



FINANCIAL STATEMENTS OF NORREP HIGH INCOME FUND

For the year ended October 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Norrep High Income Fund (formerly Norrep High Yield Class of Norrep Opportunities Corp.)

We have audited the accompanying financial statements of Norrep High Income Fund, which comprise the statements of financial position as at October 31, 2017 and October 31, 2016, the statements of comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows for the years 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 High Income Fund as at October 31, 2017 and October 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

December 14, 2017

Calgary, Canada

NORREP HIGH INCOME FUND

Statements of Financial Position

(in Canadian dollars, except units outstanding)

As at	October 31, 2017	October 31, 2016 (note 4)
Assets		
Cash and cash equivalents	885,275	6,929,969
Dividends and interest receivable	507,483	903,711
Portfolio assets sold	-	140,000
Units issued	228,400	17,280
Investments - long, at fair value through profit or loss	35,681,248	47,978,415
Total assets	37,302,406	55,969,375
Liabilities		
Accrued expenses (note 8)	76,500	108,500
Distributions payable	58,635	108,743
Portfolio assets purchased	644,550	656,722
Units redeemed	83,611	199,551
Unrealized loss on derivatives	764,535	706,371
Total liabilities (excluding net assets attributable to holders of redeemable units)	1,627,831	1,779,887
Net assets attributable to holders of redeemable units	35,674,575	54,189,488
Net assets attributable to holders of redeemable units:		
Series A	14,505,595	25,691,146
Series F	9,096,565	15,842,121
Series I	12,072,415	12,656,221
Redeemable units outstanding (note 7):		
Series A	580,002	1,011,163
Series F	363,177	629,497
Series I	481,263	507,691
Net assets attributable to holders of redeemable units per units :		
Series A	25.01	25.41
Series F	25.05	25.17
Series I	25.08	24.93

See accompanying notes to financial statements.

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



Alex Sasso



Keith Leslie

NORREP HIGH INCOME FUND

Statements of Comprehensive Income (Loss)

Years ended October 31, 2017 and 2016

(in Canadian dollars)

	2017	2016 (note 4)
Dividend income	349,579	168,247
Interest for distribution purposes	2,381,960	5,090,935
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	(3,072,876)	3,503,752
Net realized gain (loss) on derivative instruments	1,709,457	(2,913,908)
Net change in unrealized appreciation (depreciation) in fair value of investments	1,815,284	(5,930,367)
Net change in unrealized appreciation (depreciation) on derivative instruments	(58,164)	(102,779)
Total investment revenue (loss)	3,125,240	(184,120)
Management fees (note 8)	508,362	861,115
Administrative fees (note 8)	57,808	84,020
Custodian and record keeping fees	57,611	62,778
HST/GST	54,446	96,356
Audit and tax fees	25,284	23,264
Legal and filing fees	21,226	26,632
Other	19,731	16,730
Computer services	14,936	24,151
Transaction costs	14,916	14,103
Independent review committee	5,396	6,856
Total operating expenses	779,716	1,216,005
Increase (decrease) in net assets attributable to holders of redeemable units before tax	2,345,524	(1,400,125)
Withholding tax expense	18,728	25,237
Increase (decrease) in net assets attributable to holders of redeemable units	2,326,796	(1,425,362)
Change in net assets attributable to holders of redeemable units (note 7):		
Series A	831,569	(702,207)
Series F	643,903	(788,617)
Series I	851,324	136,805
Series O	-	(71,343)
Change in net assets attributable to holders of redeemable units per unit (note 7):		
Series A	1.07	(0.55)
Series F	1.36	(0.98)
Series I	1.71	0.30
Series O	-	(0.25)

See accompanying notes to financial statements.

