



# FINANCIAL STATEMENTS OF NORREP MARKET NEUTRAL INCOME FUND

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For the year ended December 31, 2017



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Norrep Market Neutral Income Fund:

We have audited the accompanying financial statements of Norrep Market Neutral Income Fund, which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income (loss), 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 Market Neutral Income Fund as at December 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  
March 12, 2018  
Calgary, Canada

# NORREP MARKET NEUTRAL INCOME FUND

## Statements of Financial Position

(in Canadian dollars, except units outstanding)

As at

	December 31 2017	December 31 2016
<b>Assets</b>		
Cash and cash equivalents	997,030	15,750,652
Dividends and interest receivable	309,329	752,792
Due from Manager (note 8)	14,600	–
Portfolio assets sold	1,703,213	6,925,641
Investments - long, at fair value through profit or loss	70,327,707	140,984,964
<b>Total assets</b>	<b>73,351,879</b>	<b>164,414,049</b>
<b>Liabilities</b>		
Accrued expenses (note 8)	100,600	204,500
Dividends payable	152,975	612,717
Dividends payable on investments sold short	74,922	218,151
Portfolio assets purchased	1,387,841	6,941,856
Units redeemed	1,576,501	14,347,420
Investments - short, at fair value through profit or loss	35,103,353	70,920,732
<b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>38,396,192</b>	<b>93,245,376</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>34,955,687</b>	<b>71,168,673</b>
Net assets attributable to holders of redeemable units:		
Class A	8,515,919	14,030,626
Class F	26,439,768	57,138,047
Redeemable units outstanding (note 6):		
Class A	907,921	1,452,134
Class F	2,611,955	5,540,480
Net assets attributable to holders of redeemable units per unit:		
Class A	9.38	9.66
Class F	10.12	10.31

See accompanying notes to financial statements.

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



Keith Leslie



Alex Sasso

# NORREP MARKET NEUTRAL INCOME FUND

Statements of Comprehensive Income (Loss)

Years ended December 31, 2017 and 2016

*(in Canadian dollars)*

	2017	2016
Dividend income	1,160,647	2,637,532
Interest for distribution purposes	2,016,492	4,792,277
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	(1,648,539)	(10,093,190)
Net change in unrealized appreciation (depreciation) in fair value of investments	1,719,576	3,307,767
<b>Total investment revenue</b>	<b>3,248,176</b>	<b>644,386</b>
Dividend expense on investments sold short	881,964	2,517,350
Management fees (note 8)	560,979	1,189,976
Risk management fees	311,601	778,732
Transaction costs	253,782	638,924
Administrative fees (note 8)	64,525	146,308
Custodian and record keeping fees	49,873	71,247
HST/GST	44,569	92,330
Audit and tax fees	22,123	24,376
Other	20,657	34,790
Computer services	17,113	40,352
Independent review committee	6,637	12,519
Legal and filing fees	4,210	5,821
Operating expense recovery (note 8)	(14,600)	–
Interest and borrowing costs	–	10,657
<b>Total operating expenses</b>	<b>2,223,433</b>	<b>5,563,382</b>
Increase (decrease) in net assets attributable to holders of redeemable units	1,024,743	(4,918,996)
Withholding tax expense	1,888	27,413
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>1,022,855</b>	<b>(4,946,409)</b>
Change in net assets attributable to holders of redeemable units (note 6)		
Class A	133,879	(1,139,015)
Class F	888,976	(3,807,394)
Change in net assets attributable to holders of redeemable units per unit (note 6)		
Class A	0.11	(0.56)
Class F	0.24	(0.47)

See accompanying notes to financial statements.

