



ALPHANORTH  
GROWTH FUND

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**Interim Financial Statements**

June 30, 2016 (Unaudited)

# ALPHANORTH GROWTH FUND

Financial Statements

June 30, 2016 (Unaudited)

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Statements of Financial Position .....	1
Statements of Comprehensive Loss.....	2
Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares .....	3
Statements of Cash Flows.....	4
Schedule of Investments .....	5
Notes to Financial Statements.....	6 - 23

## NOTICE TO SHAREHOLDERS

AlphaNorth Growth Funds' independent auditors have not performed an audit of these interim financial statements in accordance with the standards established by the International Accounting Standards Board.

# AlphaNorth Growth Fund

## Statements of Financial Position As at June 30, 2016 (Unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Receivable for investments sold	\$ 12,460	\$ —
Financial assets at fair value through profit and loss	1,972,232	1,920,145
Receivable for shares issued	—	1,000
Prepaid expenses	5,218	—
Cash	174,349	69,913
	<u>2,164,259</u>	<u>1,991,058</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Management fees payable	3,280	3,667
Accounts payable and accrued liabilities	73,560	55,885
Payable for investments purchased	90,000	—
	<u>166,840</u>	<u>59,552</u>
<b>Net Assets Attributable to Holders of Redeemable Shares</b>	<b>\$ <u>1,997,419</u></b>	<b>\$ <u>1,931,506</u></b>
<b>Number of Redeemable Shares Outstanding</b>		
Series A	785,899	826,871
Series F	178,359	129,844
<b>Net Assets Attributable to Holders of Redeemable Shares per Series</b>		
Series A	\$ 1,615,499	\$ 1,661,289
Series F	\$ 381,920	\$ 270,217
	<u>\$ 1,997,419</u>	<u>\$ 1,931,506</u>
<b>Net Assets Attributable to Holders of Redeemable Shares per Share</b>		
Series A	\$ 2.06	\$ 2.01
Series F	\$ 2.14	\$ 2.08

On behalf of the Manager:



Steven Palmer, President



Joey Javier, Director

# AlphaNorth Growth Fund

## Statements of Comprehensive Income For the six-months ended June 30, 2016 (Unaudited)

	2016	2,015
<b>Income</b>		
Change in unrealized appreciation on financial assets at fair value through profit and loss	\$ 390,092	\$ 370,262
Net realized gain on foreign currency transactions	12,743	97
Interest for distribution purposes	190	-
Net realized loss on sale of financial assets at fair value through profit and loss	<u>(215,967)</u>	<u>(667,111)</u>
	<u>187,058</u>	<u>(296,752)</u>
<b>Expenses</b>		
Transfer agency fees	37,373	32,232
Administration fees	31,723	29,753
Management fees	19,323	40,373
Legal fees	17,405	7,356
Audit fees	11,189	11,157
Transaction costs	10,922	39,188
Trailer commission fees	8,262	17,363
Other fees	7,093	17,959
Independent review committee fees	2,351	8,184
	<u>145,641</u>	<u>203,565</u>
<b>Increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares</b>	<u>\$ 41,417</u>	<u>\$ (500,317)</u>
<b>Increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares per Series</b>		
Series A	\$ 28,039	\$ (439,208)
Series F	<u>13,378</u>	<u>(61,109)</u>
	<u>\$ 41,417</u>	<u>\$ (500,317)</u>
<b>Weighted Average of Redeemable Shares Outstanding During the Period</b>		
Series A	796,981	1,011,453
Series F	130,191	160,192
<b>Increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares per Series per Share</b>		
Series A	\$ 0.04	\$ (0.44)
Series F	0.10	(0.38)

# AlphaNorth Growth Fund

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares For the six-months ended June 30, 2016 (Unaudited)

	Net assets attributable to holders of redeemable shares, beginning of period	Increase in net assets from operations attributable to holders of redeemable shares	Proceeds from redeemable shares issued	Redemption of redeemable shares	Net assets attributable to holders of redeemable shares, end of period
<b>2016</b>					
Series A	\$ 1,661,289	\$ 28,039	\$ 27,829	\$ (101,658)	1,615,499
Series F	270,217	13,378	138,563	(40,238)	381,920
	<u>\$ 1,931,506</u>	<u>\$ 41,417</u>	<u>\$ 166,392</u>	<u>\$ (141,896)</u>	<u>1,997,419</u>

