,890,443)</b>	<b>(4,066,818)</b>	<b>-31.2%</b>
Less: Transaction costs included in average cost		(7,874)		
<b>TOTAL INVESTMENTS</b>				
		<b>11,520,619</b>	<b>12,417,556</b>	<b>95.3%</b>
Other assets, less net liabilities			612,160	4.7%
<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>				
			<b>13,029,716</b>	<b>100.0%</b>

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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## 1. Reporting Entity:

Norrep Canadian Enhanced Equity Fund (the “Fund”) is an unincorporated open-ended mutual fund trust established under the laws of Ontario pursuant to a trust agreement dated January 30, 2015. The Fund’s principal place of business is Suite 4330, 77 King Street West, Toronto, Ontario, M5K 1H6.

The Fund may issue an unlimited number of units in an unlimited number of series. 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. (“Norrep”) is the Manager and Portfolio Manager for the Fund. As Manager, it provides overall management and direction for the Fund as well as manages the day-to-day operation of the Fund. As Portfolio Manager, it provides investment management services to the Fund. Computershare Trust Company is the Trustee, Scotia Capital Inc. is the Prime Broker, CIBC Mellon Global Securities Services Company is the Custodian, Administrator, Transfer Agent and Registrar and Norrep Investment Management Group Inc. 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 14, 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 period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant areas requiring the use of management estimates include the fair value of investments, the unrealized gains/losses from investments and the accruals for investment income.

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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## 3. Significant accounting policies (continued):

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

#### (i) Recognition and initial measurement

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

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

#### (ii) Classification

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

Financial assets at fair value through profit or loss:

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

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents and receivables

Financial liabilities at amortised cost:

- Other liabilities: all liabilities, other than investments sold short, which are designated 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.

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.

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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## 3. Significant accounting policies (continued):

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

#### (iii) Fair value measurement (continued):

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.

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.

The value at which redeemable units are issued or redeemed is determined by dividing the net assets at fair value, based on last trading price, of each class by the total number of

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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

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

(v) Specific instruments (continued):

redeemable units outstanding for the Class at the Valuation Time on the Dealing Day as defined in the Offering Memorandum (generally the last day of each calendar week and the last business day of each calendar month). Amounts received on the issuance of redeemable units and amounts paid by the Class on the redemption of redeemable units are added to or deducted from net assets.

(b) 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.

(c) 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.

(d) 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.

(e) Income tax:

The Fund is a "mutual fund trust" under the Income Tax Act (Canada) and, accordingly, will not be taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund expects to pay 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.

(f) 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 the increase (decrease) in net assets attributable to holders of redeemable units of a Series for the period, divided by the weighted average units outstanding during the period.

(g) Translation of foreign currency:

Foreign currency amounts are expressed in Canadian dollars as follows:

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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

#### (g) Translation of foreign currency (continued):

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

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

#### (h) Derivative financial instruments:

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

Options are contracts entitling the holder to purchase or sell a specified item at a specified price, during a specified period or on a specified date. Options purchased are recorded as investments; options written (sold) are recorded as liabilities. Any gain or loss resulting from revaluation is included in change in unrealized gain (loss) on derivative instruments on the statements of comprehensive income. Upon closing of an option, other than by exercise, which results in a cash settlement, the difference between the premium (original option value) and the settlement proceeds is included in net realized gain (loss) on derivative instruments on the statements of comprehensive income. When securities are acquired or delivered upon exercise of an option, the acquisition cost or sale proceeds are adjusted by the amount of the premium. When an option is closed, the difference between the premium and the cost to close the position is included in net realized gain (loss) on derivatives on the statements of comprehensive income. When an option expires, the premium for options written or purchased is reflected in the statement of operations as net realized gain (loss) on derivative instruments.

The risks include the possibility there may be an illiquid options market or the inability of the counterparties to fulfill their obligations under the contract. Writing options involves, to varying degrees, elements of market risk in excess of the amount recognized in the statement of financial position.

#### (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

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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

(i) Short selling (continued):

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 for the Fund is for the fiscal year beginning November 1, 2018.

The Manager has reviewed the standard and does not anticipate a material impact on the Fund.

### 4. Fair value measurement:

(a) Investments

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

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

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

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



# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

## 4. Fair value measurement (continued):

### (a) Investments (continued):

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 period 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 level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
October 31, 2017				
Public securities				
Equities - long	16,484,374	—	—	16,484,374
Equities - short	(4,066,818)	—	—	(4,066,818)
Total Investments	12,417,556	—	—	12,417,556

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
October 31, 2016				
Public securities				
Equities - long	8,906,040	—	—	8,906,040
Equities - short	(2,212,878)	—	—	(2,212,878)
Total Investments	6,693,162	—	—	6,693,162

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

### (c) Financial instruments not measured at fair value

The carrying values of cash and cash equivalents, dividends and interest receivable, accrued expenses, and 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. The Fund also holds short positions which are subject to certain inherent risks. The ultimate cost to the Fund to acquire these securities may exceed the liability reflected in these financial statements.

