



FINANCIAL STATEMENTS OF NORREP SHORT TERM INCOME FUND

For the year ended December 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Norrep Short Term Income Fund:

We have audited the accompanying financial statements of Norrep Short Term Income Fund, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of comprehensive income, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Norrep Short Term Income Fund as at December 31, 2017 and December 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
March 12, 2018
Calgary, Canada

NORREP SHORT TERM INCOME FUND

Statements of Financial Position

(in Canadian dollars, except units outstanding)

As at	December 31 2017	December 31 2016
Assets		
Cash and cash equivalents	28,994,027	10,222,739
Dividends and interest receivable	695,862	1,069,640
Portfolio assets sold	–	3,124,647
Units issued	965	39,544
Unrealized gain on derivative instruments	912,236	–
Investments, at fair value through profit or loss	82,417,979	83,150,764
Total assets	113,021,069	97,607,334
Liabilities		
Accrued expenses (note 7)	109,500	100,800
Dividends payable	–	389,862
Portfolio assets purchased	–	467,021
Units redeemed	780	–
Unrealized loss on derivative instruments	–	1,381,039
Total liabilities (excluding net assets attributable to holders of redeemable units)	110,280	2,338,722
Net assets attributable to holders of redeemable units	112,910,789	95,268,612
Net assets attributable to holders of redeemable units:		
Series A	16,782,110	17,553,725
Series F	18,943,072	18,979,943
Series I	70,419,212	50,941,647
Series A (H)	989,520	1,247,717
Series F (H)	5,776,875	6,545,580
Redeemable units outstanding (note 6):		
Series A	1,849,374	1,896,276
Series F	2,016,476	1,991,113
Series I	7,190,725	5,169,988
Series A (H)	95,271	110,085
Series F (H)	535,399	558,574
Net assets attributable to holders of redeemable units per unit:		
Series A	9.07	9.26
Series F	9.39	9.53
Series I	9.79	9.85
Series A (H)	10.39	11.33
Series F (H)	10.79	11.72
Series A (H) USD	8.29	8.45
Series F (H) USD	8.61	8.74

See accompanying notes to financial statements

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



Keith Leslie



Alex Sasso

NORREP SHORT TERM INCOME FUND

Statements of Comprehensive Income

Years ended December 31, 2017 and 2016

(in Canadian dollars)

	2017	2016
Dividend income	362,503	411,211
Interest for distribution purposes	4,593,546	5,716,972
Net gain (loss) on investments at fair value through profit or loss		
Net realized gain (loss) on investments	861,980	77,230
Net realized gain (loss) on derivative instruments	1,365,414	2,450,562
Net change in unrealized appreciation (depreciation) in fair value of investments	(6,161,081)	(1,898,411)
Net change in unrealized appreciation (depreciation) on derivative instruments	2,293,275	(456,434)
Total investment revenue (loss)	3,315,637	6,301,130
Management fees (note 7)	394,253	516,082
Administrative fees (note 7)	129,982	133,756
Custodian and record keeping fees	60,056	57,460
HST/GST	53,584	65,161
Audit and tax fees	39,094	38,089
Transaction costs	32,174	22,607
Computer services	31,387	37,022
Legal and filing fees	29,607	33,739
Other	26,554	41,412
Independent review committee	13,740	11,033
Total operating expenses	810,431	956,361
Increase (decrease) in net assets attributable to holders of redeemable units before tax	2,505,206	5,344,769
Withholding tax expense	12,568	61,682
Increase (decrease) in net assets attributable to holders of redeemable units	2,492,638	5,283,087
Change in net assets attributable to holders of redeemable units (note 6)		
Series A	373,008	959,606
Series F	483,426	802,796
Series I	1,953,936	3,081,349
Series O	-	154,222
Series A (H)	(49,380)	58,387
Series F (H)	(268,352)	226,727
Change in net assets attributable to holders of redeemable units per units (note 6)		
Series A	0.20	0.43
Series F	0.26	0.37
Series I	0.33	0.65
Series O	-	0.18
Series A (H)	(0.48)	0.12
Series F (H)	(0.63)	0.61