NORREP HIGH INCOME 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		Series O	
	2017	2016 (note 4)	2017	2016 (note 4)	2017	2016 (note 4)	2017	2016 (note 4)	2017	2016 (note 4)
Net assets attributable to holders of redeemable units, beginning of year	54,189,488	101,026,097	25,691,146	45,656,804	15,842,121	37,655,786	12,656,221	17,713,507	-	-
Increase (decrease) in net assets, attributable to holders of redeemable units	2,326,796	(1,425,362)	831,569	(702,207)	643,903	(788,617)	851,324	136,805	-	(71,343)
Transactions attributable to holders of redeemable units:										
Issuance of units	3,338,120	13,256,651	324,854	2,271,223	3,013,266	4,518,430	-	3,966,998	-	2,500,000
Reinvestment of distributions	1,608,449	2,757,384	746,725	1,350,746	397,808	871,369	463,916	535,269	-	-
Amounts paid on redemptions of redeemable units	(23,066,412)	(57,360,199)	(11,885,284)	(20,829,222)	(10,058,251)	(25,180,548)	(1,122,877)	(8,997,168)	-	(2,353,261)
	(18,119,843)	(41,346,164)	(10,813,705)	(17,207,253)	(6,647,177)	(19,790,749)	(658,961)	(4,494,901)	-	146,739
Distributions declared:										
From dividend income	(2,516,897)	(4,065,083)	(1,115,689)	(2,056,198)	(692,237)	(1,234,299)	(708,971)	(699,190)	-	(75,396)
From net realized gains on investments	(204,969)	-	(87,726)	-	(50,045)	-	(67,198)	-	-	-
	(2,721,866)	(4,065,083)	(1,203,415)	(2,056,198)	(742,282)	(1,234,299)	(776,169)	(699,190)	-	(75,396)
Net assets attributable to holders of redeemable units, end of year	35,674,575	54,189,488	14,505,595	25,691,146	9,096,565	15,842,121	12,072,415	12,656,221	-	-
Distribution per share to holders of redeemable units (note 4):										
From dividend income			1.44	1.64	1.43	1.59	1.43	1.60	-	0.27
From net realized gain on investments			0.14	-	0.14	-	0.14	-	-	-

See accompanying notes to financial statements.

NORREP HIGH INCOME FUND

Statements of Cash Flows

Years ended October 31, 2017 and 2016

(in Canadian dollars)

	2017	2016
Cash flows from (used in) operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	2,326,796	(1,425,362)
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit or loss	3,072,876	(3,503,752)
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	(1,815,284)	5,930,367
Net change in unrealized (appreciation) depreciation on derivative instruments	58,164	102,779
Purchase of investments	(25,706,918)	(31,414,726)
Proceeds from the sale and maturity of investments	37,835,169	79,012,504
Dividends and interest receivable	396,228	848,040
Accrued expenses	(32,000)	(70,400)
Realized gain receivable on foreign exchange contract	-	1,682
Net cash from (used in) operating activities	16,135,031	49,481,132
Cash flows from (used in) financing activities		
Proceeds from the issuance of redeemable units	3,127,000	13,245,471
Amounts paid on redemption of redeemable units	(23,182,352)	(57,566,699)
Distributions to holders of redeemable units, net of reinvestments	(1,163,525)	(1,326,648)
Net cash from (used in) financing activities	(21,218,877)	(45,647,876)
Net increase (decrease) in cash and cash equivalents	(5,083,846)	3,833,256
Effect of exchange rates on cash and cash equivalents	(960,848)	62,517
Cash and cash equivalents at beginning of year	6,929,969	3,034,196
Cash and cash equivalents at end of year	885,275	6,929,969
Dividends received, net of withholding tax paid	330,851	143,010
Interest received	2,778,188	5,959,385

See accompanying notes to financial statements.

NORREP HIGH INCOME FUND

Schedule of Investment Portfolio

As at October 31, 2017

(in Canadian dollars)