# NORREP MARKET NEUTRAL INCOME FUND

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

Year ended December 31, 2017 and 2016

(in Canadian dollars)

	All Series				Class A		Class F	
	2017	2016	2017	2016	2017	2016	2017	2016
Net assets attributable to holders of redeemable units, beginning of year	71,168,673	118,884,732	14,030,626	22,456,880	57,138,047	96,427,852		
Increase (Decrease) in net assets, attributable to holders of redeemable units	1,022,855	(4,946,409)	133,879	(1,139,015)	888,976	(3,807,394)		
Transactions attributable to holders of redeemable units:								
Issuance of units	5,219,761	23,324,210	1,166,745	5,085,176	4,053,016	18,239,034		
Reinvestment of dividends	1,086,695	1,917,395	329,339	680,014	757,356	1,237,381		
Amounts paid on redemptions	(41,615,062)	(63,264,613)	(6,687,548)	(12,145,960)	(34,927,514)	(51,118,653)		
	(35,308,606)	(38,023,008)	(5,191,464)	(6,380,770)	(30,117,142)	(31,642,238)		
Distributions declared:								
From income	(1,014,443)	(2,514,744)	(240,616)	(480,242)	(773,827)	(2,034,502)		
From dividend income	(223,107)	(145,515)	(52,919)	(27,789)	(170,188)	(117,726)		
Return of capital	(689,685)	(2,086,383)	(163,587)	(398,438)	(526,098)	(1,687,945)		
	(1,927,235)	(4,746,642)	(457,122)	(906,469)	(1,470,113)	(3,840,173)		
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>34,955,687</b>	<b>71,168,673</b>	<b>8,515,919</b>	<b>14,030,626</b>	<b>26,439,768</b>	<b>57,138,047</b>		
Distributions per unit to holders of redeemable units:								
From Income			0.21	0.25	0.23	0.26		
From Dividend			0.05	0.01	0.05	0.01		
Return of capital			0.14	0.20	0.15	0.21		

See accompanying notes to financial statements.

# NORREP MARKET NEUTRAL INCOME FUND

## Statements of Cash Flows

Year ended December 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	1,022,855	(4,946,409)
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit or loss	1,648,539	10,093,190
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	(1,719,576)	(3,307,767)
Purchase of investments	(333,640,643)	(765,215,739)
Proceeds from the sale and maturity of investments	368,220,177	808,517,305
Dividends and interest receivable	443,463	997,523
Due from Manager	(14,600)	–
Accrued expenses	(103,900)	(20,100)
Dividends payable on investments sold short	(143,229)	(145,114)
<b>Net cash from (used in) operating activities</b>	<b>35,713,086</b>	<b>45,972,889</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from the issuance of redeemable units	5,219,761	23,435,710
Amounts paid on redemption of redeemable units	(54,385,981)	(49,945,807)
Distributions to holders of redeemable units, net of reinvestments	(1,300,282)	(3,190,443)
<b>Net cash from (used in) financing activities</b>	<b>(50,466,502)</b>	<b>(29,700,540)</b>
Net increase (decrease) in cash and cash equivalents	(14,753,416)	16,272,349
Effect of exchange rates on cash and cash equivalents	(206)	(3,685)
Cash and cash equivalents at beginning of year	15,750,652	(518,012)
<b>Cash and cash equivalents at end of year</b>	<b>997,030</b>	<b>15,750,652</b>
Dividends received, net of withholding tax paid	1,250,507	2,856,998
Interest received	2,368,207	5,645,700
Interest and borrowing costs paid	–	789,389
Dividend expenses on investments sold short	1,025,193	2,662,464

See accompanying notes to financial statements.