See accompanying notes to financial statements

NORREP SHORT TERM INCOME FUND

Statements of Cash Flows

Years ended December 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	2,492,638	5,283,087
Adjustments for:		
Net realized (gain) loss on sale of investments at fair value through profit loss	(861,980)	(77,230)
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	6,161,081	1,898,411
Net change in unrealized (appreciation) depreciation on derivative instruments	(2,293,275)	456,434
Purchase of investments	(72,782,080)	(51,181,160)
Proceeds from the sale and maturity of investments	71,152,065	69,766,666
Dividends and interest receivable	373,778	284,356
Accrued Expenses	8,700	(19,200)
Net cash from (used in) operating activities	4,250,927	26,411,364
Cash flows from (used in) financing activities		
Proceeds from the issuance of redeemable shares	43,790,312	21,255,566
Amounts paid on redemption of redeemable shares	(27,623,424)	(48,169,706)
Distributions to holders of redeemable shares, net of reinvestments	(1,367,852)	(1,281,006)
Net cash from (used in) financing activities	14,799,036	(28,195,146)
Net increase (decrease) in cash and cash equivalents	19,049,963	(1,783,782)
Effect of exchange rates on cash and cash equivalents	(278,675)	160,918
Cash and cash equivalents at beginning of year	10,222,739	11,845,603
Cash and cash equivalents at end of year	28,994,027	10,222,739
Dividends received, net of withholding tax paid	357,775	343,680
Interest received	4,959,484	5,919,537

See accompanying notes to financial statements.

NORREP SHORT TERM INCOME FUND

Schedule of Investment Portfolio

As at December 31, 2017

<i>(in Canadian dollars)</i>	Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN BONDS - LONG (Par Value in CAD except as otherwise stated)				
Canada Other Corporate				
AGT Food and Ingredients Inc., Callable, 5.875%, 2021/12/21	1,000,000	1,013,750	1,010,417	
Bell Canada, 2.000%, 2021/10/01	2,000,000	1,970,960	1,958,510	
Brookfield Residential Properties Inc., Callable, 6.125%, 2023/05/15	1,400,000	1,400,000	1,456,700	
Bruce Power L.P., Restricted, 2.844%, 2021/06/23	2,000,000	2,026,440	2,014,797	
Canadian National Railway Co., Callable, 2.750%, 2021/02/18	2,000,000	2,036,820	2,027,698	
Canbriam Energy Inc., Callable, 9.750%, 2019/11/15 (Par Value in USD)	2,000,000	2,771,802	2,554,702	
Exchange Income Corp., Convertible Bonds, Callable, 5.500%, 2019/09/30	1,000,000	1,015,000	1,001,300	
Exchange Income Corp., Convertible Bonds, Callable, 5.350%, 2020/03/31	1,000,000	1,024,664	1,025,500	
Great Canadian Gaming Corp., Callable, 6.625%, 2022/07/25	3,000,000	3,127,000	3,114,000	
Hydro One Inc., Callable, Series '37', 1.480%, 2019/11/18	2,000,000	1,985,300	1,979,450	
Laurentian Bank of Canada, 2.810%, 2019/06/13	2,000,000	2,012,380	2,009,725	
Mattamy Group Corp., Callable, 6.500%, 2025/10/01 (Par Value in USD)	500,000	612,575	664,063	
Mattamy Group Corp., Callable, 6.500%, 2025/10/01	1,000,000	1,000,000	1,044,688	
Parkland Fuel Corp., Callable, 5.500%, 2021/05/28	2,000,000	2,085,000	2,075,000	
River Cree Enterprises Ltd., Callable, 11.000%, 2021/01/20	3,119,000	3,220,232	3,239,861	
Timbercreek Financial Corp., Convertible Bonds, Callable, 6.350%, 2019/03/31	1,000,000	1,021,244	985,000	
WestJet Airlines Ltd., Callable, 3.287%, 2019/07/23	1,750,000	1,774,270	1,771,480	
		<u>30,097,437</u>	<u>29,932,891</u>	<u>26.5%</u>
TOTAL CANADIAN BONDS		30,097,437	29,932,891	26.5%
UNITED STATES BONDS - LONG (Par Value in USD)				
Alliance Data Systems Corp., Callable, 6.375%, 2020/04/01	2,000,000	2,667,757	2,533,966	
Bluescope Steel (Finance) Ltd., Callable, 6.500%, 2021/05/15	2,000,000	2,785,437	2,615,997	
Dean Foods Co., Callable, 6.500%, 2023/03/15	1,738,000	2,436,653	2,172,183	
HRG Group Inc., Callable, 7.875%, 2019/07/15	695,000	974,275	872,759	
NCR Corp., Callable, 6.375%, 2023/12/15	1,300,000	1,757,538	1,710,277	
		<u>10,621,660</u>	<u>9,905,182</u>	<u>8.8%</u>
Exchange Traded Funds				
iShares iBoxx \$ High Yield Corporate Bond ETF	13,200	1,501,254	1,443,188	
SPDR Bloomberg Barclays Short Term High Yield Bond ETF	33,500	1,235,614	1,156,799	
		<u>2,736,868</u>	<u>2,599,987</u>	<u>2.3%</u>
TOTAL UNITED STATES BONDS		13,358,528	12,505,169	11.1%
TOTAL BONDS		43,455,965	42,438,060	37.6%
CANADIAN TERM LOANS (Par Value in CAD except as otherwise stated)				
Gateway Casinos & Entertainment Ltd., Term Loans, 5.415%, 2023/02/22	1,990,000	1,980,050	1,990,000	
Canam Steel Corp. Term Loan, Term Loans, 6.861%, 2024/07/01 (Par Value in USD)	995,000	1,253,440	1,252,919	
DHX Media Ltd., Term Loans, 5.100%, 2023/12/29 (Par Value in USD)	1,990,000	2,619,012	2,496,487	
		<u>5,852,502</u>	<u>5,739,406</u>	<u>5.1%</u>
TOTAL CANADIAN TERM LOANS		5,852,502	5,739,406	5.1%