Description	Number of Shares / Par value	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES				
Energy				
Source Energy Services Ltd.	7,737	81,239	66,925	
		81,239	66,925	0.2%
TOTAL EQUITIES		81,239	66,925	0.2%
CANADIAN BONDS - LONG (Par Value in CAD except as otherwise stated)				
Corporate				
AGT Food and Ingredients Inc., Callable, 5.875%, 2021/12/21	750,000	750,000	773,750	
Canadian Energy Services & Technology Corp., Callable, 7.375%, 2020/04/17	1,876,000	1,970,610	1,949,868	
CES Energy Solutions Corp., Callable, 6.375%, 2024/10/21	1,500,000	1,500,000	1,533,125	
Clearwater Seafoods Inc., Callable, 6.875%, 2025/05/01 (Par Value in USD)	1,000,000	1,376,967	1,362,837	
Crew Energy Inc., Restricted, Callable, 6.500%, 2024/03/14	500,000	500,000	486,875	
Gateway Casinos & Entertainment Ltd., Callable, 8.250%, 2024/03/01 (Par Value in USD)	1,000,000	1,323,372	1,372,891	
Gibson Energy Inc., Callable, 5.250%, 2024/07/15	1,000,000	1,000,000	1,007,500	
Gibson Energy Inc., Callable, 5.250%, 2024/07/15	150,000	150,000	150,750	
goeasy Ltd., Restricted, Callable, 7.875%, 2022/11/01 (Par Value in USD)	500,000	644,425	664,692	
Great Canadian Gaming Corp., Callable, 6.625%, 2022/07/25	1,000,000	1,011,250	1,037,917	
Lundin Mining Corp., Callable, 7.875%, 2022/11/01 (Par Value in USD)	750,000	839,363	1,049,005	
Mattamy Group Corp., Callable, 6.875%, 2023/12/15 (Par Value in USD)	1,000,000	1,329,544	1,363,223	
Parkland Fuel Corp., Restricted, Callable, 5.625%, 2025/05/09	1,000,000	1,004,500	1,008,125	
River Cree Enterprises Ltd., Callable, 11.000%, 2021/01/20	2,000,000	1,999,620	2,077,500	
SkyLink Aviation Inc., Callable, 12.250%, 2018/05/10	257,453	9,633	—	
Source Energy Services Canada L.P. / Source Energy Services Canada Holdings Ltd., Callable, 10.500%, 2021/12/15	829,000	829,000	938,842	
Superior Plus L.P., Restricted, Callable, 5.250%, 2024/02/27	1,000,000	1,007,500	1,025,000	
Teine Energy Ltd., Callable, 6.875%, 2022/09/30 (Par Value in USD)	675,000	601,584	889,721	
		17,847,368	18,691,621	52.4%
TOTAL CANADIAN BONDS		17,847,368	18,691,621	52.4%
UNITED STATES BONDS - LONG (Par Value in USD)				
Alliance Data Systems Corp., Callable, 5.375%, 2022/08/01	1,500,000	1,834,862	1,981,991	
HRG Group Inc., Callable, 7.750%, 2022/01/15	1,000,000	1,375,027	1,353,555	
Mueller Industries Inc., Callable, 6.000%, 2027/03/01	1,000,000	1,342,429	1,330,996	
NCR Corp., Callable, 6.375%, 2023/12/15	1,000,000	1,351,952	1,376,192	
Real Alloy Holding Inc., Callable, 10.000%, 2019/01/15	1,000,000	1,342,423	1,198,863	
		7,246,693	7,241,597	20.3%
Exchange Traded Funds				
iShares iBoxx \$ High Yield Corporate Bond ETF	24,600	2,782,708	2,805,548	
SPDR Bloomberg Barclays High Yield Bond ETF	49,500	2,325,652	2,376,301	
		5,108,360	5,181,849	14.5%
TOTAL UNITED STATES BONDS		12,355,053	12,423,446	34.8%
TOTAL BONDS		30,202,421	31,115,067	87.2%

NORREP HIGH INCOME FUND

Schedule of Investment Portfolio (continued)

As at October 31, 2017

(in Canadian dollars)

Description	Par value	Cost (\$)	Fair Value (\$)	% of Net Assets
INTERNATIONAL TERM LOANS (Par Value in USD)				
Manwin Licensing International SARL, Term Loans, 14.000%, 2018/10/18	875,293	1,304,192	1,269,383	
		<u>1,304,192</u>	<u>1,269,383</u>	<u>3.6%</u>
TOTAL INTERNATIONAL TERM LOANS		<u>1,304,192</u>	<u>1,269,383</u>	<u>3.6%</u>
UNITED STATES TERM LOANS (Par Value in USD)				
Canam Group Inc., Term Loans, 6.738%, 2024/06/29	498,750	628,295	647,761	
Flexera Software LLC, Term Loans, 8.330%, 2021/04/02	1,500,000	1,652,627	1,933,650	
McAfee LLC, Term Loans, 5.833%, 2024/09/27	500,000	612,216	648,462	
		<u>2,893,138</u>	<u>3,229,873</u>	<u>9.0%</u>
TOTAL UNITED STATES TERM LOANS		<u>2,893,138</u>	<u>3,229,873</u>	<u>9.0%</u>
TOTAL TERM LOANS		<u>4,197,330</u>	<u>4,499,256</u>	<u>12.6%</u>
Less: Transaction costs included in average cost		<u>(699)</u>		
TOTAL INVESTMENTS		<u>34,480,291</u>	<u>35,681,248</u>	<u>100.0%</u>
Derivative Liabilities			<u>(764,535)</u>	<u>-2.1%</u>
Other assets, less liabilities			<u>757,862</u>	<u>2.1%</u>
TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			<u>35,674,575</u>	<u>100.0%</u>