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio

As at December 31, 2017

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - Long</b>				
<b>Consumer Discretionary</b>				
goeasy Ltd.	10,000	294,006	371,500	
Keg Royalties Income Fund (The)	57,000	1,214,708	1,139,430	
Leon's Furniture Ltd.	43,100	777,280	795,195	
Magna International Inc.	5,000	348,927	356,200	
Quebecor Inc., Class 'B'	37,800	870,725	895,860	
		3,505,646	3,558,185	10.2%
<b>Consumer Staples</b>				
Alimentation Couche-Tard Inc., Class 'B'	5,000	329,606	327,950	
Maple Leaf Foods Inc.	8,000	264,295	286,560	
		593,901	614,510	1.8%
<b>Energy</b>				
Canadian Natural Resources Ltd.	14,000	622,337	628,880	
Enerplus Corp.	64,000	720,885	787,840	
Parex Resources Inc.	39,000	653,406	708,240	
TransCanada Corp.	18,000	1,119,430	1,101,240	
Whitecap Resources Inc.	118,000	1,069,332	1,056,100	
		4,185,390	4,282,300	12.3%
<b>Financials</b>				
AGF Management Ltd., Class 'B'	102,000	770,283	834,360	
Canadian Imperial Bank of Commerce	7,000	769,720	857,780	
Genworth MI Canada Inc.	9,000	338,665	391,500	
Manulife Financial Corp.	20,000	443,000	524,400	
Power Corp. of Canada	11,000	341,055	356,070	
		2,662,723	2,964,110	8.5%
<b>Health Care</b>				
Extendicare Inc.	41,000	403,642	375,150	
		403,642	375,150	1.1%
<b>Industrials</b>				
Badger Daylighting Ltd.	18,000	522,007	489,240	
Chorus Aviation Inc.	30,000	195,332	289,500	
Finning International Inc.	28,000	879,488	888,160	
Hardwoods Distribution Inc.	18,000	294,064	363,600	
New Flyer Industries Inc.	9,000	470,802	486,000	
Rocky Mountain Dealerships Inc.	51,000	662,286	698,700	
Russel Metals Inc.	31,000	833,400	904,270	
SNC-Lavalin Group Inc.	8,000	446,547	456,400	
Transcontinental Inc., Class 'A'	37,000	925,882	919,080	
		5,229,808	5,494,950	15.7%
<b>Information Technology</b>				
Evertz Technologies Ltd.	1,200	21,561	21,840	
Open Text Corp.	23,000	967,334	1,028,330	
		988,895	1,050,170	3.0%



# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (Continued)

As at December 31, 2017

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Materials</b>				
Centerra Gold Inc.	167,000	1,207,465	1,075,480	
Chemtrade Logistics Income Fund	18,000	354,551	349,200	
Conifex Timber Inc.	183,000	985,016	1,006,500	
Fortuna Silver Mines Inc.	132,000	786,035	865,920	
Hudbay Minerals Inc.	61,000	603,814	678,930	
Kirkland Lake Gold Ltd.	54,000	782,439	1,040,580	
Labrador Iron Ore Royalty Corp.	12,000	217,595	326,400	
Lundin Mining Corp.	67,000	609,781	560,120	
West Fraser Timber Co. Ltd.	7,000	453,686	542,990	
		6,000,382	6,446,120	18.4%
<b>Real Estate</b>				
Brookfield Real Estate Services Inc., Restricted	56,900	918,317	939,988	
BTB REIT	217,000	952,420	996,030	
Choice Properties REIT	69,000	933,303	921,150	
H&R REIT	48,000	1,040,762	1,025,280	
Killam Apartment REIT	46,000	611,192	654,120	
Northview Apartment REIT	26,300	576,236	657,237	
NorthWest Healthcare Properties REIT	65,000	667,614	739,050	
		5,699,844	5,932,855	17.0%
<b>Telecommunication Services</b>				
BCE Inc.	16,000	963,318	966,080	
		963,318	966,080	2.8%
<b>Utilities</b>				
Capital Power Corp.	11,000	269,043	269,390	
Fortis Inc.	19,000	836,128	876,090	
Polaris Infrastructure Inc.	29,000	496,792	504,310	
Superior Plus Corp.	84,000	1,049,107	997,080	
Valener Inc.	34,000	730,260	772,140	
		3,381,330	3,419,010	9.8%
<b>TOTAL CANADIAN EQUITIES - Long</b>		<b>33,614,879</b>	<b>35,103,440</b>	<b>100.6%</b>
<b>TOTAL EQUITIES - Long</b>		<b>33,614,879</b>	<b>35,103,440</b>	<b>100.6%</b>
<b>CANADIAN BONDS - Long (Par Value in CAD except as otherwise stated)</b>				
<b>Canada Other Corporate</b>				
Aimia Inc., Callable, 6.850%, 2019/05/17	1,800,000	1,857,889	1,811,250	
Artis REIT, Series 'A', 3.753%, 2019/03/27	2,900,000	2,917,211	2,926,390	
Cameco Corp., Callable, Series 'D', 5.670%, 2019/09/02	1,900,000	1,982,909	1,982,270	
Cominar REIT, Series '7', 3.620%, 2019/06/21	1,700,000	1,728,105	1,711,050	
Co-operators Financial Services Ltd., Callable, 5.778%, 2020/03/10	1,700,000	1,845,559	1,798,821	
Enbridge Income Fund (The), 4.000%, 2018/12/20	1,700,000	1,737,233	1,732,062	
First National Financial Corp., Callable, 4.010%, 2020/04/09	2,500,000	2,513,241	2,521,775	
Genworth MI Canada Inc., Callable, 5.680%, 2020/06/15	1,900,000	2,028,033	2,022,379	
Royal Bank of Canada, 2.770%, 2018/12/11	2,900,000	2,941,536	2,924,897	
Teranet Holdings L.P., Callable, 4.807%, 2020/12/16	2,400,000	2,576,194	2,515,656	
TransAlta Corp., Callable, 6.400%, 2019/11/18	3,400,000	3,733,459	3,609,100	