NORREP SHORT TERM INCOME FUND

Schedule of Investment Portfolio (Continued)

As at December 31, 2017

<i>(in Canadian dollars)</i>	Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
UNITED STATES TERM LOANS (Par Value in USD)				
Atkins Nutritional Holdings Inc., Term Loans, 5.392%, 2024/07/07	997,500	1,303,430	1,256,067	
Berlin Packaging LLC, Term Loans, 4.606%, 2021/10/01	1,935,948	2,194,752	2,439,788	
Blue Ribbon LLC, Term Loans, 5.335%, 2021/11/15	2,614,754	2,994,604	3,261,151	
Bob's Discount Furniture Inc., Term Loans, 6.100%, 2021/02/12	2,412,500	2,637,602	2,973,622	
Confie Seguros Holding II Co., Term Loans, 6.728%, 2022/04/19	1,980,000	2,613,339	2,473,399	
Consolidated Container Co. LLC, Term Loans, 4.850%, 2024/05/22	1,995,000	2,668,627	2,507,959	
DTZ US Borrower LLC, Term Loans, 4.693%, 2021/11/04	2,432,601	3,167,385	3,005,469	
McAfee LLC, Term Loans, 5.833%, 2024/09/30	1,496,250	1,832,056	1,867,359	
Mitel US Holdings Inc., Term Loans, 5.130%, 2023/09/25	997,500	1,225,058	1,259,716	
MWI Holdings Inc., Term Loans, 5.333%, 2024/09/27	498,750	620,643	630,771	
SiteOne Landscape Supply Holding LLC, Term Loans, 4.200%, 2022/04/29	982,612	1,230,477	1,235,781	
TransDigm Inc., Term Loans, 4.346%, 2024/08/16	1,994,987	2,509,311	2,510,043	
Travel Leaders Group LLC, Term Loans, 5.919%, 2024/01/25	1,991,259	2,617,072	2,524,588	
Vencore Inc., Term Loans, 6.083%, 2019/11/14	1,469,411	1,623,144	1,854,907	
		<u>29,237,500</u>	<u>29,800,620</u>	26.4%
Exchange Traded Funds				
PowerShares Senior Loan Portfolio	153,800	4,760,158	4,439,893	
		<u>4,760,158</u>	<u>4,439,893</u>	3.9%
TOTAL UNITED STATES TERM LOANS		<u>33,997,658</u>	<u>34,240,513</u>	30.3%
TOTAL TERM LOANS		<u>39,850,160</u>	<u>39,979,919</u>	35.4%
Less: Transaction costs included in average cost		<u>(4,121)</u>		
TOTAL INVESTMENTS		<u>83,302,004</u>	<u>82,417,979</u>	73.0%
Derivative Assets			912,236	0.8%
Other assets, less liabilities			<u>29,580,574</u>	26.2%
TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			<u>112,910,789</u>	100.0%