NORREP HIGH INCOME FUND

Schedule of Derivative Instruments – Forward Foreign Currency Contracts

As at October 31, 2017

Counterparty	Credit Rating	Settlement Date	Currency to be Delivered	Fair Value in Cdn Dollars	Currency to be Received	Contract Price	Unrealized Loss
Bank of Nova Scotia	A-1	November 15, 2017	19,409,000 USD	25,017,451	24,252,916 CAD	1.2496	(764,535)

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

1. Reporting Entity:

Norrep High Income Fund (the “Fund”) was established as a trust on June 29, 2017 pursuant to the Amended and Restated Master Trust Agreement of the Norrep Group of Funds effective as of June 29, 2017, and commenced operations on September 12, 2017 as a Mutual Fund trust. The Fund’s principal place of business is Suite 1850, 333-7th Avenue SW Calgary, Alberta T2P 2Z1.

On September 12, 2017, Norrep High Yield Class of Norrep Opportunities Corp. merged into Norrep High Income Fund. Please see details of the merger in note 4.

The Fund may issue an unlimited number of units in an unlimited number of Series. Each unit represents an equal and undivided interest in net assets of the Fund, however, the value of a Trust unit in one Series may differ than the value of a Trust unit in another Series, depending on the net asset value of that particular Series. On June 29, 2017, MF Series was renamed as Series A.

Norrep Capital Management Ltd. (“Norrep”), the Manager and Portfolio Manager, provides investment management services and manages the day-to-day operations of the Fund. Computershare Trust Company is the trustee, CIBC Mellon Trust Company (“CIBC Mellon”) is the custodian of the Fund and Norrep Investment Management Group Inc. is the Promoter 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 Funds’ significant accounting policies under IFRS are presented in note 3. These policies have been applied consistently to all years presented.

The financial statements of the Fund were approved and were authorized for issue by the Funds’ 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.

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

2. Basis of preparation (continued):

(d) Use of judgements and estimates:

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

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

3. Significant accounting policies:

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

(a) Financial assets and financial liabilities:

(i) Recognition and initial measurement

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

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

(ii) Classification

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

Financial assets at fair value through profit or loss:

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

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents and receivables

Financial liabilities at amortised cost:

- Other liabilities: all liabilities other than unrealized loss on derivative instruments and redeemable units

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

3. Significant accounting policies: (continued):

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

(ii) Classification (continued)

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

(iii) Fair value measurement

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

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

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

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

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

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

3. Significant accounting policies (continued):

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

(iii) Fair value measurement (continued)

Fair value of subscription receipts is determined using a recognized economic model taking into account various factors including risk free interest rate, volatility, price of underlying security, expiry date and purchase price.

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: Presentation*. 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.

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

3. Significant accounting policies (continued):

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

(v) Specific instruments (continued)

Redeemable units (continued)

The value at which mutual fund units are issued or redeemed is determined by dividing the net assets at fair value based on last traded price of each class by the total number of mutual fund units outstanding by the class on the valuation date.

(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:

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

(d) Distributions to holders of redeemable units:

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

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

(f) Income tax:

As at October 31, 2017, the Fund was a “mutual fund trust” under the Income Tax Act (Canada) and, accordingly, is not taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund pays out sufficient net income and net realized capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made in these financial statements.

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

Change 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 period.

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

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 period; and
- (ii) purchases and sales of investments and dividend and interest income at the rate of exchange prevailing on the respective dates of such transactions.