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (Continued)

As at December 31, 2017

(in Canadian dollars)

Description	Number of Shares / Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Canada Other Corporate (Continued)</b>				
Transcontinental Inc., Callable, 3.897%, 2019/05/13	2,000,000	2,036,799	2,036,000	
		27,898,168	27,591,650	78.9%
<b>Exchange Traded Funds</b>				
iShares Core Canadian Short Term Corporate + MapleBond Index ETF	80,000	1,589,178	1,532,800	
Vanguard Canadian Short-Term Corporate Bond Index ETF	60,000	1,506,749	1,455,000	
		3,095,927	2,987,800	8.6%
<b>Mutual Fund Shares</b>				
Norrep Short Term Income Fund, Series 'I'	474,401	4,857,886	4,644,817	
		4,857,886	4,644,817	13.3%
<b>TOTAL CANADIAN BONDS - Long</b>		<b>35,851,981</b>	<b>35,224,267</b>	<b>100.8%</b>
<b>TOTAL - Long</b>		<b>69,466,860</b>	<b>70,327,707</b>	<b>201.4%</b>

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES - Short</b>				
<b>Consumer Discretionary</b>				
Canada Goose Holdings Inc.	(10,000)	(236,487)	(397,100)	
Cara Operations Ltd.	(44,000)	(1,070,344)	(1,142,240)	
Pizza Pizza Royalty Corp.	(25,600)	(439,847)	(414,720)	
Shaw Communications Inc., Class 'B'	(31,000)	(876,231)	(889,390)	
Transat A.T. Inc.	(65,000)	(529,677)	(729,300)	
		(3,152,586)	(3,572,750)	-10.2%
<b>Consumer Staples</b>				
Cott Corp.	(29,000)	(571,301)	(608,420)	
		(571,301)	(608,420)	-1.7%
<b>Energy</b>				
ARC Resources Ltd.	(10,000)	(175,916)	(147,500)	
Freehold Royalties Ltd.	(38,000)	(581,937)	(533,900)	
Husky Energy Inc.	(30,000)	(469,600)	(532,500)	
Imperial Oil Ltd.	(16,000)	(631,125)	(627,680)	
Kinder Morgan Canada Ltd.	(65,000)	(1,103,552)	(1,105,650)	
Paramount Resources Ltd., Class 'A'	(14,000)	(289,767)	(271,880)	
PrairieSky Royalty Ltd.	(17,000)	(526,632)	(545,020)	
Seven Generations Energy Ltd., Class 'A'	(14,000)	(246,500)	(248,920)	
Tourmaline Oil Corp.	(12,000)	(282,412)	(273,360)	
		(4,307,441)	(4,286,410)	-12.3%
<b>Financials</b>				
Brookfield Asset Management Inc., Class 'A'	(9,000)	(439,830)	(492,480)	
ECN Capital Corp.	(141,000)	(564,774)	(554,130)	
Fairfax Financial Holdings Ltd.	(800)	(492,202)	(535,472)	
Intact Financial Corp.	(5,000)	(469,742)	(524,950)	
Toronto-Dominion Bank (The)	(11,700)	(848,848)	(861,705)	
		(2,815,396)	(2,968,737)	-8.5%

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (Continued)

As at December 31, 2017

(in Canadian dollars)