	Net assets attributable to holders of redeemable shares, beginning of period	Decrease in net assets from operations attributable to holders of redeemable shares	Proceeds from redeemable shares issued	Redemption of redeemable shares	Net assets attributable to holders of redeemable shares, end of period
<b>2015</b>					
Series A	\$ 3,625,128	\$ (439,208)	\$ 115,516	\$ (524,657)	2,776,779
Series F	504,117	(61,109)	104,483	(107,704)	439,787
	<u>\$ 4,129,245</u>	<u>\$ (500,317)</u>	<u>\$ 219,999</u>	<u>\$ (632,361)</u>	<u>3,216,566</u>

# AlphaNorth Growth Fund

## Statement of Cash Flows

For the six-months ended June 30, 2016 (Unaudited)

	2016	2015
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares	\$ 41,417	\$ (500,317)
Adjustments for non-cash items		
Change in unrealized appreciation on financial assets at fair value through profit and loss	(390,092)	(370,262)
Net realized loss on sale of financial assets at fair value through profit and loss	215,967	667,111
Net change in non-cash working capital	90,610	2,525
Proceeds from sale of investments	1,623,009	3,471,732
Purchase of investments	(1,500,971)	(2,760,299)
Cash provided by operating activities	<u>79,940</u>	<u>510,490</u>
<b>Financing Activities</b>		
Redemptions of redeemable shares	(141,896)	(1,348,280)
Proceeds from issuance of redeemable shares	<u>166,392</u>	<u>959,273</u>
Cash provided by (used in) financing activities	<u>24,496</u>	<u>(389,007)</u>
Increase in cash and cash equivalents during the period	104,436	121,483
Cash and cash equivalents, beginning of period	<u>69,913</u>	<u>114,272</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ <u>174,349</u></b>	<b>\$ <u>235,755</u></b>
<b>Supplemental Information</b>		
Interest Received	\$ 190	\$ —

# AlphaNorth Growth Fund

## Schedule of Investment Portfolio

As at June 30, 2016 (Unaudited)

Number of shares	Investments owned	Average cost	Fair value	% of net asset value
<b>Canadian equities</b>				
80,000	Anconia Resources Corp.	\$ 5,020	\$ 5,600	0.28
1,000,000	Blackbird Energy Inc.	150,000	155,000	7.76
407,700	Canada Carbon Inc.	52,043	112,118	5.61
715,000	Canadian Overseas Petroleum Ltd., Restricted	50,070	45,045	2.26
54,200	DataWind Inc.	141,355	93,495	4.68
818,000	Eguana Technologies Inc.	179,990	245,400	12.29
225,000	Evolving Gold Corp.	39,620	91,125	4.56
50,000	Helius Medical Technologies Inc.	50,020	71,500	3.58
50,000	Intellipharma International Inc.	102,668	100,000	5.01
5,000	Mason Graphite Inc.	3,274	3,850	0.19
20,000	Nanotech Security Corp.	24,170	22,600	1.13
100,000	NeuLion Inc.	90,000	91,000	4.56
45,000	NexGen Energy Ltd.	103,055	119,250	5.97
1,075,272	Sintana Energy Inc.	634,587	75,269	3.77
150,000	Spectral Medical Inc.	105,000	142,500	7.13
624,000	Stonegate Agricom Ltd.	172,848	12,480	0.62
52,500	Trevali Mining Corp.	29,026	29,400	1.47
50,000	UrtheCast Corp.	200,000	49,000	2.45
359,500	Vogogo Inc.	383,807	62,913	3.15
		<u>2,516,553</u>	<u>1,527,545</u>	<u>76.47</u>
<b>Canadian warrants</b>				
400,000	Acasti Pharma Inc., Warrants (Exp. 12/03/18)	4,234	323	0.02
1,000,000	Blackbird Energy Inc., Warrants (Exp. 05/19/21)	–	60,000	3.00
715,000	Canadian Overseas Petroleum Ltd., Restricted Warrants (Exp. 05/03/18)	–	–	–
18,750	DataWind Inc., Warrants (Exp. 04/04/17)	2,251	83	–
25,000	Helius Medical Technologies Inc., Warrants (Exp. 04/18/19)	–	11,625	0.58
540,000	MBAC Fertilizer Corp., Warrants (Exp. 04/17/19)	54,000	2,700	0.14
312,500	Petro-Victory Energy Corp., Warrants (Exp. 07/22/16)	25,000	–	–
450,000	RB Energy Inc., Warrants (Exp. 11/13/16)	51,300	–	–
		<u>136,785</u>	<u>74,731</u>	<u>3.74</u>
<b>U.S. equities</b>				
10,419	Heritage Global Inc.	8,520	2,658	0.13
100,000	Ion Acquisition Corp.	123,050	129,170	6.47
36,000	The ONE Group Hospitality Inc.	180,000	121,368	6.08
166,667	Walker Innovation Inc.	516,651	113,498	5.68
		<u>828,221</u>	<u>366,694</u>	<u>18.36</u>
<b>U.S. warrants</b>				
100,000	Committed Capital Acquisition Corp. II, Warrants (Exp. 04/19/19)	–	3,262	0.16
83,334	Walker Innovation Inc., Warrants (Exp. 09/18/16)	–	–	–
		<u>–</u>	<u>3,262</u>	<u>0.16</u>
<b>Total</b>		3,481,559	1,972,232	98.73
	Commissions and other portfolio transaction costs	(8,986)	–	–
<b>Net</b>		<u>\$ 3,472,573</u>	1,972,232	98.73
<b>Other assets, net</b>			<u>25,187</u>	<u>1.27</u>
<b>Net Assets Attributable to Holders of Redeemable Shares</b>			<u>\$ 1,997,419</u>	<u>100.00</u>