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

(i) Derivative financial instruments:

The Fund may use derivative financial instruments to reduce 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.

(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.

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

4. Merger:

On September 12, 2017, Norrep High Yield Class (“Class”) of Norrep Opportunities Corp. (“Corporation”) merged into Norrep High Income Fund (“Fund”). The Fund acquired the net assets of the Class and Shareholders of the Class became unitholders of the Fund. The Fund consolidated the units using an exchange ratio of 0.2929 for Series A, 0.3148 for Series F and 0.3384 for Series I.

As a result of the merger, 2,162,069 Series A shares of the Class were redeemed for 365,792 Series F units of the Fund, and 1,465,560 Series I shares of the Class were redeemed for 495,899 Series I units of the Fund. The assets transferred were as follows:

	September 12, 2017
Cash and cash equivalents	5,651,032
Other assets – net of liabilities	318,964
Investments, at fair value	31,402,732
Value of assets received and mutual fund units issued	37,372,728

The Merger occurred on a taxable basis, which means taxable shareholders of the terminated Class realized a capital gain or capital loss on the exchange of their shares for units of the Fund.

The Fund will carry forward the performance and financial history of the Class.

Throughout the financial statements, the comparative and current year unit data, up to the date of the merger, has been consolidated in order to take into account the above merger transaction.

5. 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);

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Years ended October 31, 2017 and 2016

5. 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 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 - long				
Equities	66,925	–	–	66,925
Bonds	5,181,849	25,933,218	–	31,115,067
Secured Loans	–	4,499,256	–	4,499,256
Unrealized loss on derivative instruments	–	(764,535)	–	(764,535)
Total investments	5,248,774	29,667,939	–	34,916,713

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5. Fair value measurement (continued):

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

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
October 31, 2016				
Public securities - long				
Bonds	5,209,817	36,950,621	226,610	42,387,048
Secured Loans	–	5,591,367	–	5,591,367
Unrealized loss on derivative instruments	–	(706,371)	–	(706,371)
Total investments	5,209,817	41,835,617	226,610	47,272,044

There were no significant transfers into or out of level 1, level 2 and level 3 during the years ended October 31, 2017 and 2016.

During the years ended October 31, 2017 and 2016 the following tables reconcile opening balances to closing balances for fair value measurements in Level 3 of the fair value hierarchy:

<i>in Canadian dollars</i>	Corporate Bonds	Private Securities	Total
Beginning balance, October 31, 2016	226,610	–	226,610
Sales	(142,545)	–	(142,545)
Realized gains	(604,074)	–	(604,074)
Change in unrealized appreciation	520,009	–	520,009
Ending balance, October 31, 2017	–	–	–

<i>in Canadian dollars</i>	Corporate Bonds	Private Securities	Total
Beginning balance, October 31, 2015	–	–	–
Transfers into level 3	226,610	–	226,610
Ending balance, October 31, 2016	226,610	–	226,610

(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.

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6. 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 bonds and secured loans as presented on the schedules of investment portfolios represent the maximum credit risk exposure. 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 October 31, 2017 and 2016, the Fund was invested in debt securities with the following credit ratings:

Debt Security by Credit Rating	% of Net Assets	
	2017	2016
BB	21.4%	20.9%
B	53.6%	33.8%
CCC	9.3%	18.4%
Unrated (includes Exchange Traded Funds)	15.5%	15.4%

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

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

For the majority of the transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Also, legal entitlement will not pass until all monies have been received for

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Years ended October 31, 2017 and 2016

6. Financial instruments and associated risks (continued):

Credit risk (continued):

the units purchased or the portfolio assets sold. If either party does not meet its obligation then the transaction will fail.

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

The Portfolio Manager analyzes credit concentration based on the counterparty, industry and geographical location of the financial assets that the Funds hold.

Other than outlined above there were no significant concentrations of credit risk to counterparties at October 31, 2017 and 2016. No individual investments exceeded 8% percent of the net assets attributable to holders of redeemable shares at October 31, 2017 (October 31, 2016 – 6%) in the Fund.