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>Health Care</b>				
Chartwell Retirement Residences	(23,000)	(353,524)	(373,980)	
		(353,524)	(373,980)	-1.1%
<b>Industrials</b>				
Boyd Group Income Fund	(8,000)	(727,176)	(807,120)	
Dirtt Environmental Solutions Ltd.	(95,000)	(560,549)	(640,300)	
Héroux-Devtek Inc.	(50,000)	(649,590)	(761,500)	
Richelieu Hardware Ltd.	(21,000)	(714,274)	(720,090)	
Ritchie Bros. Auctioneers Inc.	(22,000)	(740,966)	(828,080)	
Savaria Corp.	(19,200)	(273,600)	(349,824)	
Student Transportation Inc.	(64,000)	(474,077)	(495,360)	
Toromont Industries Ltd.	(16,000)	(913,450)	(881,600)	
		(5,053,682)	(5,483,874)	-15.7%
<b>Information Technology</b>				
Absolute Software Corp.	(50,500)	(355,262)	(347,440)	
Enghouse Systems Ltd.	(12,500)	(649,347)	(768,625)	
		(1,004,609)	(1,116,065)	-3.2%
<b>Materials</b>				
AirBoss of America Corp.	(68,700)	(767,282)	(744,021)	
Canfor Pulp Products Inc.	(41,200)	(472,007)	(550,020)	
Domtar Corp.	(8,000)	(441,580)	(497,840)	
Endeavour Mining Corp.	(16,000)	(351,673)	(410,080)	
First Majestic Silver Corp.	(30,000)	(249,271)	(254,400)	
First Quantum Minerals Ltd.	(32,000)	(481,766)	(563,520)	
Kinross Gold Corp.	(65,000)	(335,312)	(352,300)	
NovaGold Resources Inc.	(104,000)	(585,330)	(513,760)	
Osisko Gold Royalties Ltd.	(36,000)	(539,800)	(522,720)	
SSR Mining Inc.	(55,000)	(649,469)	(608,850)	
Turquoise Hill Resources Ltd.	(80,000)	(295,137)	(343,200)	
Wheaton Precious Metals Corp.	(12,000)	(292,569)	(333,480)	
Yamana Gold Inc.	(175,000)	(597,200)	(686,000)	
		(6,058,396)	(6,380,191)	-18.3%
<b>Real Estate</b>				
Boardwalk REIT	(6,000)	(253,529)	(258,540)	
Canadian Apartment Properties REIT	(20,000)	(665,664)	(746,400)	
Cominar REIT	(45,000)	(588,574)	(648,000)	
Crombie REIT	(66,000)	(911,582)	(910,800)	
CT REIT	(35,000)	(502,859)	(507,500)	
Dream Office REIT	(18,000)	(356,977)	(398,880)	
Dream Unlimited Corp., Class 'A'	(135,000)	(926,291)	(1,047,600)	
First Capital Realty Inc.	(21,000)	(425,981)	(435,120)	
InterRent REIT	(37,000)	(305,825)	(337,810)	
Morguard North American Residential REIT	(43,000)	(650,546)	(646,290)	
		(5,587,828)	(5,936,940)	-17.0%
<b>Telecommunication Services</b>				
TELUS Corp.	(20,300)	(965,108)	(966,686)	
		(965,108)	(966,686)	-2.8%

# NORREP MARKET NEUTRAL INCOME FUND

Schedule of Investment Portfolio (Continued)

As at December 31, 2017

*(in Canadian dollars)*

Description	Number of Shares	Proceeds (\$)	Fair Value (\$)	% of Net Assets
<b>Utilities</b>				
Algonquin Power & Utilities Corp.	(50,000)	(607,776)	(703,000)	
Boralex Inc., Class 'A'	(39,000)	(849,204)	(916,500)	
Hydro One Ltd.	(39,000)	(907,129)	(873,600)	
Innergex Renewable Energy Inc.	(45,000)	(654,159)	(648,000)	
TransAlta Corp.	(36,000)	(268,414)	(268,200)	
		(3,286,682)	(3,409,300)	-9.8%
<b>TOTAL CANADIAN EQUITIES - Short</b>		<b>(33,156,553)</b>	<b>(35,103,353)</b>	<b>-100.6%</b>
Less: Transaction costs included in average cost		(39,332)		
<b>TOTAL INVESTMENTS</b>		<b>36,270,975</b>	<b>35,224,354</b>	<b>100.8%</b>
Other assets, less liabilities			(268,667)	-0.8%
<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>34,955,687</b>	<b>100.0%</b>

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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## 1. Reporting Entity:

Norrep Market Neutral Income Fund (the “Fund”) is an unincorporated open-ended mutual fund trust established under the laws of Ontario pursuant to a Declaration of Trust dated January 1, 2011 as amended and restated June 14, 2012, May 15, 2013 and August 8, 2013 and September 9, 2016. The Fund’s principal place of business is Suite 4330, 77 King Street West, Toronto, Ontario, M5K 2A1.