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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

### **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 carrying amount of cash and cash equivalents and receivables, represent the maximum credit risk exposure as at October 31, 2017.

Credit risk arising on transactions for shares 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 period involved.

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.

All of the assets of the Fund are held by Scotia Capital Inc., the Prime Broker. Bankruptcy or insolvency of the Prime Broker may cause the Fund's rights with respect to securities held by the custodian and prime broker to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and credit rating and financial position of the prime broker. If the credit quality or the financial position deteriorates significantly then the Manager will move the cash 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 weekly and monthly cash redemptions of redeemable units. The Fund may acquire significant positions in thinly-traded and relatively illiquid investments that may cease to be traded after the Fund invests. In such cases, and in the event of extreme market volatility, the Fund may not be able to promptly liquidate its investments, if a need should arise.

Additionally, investments in small, mid-capitalization and micro-capitalization companies may involve greater risks than investments in larger, more established companies since such companies may have more limited markets and financial resources, their securities may be more sensitive to market changes, and the liquidity of their securities may be limited.

Consequently, in order to fund redemptions, the Fund may have to liquidate its 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.

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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

### Liquidity risk (continued):

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 long-term capital appreciation by investing primarily in a diversified portfolio of Canadian equity securities. The Fund pursues its investment objective by establishing long and short equity exposure to securities of companies, stock markets or industry sectors located, primarily, in Canada. The Fund may hold a portion of its assets in cash, money market instruments, or fixed-income securities, including bonds and other debt securities. In periods of unusual market conditions, a significant portion of the Fund's assets may be held in such instruments. The Fund may also from time to time use derivatives, such as options, futures and forward contracts for hedging purposes, to gain exposure to individual securities and markets (instead of buying the securities directly) and/or to generate income.

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.

No material change that would adversely affect the interest of the Unitholders of the Fund may be made without the approval of the unitholders. An approval is not required if the Manager provides the Unitholders with at least 60 days written notice of such proposed change and the right to redeem all Units prior to the effective date of the change. The Manager may alter the Fund's investment objectives, strategies and restrictions without prior approval by Unitholders in certain circumstances.

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 October 31, 2017 are disclosed in the schedule of investment portfolio.

#### (a) Currency risk:

Investment 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 October 31, 2017 the Fund did not hold any foreign currency denominated investments.

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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

### Market risk (continued):

#### (b) Interest rate risk:

Interest rate risk arises on interest bearing financial instruments. Changes in interest rates may also affect the value of the equity securities. The income earned by an investment fund and the interest paid by an investment fund for borrowing, is also affected by changes in interest rates.

At October 31, 2017, there are no interest-bearing financial assets or liabilities. As a result, the Fund is subject to limited exposure to interest rate risks due to fluctuations in the prevailing levels of market interest rates.

#### (c) Other price risk:

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

To achieve its objective, the Fund will generally hold 100 percent net long equity market exposure by investing primarily in equity securities with an aggregate value of approximately 130 percent of its Net Asset Value and holding short positions with a market value of approximately 30 percent of its Net Asset Value.

Approximately 10% of the equity portion of the invested net assets of the Fund may 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. This strategy seeks 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 rather than absolute values of their returns.

The remaining equity portion of the invested net assets of the Fund will primarily be managed using the Manager’s 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 consist of stocks that lack momentum, growth or trade at unreasonable valuations.

Price risk is managed by the Manager by constructing a diversified portfolio of instruments. The price of a security is affected by individual company developments and by general economic and financial conditions in those countries where the issuer of the security is located, does business or where the security is listed for trading.

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

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

### Market risk (continued):

#### (c) Other price risk (continued):

The Manager monitors these factors daily and makes decisions regarding the portfolio based on its knowledge of the market conditions and diversifies the portfolio of investments accordingly. The risk resulting from financial instruments is equivalent to their fair value.

Sensitivity analysis:

A 1% increase or decrease on the S&P/TSX Total Return Index (“Benchmark”) at October 31, 2017 would have impacted the net assets and the net increase/decrease in net assets attributable to holders of redeemable units by \$124,176 (October 31, 2016 - \$ 66,932).