See accompanying notes to financial statements.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements

June 30, 2016 (Unaudited)

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## 1. Organization and management of the Fund:

AlphaNorth Growth Fund (the "Fund") is a class of shares of AlphaNorth Mutual Funds Limited (the "Corporation"), a mutual fund corporation incorporated under the Canada Business Corporations Act on April 29, 2011. The Fund is an open-ended mutual fund which was formed under the laws of Ontario and commenced operations on July 25, 2011. AlphaNorth Asset Management is the manager of the Fund (the "Manager"). The principal place of business of the Fund and the head office of the Manager are located at 333 Bay St., Suite 630, Toronto, Ontario, M5H 2R2.

The Manager provides various services to the Fund, including portfolio advisory services, investor relations, oversight of services providers and general administrative support and acts as the portfolio manager and investment fund manager of the Fund.

These financial statements reflect only the assets, liabilities, revenue, and expenses of the Fund, and therefore do not include any assets, liabilities, revenue or expenses of the shareholders. Financial statements of another class of shares of the Corporation is also prepared as part of its continuous disclosure requirements.

The Fund consists of both Series A and Series F shares. Series A shares are available to all investors who purchase through dealers and who invest the minimum amount, while Series F shares are available to investors who participate in fee-based programs through their dealer.

The Fund is a Canadian equity fund that seeks to generate strong long-term returns through the selection and management of investments that offer attractive risk-reward characteristics. In order to accomplish this objective, the Fund focuses primarily on small and mid-capitalization Canadian companies, although it may also invest in foreign securities in accordance with the investment strategy.



# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies:

These interim financial statements have been prepared in compliance with International Financial Reporting Standards applicable to the preparation of financial statements, and International Accounting Standard 34, Interim Financial Reporting (together IFRS). These interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015 which have been prepared in accordance with IFRS.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 22, 2016, which is the date on which the financial statements were authorized for issue by the Manager.

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

The following is a summary of significant accounting policies of the Fund.

### (a) 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: derivative financial instruments.
- Designated at fair value through profit or loss: debt securities and equity investments.

Financial liabilities at fair value through profit or loss:

- Held-for-trading: securities sold short and derivative financial instruments.

All other financial assets and financial liabilities are measured at amortized cost, and are classified as loans and receivables and other financial liabilities, respectively. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (b) Recognition and initial measurement:

Financial assets or liabilities at fair value through profit or loss are initially recognized on the trade date, which is the date 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 measured at fair value, with transaction costs recognized in profit or loss. Financial assets and financial liabilities not at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to their acquisition or issue.

### (c) Fair value measurement:

When available, the Fund measures the fair value of a financial instrument using the quoted price in an active market for that instrument. The Fund measures instruments quoted in an active market at the last traded market price. For instruments that are thinly traded and therefore do not have an available price at period end, the Fund measures the instruments at a mid price between the bid and ask price as at the last traded date. For instruments which are restricted from trading, the Fund applies a discount to the quoted price based on the length of time until the instrument can be freely traded in the market.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

Financial assets classified as loans and receivables are carried at amortized cost using the effective interest rate method, less impairment losses, if any.