The Fund may issue an unlimited number of units. Each unit represents an equal undivided interest in the net assets of the Fund; however, the value of a Trust Unit in one Class may differ from the value of a Trust Unit in another Class, depending on the Net Asset Value of that particular Class.

Norrep Capital Management Ltd. (“Manager and Portfolio Manager”) provides investment management services and manages the day-to-day operation of the Fund. TSX Trust Company is the trustee, Scotia Capital Inc. is the Prime Broker, CIBC Mellon Global Securities Services Company is the custodian, transfer agent, administrator and registrar and Norrep Investment Management Group Inc. (“Norrep”) is the Sponsor of the Fund.

## 2. Basis of preparation:

### (a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements of the Fund were approved and were authorized for issue by the Manager’s Board of Directors on March 12, 2018.

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for investments at fair value through profit or loss which are measured at fair value.

### (c) Functional and presentation currency:

The financial statements are presented in Canadian dollars, which is the Fund’s functional currency, and all values are rounded to the nearest dollar except where otherwise indicated.

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

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

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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## 2. Basis of preparation (continued):

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

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

## 3. Significant accounting policies:

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

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

#### (i) Recognition and initial measurement

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

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

#### (ii) Classification

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

Financial assets at fair value through profit or loss:

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

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents and receivables

Financial liabilities at amortised cost:

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

A financial instrument is classified as held for trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio that is managed together and for which there is evidence of a recent pattern of short-term profit taking; or
- it is a derivative, other than a designated and effective hedging instrument.

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

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

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

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

its documented investment strategy. Internal reporting and performance measurement of these securities is on a fair value basis.

##### (iii) Fair value measurement

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

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

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

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

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

Fair value of investments in bonds, asset-backed securities and secured loans represents a price that may fall between the last bid and ask price provided by an independent security pricing service, depending on which service provider is used

There is no difference between pricing NAV and accounting NAV.

##### (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).

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

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

(v) Specific instruments

Cash and cash equivalents

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

Redeemable units

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has multiple classes of redeemable units that do not have identical features and therefore, do not qualify as equity under IAS 32, *Financial Instruments*. The redeemable units, which are classified as financial liabilities and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund's valuation policies at each redemption date. The units represent the residual interest in the Fund.

(b) Interest for distribution purposes:

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis and is recognized through profit or loss. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities.

(c) Dividend income and dividend expense:

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

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

(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.



# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

- (e) Net gain (loss) from financial instruments at fair value through profit or loss:

Net unrealized/realized gain/loss from financial instruments at fair value through profit or loss is calculated using the average cost method.

Average cost does not include amortization of premiums or discounts on fixed income securities.

- (f) Income tax:

As at December 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.

However, some dividend and interest income received by the Fund is subject to withholding tax imposed in certain countries of origin. Income that is subject to such tax is recognized gross of the taxes and the corresponding withholding tax is recognized as a tax expense.

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

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

- (h) Translation of foreign currency:

Foreign currency amounts are expressed in Canadian dollars as follows:

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

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

- (i) Short selling:

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

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

(i) Short selling (continued):

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

(j) Future accounting pronouncements:

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also introduces new requirements to address the impairment of financial assets.

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

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

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

## 4. Fair value measurement (continued):

### (a) Investments (continued):

inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on the quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting year during which the change occurred.

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

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

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

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

There were no significant transfers into or out of level 1, level 2, and level 3 in the fair value hierarchy during the year ended December 31, 2017 and December 31, 2016.

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

The carrying values of cash and cash equivalents, bank indebtedness, dividends and interest receivable, accrued expenses, other receivables and payables approximate their fair values due to their short term nature.