The Fund’s financial assets exposed to other price risk were concentrated in the following industries as a percentage of net investment at October 31, 2017 and October 31, 2016:

Equities	2017	2016
Financials	29.0%	24.6%
Energy	16.1%	19.9%
Materials	14.4%	16.9%
Industrials	14.1%	6.4%
Utilities	7.2%	6.2%
Real Estate	5.4%	7.1%
Consumer Discretionary	4.8%	7.2%
Consumer Staples	4.6%	5.3%
Telecommunication Services	3.1%	3.9%
Information Technology	1.3%	2.5%
Total	100.0%	100.0%

## 6. Redeemable units:

The authorized capital of the Fund consists of an unlimited number of Units, each representing an equal undivided interest in the net assets of the Fund. Currently, there are three series outstanding, Series A, Series F and Series I. Each series ranks equally, on a per-Series basis, with respect to distributions and return of capital in the event of liquidation, dissolution or winding up based on their respective series’ net asset values. Each series pays its own fees and expenses. The general expenses that are not series specific are allocated in proportion to the annual weighted average units of each series. Series A is sold under the front end sales charge option. A commission ranging from 0% to 2% is paid by the investor to the dealer with a 3% redemption fee being charged if the Units are redeemed in the first 180 days of investment. Series F is 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 Series F is redeemed in the first 180 days of investment.

Series I units are sold with commissions negotiated between the investor and the dealer and are available to certain investors at the Portfolio Manager’s discretion. A 3% redemption fee is charged if the units are redeemed in the first 180 days of investment.

The rights attached to the redeemable units are as follows:

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

## 6. Redeemable units (continued):

- the units may be redeemed on the last business day of each week and the last business day of each month at the net asset value per share of the respective series upon 7 days' notice prior to the valuation day;
- units carry a right to receive notice of, attend and vote at meetings called in accordance with the Declaration of Trust;
- the holders of Units are entitled to receive all distributions declared by the Fund. Distributions the Fund makes will be allocated among each Series in such manner as the Manager considers appropriate and equitable. 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 Units and net assets attributable to holders of redeemable units during the period was as follows:

<b>Series A</b>	2017	2016
Balance, opening	11,744	11,400
Issued on dividends reinvested	283	344
Redeemed for cash	(3,906)	–
Balance, October 31	8,121	11,744

<b>Series F</b>	2017	2016
Balance, opening	357,687	21,617
Issued on dividends reinvested	833	504
Issued for cash	473,993	343,867
Redeemed for cash	(28,351)	(8,301)
Balance, October 31	804,162	357,687

<b>Series I</b>	2017	2016
Balance, opening	243,377	234,214
Issued on dividends reinvested	6,377	6,473
Issued for cash	446	2,690
Redeemed for cash	(22,286)	–
Balance, October 31	227,914	243,377

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

October 31, 2017	Series A	Series F	Series I
Increase in net assets attributable to holders of redeemable units	\$15,622	\$759,766	\$466,415
Average units outstanding during the period	9,605	392,408	240,274
Increase in net assets attributable to holders of redeemable units per unit	\$1.63	\$1.94	\$1.94

# NORREP CANADIAN ENHANCED EQUITY FUND

Notes to the Financial Statements

Years ended October 31, 2017 and 2016

## 6. Redeemable units (continued):

October 31, 2016	Series A	Series F	Series I
Increase in net assets attributable to holders of redeemable units	\$11,721	\$522,506	\$296,129
Average units outstanding during the period	11,562	261,722	238,362
Increase in net assets attributable to holders of redeemable units per unit	\$1.01	\$2.00	\$1.24

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

### (a) Manager and management fees:

The Series A units paid an annual management fee to the Manager of 2.0% of the net asset value of the series. Series F units paid an annual management fee to the Manager of 1.0% of the net asset value of the series. The management fee is calculated and paid monthly. Included in accrued expenses is \$6,358 (October 31, 2016 - \$3,485) related to these fees.

No management fee is charged to the Series I. Instead, the investors pay a management fee directly to the Manager in an amount determined through negotiation with the Manager.

The Fund will pay the Manager a Performance Fee if the series return of the Fund exceeds the return of a specified benchmark (the "Benchmark") during the relevant period. The Performance Fee is based on the performance of the Fund determined at the end of each calendar quarter. If the series performance exceeds the Benchmark, 20% of this amount will be multiplied by the average series net asset value during the Performance Measurement Period, as defined. As at October 31, 2017, included in accounts payable is \$2,540 (October 31, 2016 - \$nil) related to these fees.

### (b) Expenses:

All fees and expenses applicable to the administration and operation of each series, including record keeping and communication costs, custodian fees, legal and filing fees, audit, applicable taxes and bank charges are payable by the Fund. Brokerage costs are incorporated in the cost and proceeds of securities transactions. The Manager has charged the Fund for administration services. Included in accrued expenses is \$791 (October 31, 2016 - \$704) related to these fees.

## 8. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$20,270 (October 31, 2016 - \$16,602) in connection with portfolio transactions during the year.

## 9. 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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