Liquidity risk:

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

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

The Fund's liquidity risk is managed on a daily basis by the Portfolio Manager. Minimum cash balances will be required to be maintained in the Fund at the discretion of the Portfolio Manager to allow for monies to cover redemptions. At October 31, 2017 the Fund had a cash balance equal to 2% (October 31, 2016 - 13%) of the net assets. The Fund's redemption policy allows for redemptions at any time during any given month. In certain circumstances, the Fund is required to settle the transaction by trade day plus two days.

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

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Notes to Financial Statements

Years ended October 31, 2017 and 2016

6. Financial instruments and associated risks (continued):

Market risk:

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

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund is designed to achieve long term capital appreciation and distributions by investing primarily in corporate debt securities. The portfolio may consist of all types of equity and debt obligations of issuers in Canada and the United States that may or may not be listed for trading upon the facilities of stock exchanges or other organized and regulated trading facilities in Canada and the United States.

Assets of the Funds may also be invested in debt obligations or held in cash and cash equivalents to the extent that economic, market or other conditions make it appropriate.

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

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

Details of the nature of the Fund's investment portfolio at October 31, 2017 are disclosed in the schedule of investment portfolio.

(a) Currency risk:

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

The Fund may use derivatives to hedge the Funds' foreign currency exposure.

At October 31, 2017 and 2016, the Fund had the following foreign currency exposure as a percentage of the net asset value, including the impact of outstanding derivative instruments:

	2017	2016
U.S. Dollar	2.8%	0.2%

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

6. Financial instruments and associated risks (continued):

Market risk (continued):

(a) Currency risk (continued):

Sensitivity Analysis:

At October 31, 2017 and 2016, had the Canadian dollar strengthened or weakened by 1% in relation to United States dollar, with all other variables held constant, including the impact of outstanding derivative instruments, net assets attributable to the holders of redeemable shares and the change in net assets attributable to holders of redeemable shares would have increased or decreased by the amounts shown below. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

	2017	2016
<i>in Canadian dollars</i>		
U.S. Dollar	(10,044)	1,111

(b) Interest rate risk:

Interest rate risk arises on interest bearing financial instruments. The Fund owns interest bearing assets in the form of senior secured loans and bonds. Senior secured loans are priced with a floating rate of interest which typically resets quarterly and results in minimal exposure to interest rate risk. Government bonds and investment grade bonds are fixed rate securities and have exposure to interest rate risk. This exposure can be estimated by the bond's duration.

High yield corporate bonds are also fixed rate securities but have less exposure to interest rate risk. The value of these securities is impacted more by credit fundamentals such as cash flow, profitability and debt servicing ability than by prevailing interest rates.

The table below summarizes the Funds' exposure to interest rate risks at October 31, 2017 and 2016. It includes the Funds' assets at fair values, categorized by the maturity dates.

	Less than 1 year	1 to 3 years	3 to 5 years	>5 years
<i>(in Canadian dollars)</i>				
October 31, 2017				
Corporate bonds/Secured loans/Exchange Traded Funds	6,451,232	3,148,731	10,986,926	15,027,434
October 31, 2016				
Corporate bonds/Secured loans/Exchange Traded Funds	5,209,817	9,814,392	21,404,176	11,550,030

NORREP HIGH INCOME FUND

Notes to Financial Statements

Years ended October 31, 2017 and 2016

6. Financial instruments and associated risks (continued):

Market risk (continued):

(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.

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

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

Sensitivity analysis:

A 1% increase or decrease in the Merrill Lynch Canada High Yield Canadian Issuers Index at October 31, 2017 is an increase or decrease in the net assets attributable to holders of redeemable units of approximately \$356,812 (October 31, 2016 - \$479,784). In practice, the actual trading results may differ from this estimate and the difference could be material.

The Fund's financial assets exposed to other price risk were concentrated in the following industries at October 31, 2017 and 2016:

	2017	2016
Energy	0.2%	–
Bonds and Secured Loans	99.8%	100.0%
Total	100.0%	100.0%

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Notes to Financial Statements

Years ended October 31, 2017 and 2016

7. Redeemable units:

The authorized capital of the Fund consists of an unlimited number of units, issuable in series. Currently, the Fund is offered in five Series of units: Series A units, Series F units, Series F6 units, Series I units, and Series T6 units. Each series ranks equally 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. Under the front end sales charge option offered through Series A and Series T6, a commission ranging from 0 to 5% is paid by the investor to the dealer with a 2% redemption fee being charged if the shares are redeemed in the first 90 days. Under the low load deferred sales charge option offered through Series A only, a 2.25% commission is paid by Norrep to the dealer. Redemption fees are 3.0% in the first year, 2.5% in the second year and 2.0% in the third year. The Series F and Series F6 are sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. Series I are sold without commission. A 2% redemption fee is charged if the Series F, Series F6 or Series I are redeemed in the first 90 days.