# NORREP MARKET NEUTRAL INCOME FUND

## Notes to Financial Statements

Year ended December 31, 2017 and 2016

### 5. Financial instruments and associated risks:

The Fund's activities expose it to a variety of risks associated with financial instruments as follows: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments result in a risk of loss of capital.

#### Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of investments as presented on the statement of investment portfolio represents the maximum credit risk exposure as at December 31, 2017. 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 December 31, 2017 and December 31, 2016, the Fund was invested in debt securities with the following credit rating:

Debt Security by Credit Rating	% of Assets Under Management in each category	
	December 31, 2017	December 31, 2016
AA	8.4%	—
A	5.8%	—
BBB	54.6%	72.8%
BB	10.1%	—
Total	78.9%	72.8%

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

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

For the majority of the transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

### Credit risk (continued):

settlement obligations. Also, legal entitlement will not pass until all monies have been received for the units purchased or the portfolio assets sold. If either party does not meet its obligation then the transaction will fail.

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

### Liquidity risk:

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

The Fund is exposed to monthly cash redemptions of redeemable units. Investments in small, mid-capitalization and micro-capitalization companies may involve greater risks than in larger, more established companies since such companies may have more limited markets and financial resources and their securities may be more sensitive to market changes. As well, the liquidity of the securities may be limited. Consequently, in order to fund redemptions, the Fund may have to liquidate shareholdings in the more liquid large and medium-sized companies.

To the extent that the liquidity is limited, the Fund's ability to realize profits and/or minimize losses may be limited, which could adversely affect the net asset value of the Fund. The Fund believes it maintains sufficient cash and cash equivalent positions to maintain liquidity.

The Fund's liquidity risk is managed on a daily basis by the Manager. The Fund's redemption policy allows for redemptions on the last business day of any given month when at least 14 days' notice is given by the unitholder.

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

### Market risk:

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

The Fund is an alternative investment fund that seeks to generate absolute returns with low volatility and minimal exposure and correlation to equity markets and other indices, while generating an annual distribution. To achieve its objective, the Fund employs a market neutral investment strategy and generally maintains long and short exposures of similar values. The Fund will also invest a large portion of its net assets in corporate investment grade bonds (BBB rated or greater). The Fund may, from time to time, invest a portion of its bond component in non-investment grade bonds or in fixed

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

### Market risk (continued):

income mutual funds. The Fund will also maintain a passive corporate bond strategy, whereby bonds are shorter term in nature and are generally held to maturity, with the intention of generating at least a 3% annual distribution to Unitholders, payable quarterly.

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

The Fund may invest in bonds or other fixed income securities of U.S., Canadian and other issuers, including, without limitation, bonds, notes and debentures issued by corporations, debt securities issued or guaranteed by the federal, state or provincial government in the United States or Canada or a governmental agency and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk). If fixed income investments are not held to maturity, the Fund may suffer a loss at the time of sale of such securities.

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

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

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

#### (a) Currency risk:

Investments in securities denominated in a currency other than Canadian dollars will be affected by the changes in the value of the Canadian dollar in relation to the value of the currency in which the security is denominated. Therefore the value of securities held by the Fund may be worth more or less depending on their susceptibility to foreign exchange rates. At December 31, 2017 and December 31, 2016 the Fund did not hold any foreign currency denominated investments.

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

### Market risk (continued):

#### (b) Interest rate risk:

Interest rate risk arises on interest bearing financial instruments. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing market interest rates.

High yield corporate bond prices are impacted by the credit metrics, liquidity and business fundamentals of the corporate entity with a minimal correlation to interest rates. Thus, the high yield corporate bonds held in the Fund are empirically correlated with the related stock indices for those corporate investments. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets at fair values, categorized by the maturity dates.

As at December 31, 2017	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
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All amounts stated in Canadian dollars

Corporate bonds	4,656,959	22,934,691	—	—	27,591,650
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As at December 31, 2016	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
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All amounts stated in Canadian dollars

Corporate bonds	1,733,100	45,680,912	4,429,572	—	51,843,584
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#### (c) Other price risk:

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

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

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

### Market risk (continued):

#### (c) Other Price Risk (continued):

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

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

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

The Fund will primarily invest in government and corporate debt securities of varying types. The following table details the breakdown of the investment assets and liabilities held by the Fund as at December 31, 2017 and December 31, 2016:

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

#### Sensitivity analysis:

There is no direction on any index at December 31, 2017 and December 31, 2016 that would have impacted the net assets attributable to holders of redeemable units. The Fund relies on the ability of the Manager to actively manage the Fund.