Norrep Short Term Income Fund

Schedule of Derivative Investments - Forward Foreign Currency Contracts
As at December 31, 2017

Counterparty	Credit Rating	Settlement Date	Currency to be Delivered	Fair Value in Cdn Dollars	Currency to be Received	Contract Price	Unrealized Gain
Bank of Nova Scotia	A-1	January 16, 2018	48,692,072 USD	60,996,283	61,908,519 CAD	1.2714	912,236
Net Unrealized Gain							912,236

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

1. Reporting Entity:

Norrep Short Term Income Fund (the “Fund”) is an open-ended mutual fund trust established under the laws of Alberta pursuant to a Declaration of Trust dated August 16, 2011, as amended April 14, 2014, June 26, 2016 and September 9, 2016. The Fund’s principal place of business is Suite 4330, 77 King Street West, Toronto, Ontario, M5K 1H6.

The Fund may issue an unlimited number of units. 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. On June 29, 2017, MF Series was renamed as Series A and MF Series (H) was renamed as Series A (H).

Norrep Capital Management Ltd. (“Manager and Portfolio Manager”) provides investment management services and manages the day-to-day operation of the Fund. TMX Group is the trustee, CIBC Mellon Trust Company (“CIBC Mellon”) is the custodian of the Fund 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 and derivative instruments which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of judgements and estimates:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant estimates include the valuation of investments and investment income accruals.

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

2. Basis of preparation (continued):

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

Functional currency is the currency of the primary economic environment in which the Fund operates and requires judgement. If indicators of the primary environment are mixed, then management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. All of the Fund's operating expenses are denominated in Canadian dollars. Investments are a mixture of Canadian and United States securities. Investor subscriptions and redemptions for Series A, Series F and Series I are all in Canadian dollars. Investor subscriptions and redemptions for Series A (H) and Series F (H) are in U.S. dollars. Although Series A (H) and Series F (H) are denominated in U.S. dollars for investor subscriptions and redemptions, the Series are meant to replicate the Series A and Series F, respectively. The Fund's NAV is calculated in Canadian dollars with the NAV per unit for the Series A (H) and Series F (H) being converted to USD after the Canadian NAV per unit is calculated. Accordingly, management has determined that the functional currency of the Fund is Canadian dollars.

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 are 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

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

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

(ii) Classification (continued)

Financial liabilities at amortised cost:

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

A financial instrument is classified as held for trading if:

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

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

(iii) Fair value measurement

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

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.

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

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

(iii) Fair value measurement (continued)

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

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

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

There is no difference between pricing Net Asset Value (“NAV”) and accounting NAV.

(iv) Amortized cost measurement

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

(v) Specific instruments

Cash and cash equivalents

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

Redeemable units

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

The Fund has multiple classes of redeemable units that do not have identical features and therefore, does 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.

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

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

(v) Specific instruments (continued)

Redeemable units (continued)

For U.S. dollar pricing, net asset values are calculated by converting the Canadian dollar net asset value per unit to the U.S. dollar equivalent using the then current rate of exchange.

(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.

(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 at the date of distribution.

(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, certain 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. The Fund incurred withholding tax expense of \$12,568 (2016 - \$61,682) for the year ended December 31, 2017.

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

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

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

- (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 their 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 is for the fiscal year beginning 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.

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

4. Fair value measurement (continued):

(a) Investments (continued):

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

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

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The Fund recognises 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 December 31, 2017 and December 31, 2016 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. All derivative fair values in the statement of financial position are classified as level 2.