Series I shares are available to certain investors at the Portfolio Manager's discretion.

As of October 31, 2017, Series F6 units and Series T6 units had not been issued.

The rights attached to the redeemable units are as follows:

- the units may be redeemed daily at the net asset value per unit of the respective series;
- redeemable units carry a right to receive notice of, attend and vote at meetings called in accordance with the Declaration of Trust; and
- the holders of redeemable units are entitled to receive all distributions declared by the Fund. Each series will rank equally with respect to the distributions based on their respective series net asset values. Distributions for the Fund are paid monthly, at the end of each month, at the discretion of the Manager. For Series F6 and Series T6 units, the distributions may comprise of a return of capital and/or net income. A return of capital distribution is not taxable but reduces the adjusted cost base of your units. 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 years ended October 31, 2017 and 2016 were as follows:

Series A	2017	2016 *
Balance, opening	1,011,163	1,675,892
Issued on distributions reinvested	29,879	52,993
Issued for cash	12,954	88,824
Redeemed for cash	(473,994)	(806,546)
Balance, October 31	580,002	1,011,163

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Years ended October 31, 2017 and 2016

7. Redeemable units (continued):

Series F	2017	2016 *
Balance, opening	629,497	1,411,847
Issued on distributions reinvested	15,992	34,655
Issued for cash	120,799	178,350
Redeemed for cash	(403,111)	(995,355)
Balance, October 31	363,177	629,497

Series I	2017	2016 *
Balance, opening	507,691	678,334
Issued on distributions reinvested	18,694	21,630
Issued for cash	—	160,955
Redeemed for cash	(45,122)	(353,228)
Balance, October 31	481,263	507,691

* 2016 units were restated to conform to the unit consolidation, as a result of the Merger. See note 4.

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.

Series A	2017	2016 *
Increase (decrease) in net assets attributable to holders of redeemable units	831,569	(702,207)
Average units outstanding during the year	776,708	1,284,404
Increase (decrease) in net assets attributable to holders of redeemable units per unit	1.07	(0.55)

Series F	2017	2016 *
Increase (decrease) in net assets attributable to holders of redeemable units	643,903	(788,617)
Average units outstanding during the year	474,758	796,724
Increase (decrease) in net assets attributable to holders of redeemable units per unit	1.36	(0.98)

Series I	2017	2016 *
Increase (decrease) in net assets attributable to holders of redeemable units	851,324	(136,805)
Average units outstanding during the year	498,364	448,059
Increase (decrease) in net assets attributable to holders of redeemable units per unit	1.71	0.30

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7. Redeemable units (continued):

Series O	2017	2016 *
Increase (decrease) in net assets attributable to holders of redeemable units	–	(71,343)
Average units outstanding during the year	–	283,396
Increase (decrease) in net assets attributable to holders of redeemable units per unit	–	(0.25)

* 2016 units were restated to conform to the unit consolidation, as a result of the Merger. See note 4.

8. Management fees, expenses and key contracts:

(a) Manager and management fees:

Series A paid an annual management fee to the Manager of 2% of the net asset value of the series. This rate will also apply to Series T6 units on issuance of units. Series F paid an annual management fee to the Manager of 1.00% of the net asset value of the series. This rate will also apply to Series F6 units on issuance of units. The management fee is calculated and paid monthly. Included in accrued expenses at October 31, 2017 is \$32,354 (October 31, 2016 - \$57,707) 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 Portfolio Manager has charged the Fund for administration services. Included in accrued expenses at October 31, 2017 is \$4,047 (October 31, 2016 - \$5,767) related to these fees.

9. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$1,054 (October 31, 2016 - \$957) in connection with portfolio transactions during the year.



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