# NORREP MARKET NEUTRAL INCOME FUND

## Notes to Financial Statements

Year ended December 31, 2017 and 2016

### 6. Redeemable units:

The authorized capital of the Fund consists of an unlimited number of units of each class, each representing an equal undivided interest in the net assets of the Fund. Currently there are two classes outstanding, Class A and Class F. Each Class ranks equally in the event of liquidation, dissolution or winding up based on their respective Class net asset values. Each Class pays its own fees and expenses. The general expenses that are not series specific are allocated in proportion to the annual weighted average units of each series. When purchasing Class A units, a commission ranging from 0 to 2% is paid to the dealer with a 3% redemption fee being charged if the units are redeemed in the first 180 days. Class F units are sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. A 3% redemption fee is charged if the Class F units are redeemed in the first 180 days.

The rights attached to the redeemable units are as follows:

- The units may be redeemed monthly at the net asset value per unit of the respective series;
- Redeemable units carry a right to receive notice of, attend and vote at meetings called in accordance with the Declaration of Trust; and
- The holders of redeemable units are entitled to receive all dividends declared by the Fund. Each series will rank equally with respect to the distributions based on their respective series net asset values. Distributions paid in cash will be paid in the currency in which the investor bought the units.

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

<b>Class A</b>	<b>2017</b>	<b>2016</b>
Balance, opening	1,452,134	2,100,022
Issued on dividends reinvested	34,742	67,551
Issued for cash	122,226	497,931
Redeemed for cash	(701,181)	(1,213,370)
Balance, December 31	907,921	1,452,134

  

<b>Class F</b>	<b>2017</b>	<b>2016</b>
Balance, opening	5,540,480	8,550,065
Issued on dividends reinvested	74,357	115,723
Issued for cash	395,522	1,676,423
Redeemed for cash	(3,398,404)	(4,801,731)
Balance, December 31	2,611,955	5,540,480

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

## 6. Redeemable units (continued):

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

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

  

December 31, 2016	Series A	Series F
Decrease in net assets attributable to holders of redeemable units	(1,139,015)	(3,807,394)
Average units outstanding during the year	2,018,734	8,141,184
Decrease in net assets attributable to holders of redeemable units per unit	(0.56)	(0.47)

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

The net asset value per unit for the current year and previous 4 years:

	Class A	Class F
December 31, 2017	\$9.38	\$10.12
December 31, 2016	\$9.66	\$10.31
December 31, 2015	\$10.69	\$11.28
December 31, 2014	\$10.80	\$11.27
December 31, 2013	\$11.34	\$11.70

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

(a) Manager and management fees:

The Class A units paid a monthly management fee to the Manager of 1.9% of the average net asset value of the Class. Class F units paid a monthly management fee to the Manager of 0.9% of the average net asset value of the Class. Included in accrued expenses is \$35,079 (December 31, 2016 - \$76,513) related to these fees.

The Performance Fee shall be calculated over a "Performance Measurement Period", which is a calendar quarter, and is based on the Fund's ability to generate an annualized return in excess of

# NORREP MARKET NEUTRAL INCOME FUND

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

### (a) Manager and management fees (continued):

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

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

As at December 31, 2017, included in accrued expenses is \$nil (December 31, 2016 - \$nil) related to performance fees.

### (b) Expenses:

All fees and expenses applicable to the administration and operation of the Fund, including recordkeeping and communication costs, custodian fees, legal and filing fees, audit, applicable taxes and bank charges are payable by the Fund. The Manager has charged the Fund for administration services. Included in accrued expenses is \$4,347 (December 31, 2016 - \$10,372) related to these fees.

### (c) Operating expense recoveries:

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

Included in accounts receivable is \$14,600 (December 31, 2016 - \$nil) related to this absorption.

## 9. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$253,094 (December 31, 2016 - \$638,924) in connection with portfolio transactions during the year.

## 10. Filing of financial statements:

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

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