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
December 31, 2017				
Public securities				
Bonds/Secured Loans/ETFs	7,039,880	75,378,099	—	82,417,979
Unrealized gain on derivative instruments	—	912,236	—	912,236
Total Investments	7,039,880	76,290,335	—	83,330,215

NORREP SHORT TERM INCOME FUND

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Years ended December 31, 2017 and 2016

4. Fair value measurement (continued):

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

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
December 31, 2016				
Public securities				
Bonds/Secured Loans	6,734,968	76,415,796	—	83,150,764
Unrealized loss on derivative instruments	—	(1,381,039)	—	(1,381,039)
Total Investments	6,734,968	75,034,757	—	81,769,725

There were no transfers between the levels for the years ended December 31, 2017 and 2016.

(c) Financial instruments not measured at fair value:

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

5. Financial instruments and associated risks:

The Fund's activities expose it to a variety of risks associated with financial instruments as follows: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Fund's overall risk management program seeks to maximize the returns 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 statement of investment portfolios 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.

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

5. Financial instruments and associated risks (continued):

Credit risk (continued):

As at December 31, 2017 and 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
A	3.5%	0.0%
BBB	6.9%	2.1%
BB	15.1%	20.4%
B	36.4%	56.2%
Unrated	4.9%	1.4%
	66.8%	80.1%

Credit risk arising on transactions for units 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 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 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.

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

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

5. Financial instruments and associated risks (continued):

Liquidity risk (continued):

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 the December 31, 2017 Fund had a cash balance equal to 26% (December 31, 2016 – 11%) 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.

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 provide holders of the units with capital preservation and a highly liquid portfolio comprised primarily of government and corporate debt securities targeting a level of income consistent with investments in short-term fixed income securities. The portfolio may consist of all types of debt obligations of issuers that may or may not be listed for trading upon the facilities of stock exchanges or other organized and regulated trading facilities. Assets of the Fund may also be invested in equity or equity-like securities or held in cash 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.

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

5. Financial instruments and associated risks (continued):

Market risk (continued):

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:

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

The Fund uses forward contracts to hedge a portion of the Fund's foreign exchange risk.

At the reporting date the Fund had 6.1% (December 31, 2016 – 8.3%) of its net asset value in U.S. currency.

Sensitivity Analysis:

At December 31, 2017, had the Canadian dollar strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to the holders of redeemable units and the change in net assets attributable to holders of redeemable units would have increased or decreased by \$69,133 (December 31, 2016 – \$79,386). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(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.

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/Secured loans	-	16,588,791	33,445,489	25,343,819	75,378,099
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NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

5. Financial instruments and associated risks (continued):

Market risk (continued):

(b) Interest rate risk (continued):

December 31, 2016	Less than 1 year	1 to 3 years	3 to 5 years	>5 years	Total
All amounts stated in Canadian dollars					
Corporate bonds/Secured loans	2,194,109	9,419,673	54,048,260	10,753,754	76,415,796

(c) Other price risk:

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer, or factors affecting all instruments traded in the market. All securities present a risk of loss of capital.

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 industries and countries where the issuer of the security is located, does business or where the security, if applicable, is listed for trading. 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 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 2016:

	% of Net Assets	
	2017	2016
Investments:		
Over-the-counter debt instruments	66.8%	80.1%
Exchange traded funds	6.2%	7.1%

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

5. Financial instruments and associated risks (continued):

Market risk (continued):

(c) Other price risk: (continued):

Sensitivity analysis:

A 1% increase or decrease in the Blended Index: FTSE TMX Short Term Bond Index (50%), Credit Suisse Leveraged Loan Index (30%) and the Merrill Lynch High Yield Canadian Issuer's Index (20%) at December 31, 2017 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by approximately \$824,180 (December 31, 2016 - \$831,508).

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

	2017	2016
Bonds and Secured Loans	100.0%	100.0%
Total	100.0%	100.0%

6. Net assets attributable to unitholders of redeemable units:

Redeemable units

The authorized capital of the Fund consists of an unlimited number of units, each representing an equal undivided interest in the net assets of the Fund. Currently, there are five series outstanding, Series A, Series A (H), Series F, Series F (H), and Series I. Series O ceased operations on May 20, 2016. Each series ranks equally with respect to dividends and return of capital in the event of liquidation, dissolution or winding up based on their respective series' net asset values. Each series pays its own fees and expenses. The general expenses that are not series specific are allocated in proportion to the annual weighted average units of each series. Series A and Series A (H) are sold under the front end sales charge option. A commission ranging from 0% to 5% is paid by the investor to the dealer with a 2% redemption fee being charged if the units are redeemed in the first 30 days.

Series F and Series F (H) are sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. A 2% redemption fee is charged if the Series F or Series F (H) is redeemed in the first 30 days.

Series I units are sold without commission and are available to certain investors at the Portfolio Manager's discretion. A 2% redemption fee is charged if the units are redeemed in the first 30 days.

Series A (H) and Series F (H) units are offered for purchase in U.S. dollars only.

The rights attached to the redeemable units are as follows:

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

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

Redeemable units (continued)

- 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 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:

Series A	2017	2016
Balance, opening	1,896,276	2,791,683
Issued on dividends reinvested	62,449	95,691
Issued for cash	715,182	96,720
Redeemed for cash	(824,533)	(1,087,818)
Balance, December 31	1,849,374	1,896,276

Series F	2017	2016
Balance, opening	1,991,113	3,311,860
Issued on dividends reinvested	54,224	84,672
Issued for cash	939,942	646,129
Redeemed for cash	(968,803)	(2,051,548)
Balance, December 31	2,016,476	1,991,113

Series I	2017	2016
Balance, opening	5,169,988	4,264,327
Issued on dividends reinvested	192,603	189,311
Issued for cash	2,431,404	942,448
Redeemed for cash	(603,270)	(226,098)
Balance, December 31	7,190,725	5,169,988

Series O	2017	2016
Balance, opening	-	879,512
Redeemed for cash	-	(879,512)
Balance, December 31	-	-

Series A (H)	2017	2016
Balance, opening	110,085	572,914
Issued on dividends reinvested	3,920	18,510
Issued for cash	9,166	51,444
Redeemed for cash	(27,900)	(532,783)
Balance, December 31	95,271	110,085

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

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

Redeemable units (continued)

Series F (H)	2017	2016
Balance, opening	558,574	319,060
Issued on dividends reinvested	12,568	22,076
Issued for cash	356,604	383,090
Redeemed for cash	(392,347)	(165,652)
Balance, December 31	535,399	558,574

Increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated as follows:

December 31, 2017	Series A	Series F	Series I	Series O	Series A(H)	Series F(H)
Increase in net assets attributable to holders of redeemable units	373,008	483,426	1,953,936	-	(49,380)	(268,352)
Average units outstanding during the period	1,835,525	1,854,568	5,898,665	-	102,535	426,748
Increase in net assets attributable to holders of redeemable units per unit	0.20	0.26	0.33	-	(0.48)	(0.63)

December 31, 2016	Series A	Series F	Series I	Series O	Series A(H)	Series F(H)
Increase in net assets attributable to holders of redeemable units	959,606	802,796	3,081,349	154,222	58,387	226,727
Average units outstanding during the period	2,247,188	2,141,411	4,761,614	879,512	506,814	373,158
Increase in net assets attributable to holders of redeemable units per unit	0.43	0.37	0.65	0.18	0.12	0.61

7. Management fees, expenses and key contracts:

(a) Manager and management fees:

Series A and Series A (H) paid an annual management fee to the Manager of 1.25% of the net asset value of the series. Series F and Series F (H) paid an annual management fee to the Manager of 0.75% of the net asset value of the series. The management fee is calculated and paid monthly. Included in accrued expenses at December 31, 2017 is \$32,625 (December 31, 2016 - \$35,340) related to these fees. No management fee is charged to the Series I. Instead, the investors pay a management fee directly to the Manager in an amount determined through

NORREP SHORT TERM INCOME FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

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

(a) Manager and management fees (continued):

negotiation with the Manager. No management fee was charged to the Series O since it was owned entirely by other funds within the Norrep Group of Funds.

(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. As at December 31, 2017 \$11,604 (December 31, 2016 - \$10,372) is included in accrued expenses.

8. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$4,336 (December 31, 2016 - \$5,420) in connection with portfolio transactions during the period.

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