There are no differences between the Fund's method for measuring fair value for financial reporting purposes and that for the purposes of calculating net asset value for shareholder transactions except for the differences as described in note 10.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (d) Derecognition:

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

### (e) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when the Fund has a legal right to offset the amounts and it intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

### (f) Valuation of series:

Net assets are calculated for each series of shares of the Fund. The net assets of a particular series of shares is computed by calculating the value of the series proportionate share of the assets and liabilities of the Fund common to all series. Management fees directly attributable to a series are charged to that series. Other expenses, investment income and realized and unrealized gains and losses on investments are allocated proportionately to each series based upon the relative net assets of each series. The Fund's shares are classified as a financial liability as there is a requirement to distribute all income. The Fund's redeemable shares are measured at the redemption amount and are considered a residual interest in the assets of the Fund after deducting all of its liabilities.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (g) Income taxes:

The Fund qualifies as a mutual fund corporation as defined in the Income Tax Act (Canada) (the "Tax Act"). The Corporation is subject to tax at the full corporate rate on its taxable income. Dividends received from taxable Canadian corporations are generally not included in the taxable income of the Corporation but are subject to a special tax, refunded at a rate of 33-1/3% of taxable dividends distributed by the Corporation to its shareholders. Capital gains realized in the year are included in the taxable income of the Fund at the applicable capital gains rate. The Corporation is eligible for a refund calculated on a formula basis when mutual fund shares are redeemed or when capital gains dividends are paid to shareholders. The Corporation endeavours to pay out sufficient Canadian dividends and net capital gains so that it will not be subject to refundable income taxes in respect of income from those sources. However, the Corporation will be liable for non-refundable income tax if its income from other sources exceeds its expenses for the year.

Temporary differences between the carrying values of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. The most significant temporary difference is that between the reported fair value of the investment portfolio and its adjusted cost base ("ACB") for income tax purposes. To the extent that the fair value of the portfolio exceeds its ACB, a future tax liability arises. Since capital gains taxes payable by the Corporation are refundable under the relevant provisions of the Tax Act, the future tax liability is fully offset by these future refundable taxes. Conversely, when the ACB exceeds the fair value of the portfolio, a future tax asset is generated. In such cases, a full valuation allowance is taken to offset this asset given the uncertainty that such future tax assets will ultimately be realized.

### (h) Transaction costs:

Transaction costs (such as brokerage commissions), incurred in the purchase and sale of securities are recorded as expenses and are reported as such in the statements of comprehensive income.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (i) Investment transactions and income recognition:

Except for short-term investments, investment transactions are accounted for on trade date. Short-term investments are accounted for on the date that the order to buy or sell is executed. Realized gains and losses are calculated on an average cost basis. Revenue from investments is recognized on the accrual basis.

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. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities.

### (j) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rate of exchange prevailing at the transaction date. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. Resulting in exchange differences are recognized in the statements of comprehensive income in realized/unrealized gains.

### (k) Financial instruments:

The carrying values of financial instruments, including cash, receivable for shares issued, payable for shares repurchased or redeemed, payable for investments purchased, management fees payable and accounts payable and accrued liabilities approximates their fair values due to their short term to maturity.

### (l) Increase (decrease) in net assets attributable to holders of redeemable shares:

Net increase (decrease) from operations per share in the statements of comprehensive income represents the increase (decrease) in net assets from operations for the period for each series divided by the weighted average shares outstanding for each series during the period.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 2. Significant accounting policies (continued):

### (m) Future accounting changes:

In July 2014, the IASB issued IFRS 9, Financial Instruments, to replace International Accounting Standard 39, Financial Instruments - Recognition and Measurement ("IAS 39"). IFRS 9 addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be classified based on the Fund's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. Financial assets will be measured at fair value through profit and loss unless certain conditions are met which permit measurement at amortized cost or value through other comprehensive income.

The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at fair value through profit and loss. For financial liabilities designated at fair value through profit and loss, IFRS 9 requires the presentation of the effects of changes in the Fund's own credit risk in other comprehensive income instead of net income.

IFRS 9 is effective for fiscal years beginning on January 1, 2018, though early adoption is permitted. The Manager is currently assessing the impact of this new standard on the Fund's financial statements.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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### 3. Critical accounting estimates and judgments:

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

Fair value measurement of derivatives and securities not quoted in an active market:

Fair values of instruments not quoted in active markets are determined using valuation techniques and may be determined using most recent significant transactions, reputable pricing sources (such as pricing agencies), valuation agents or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager. The models used for private equity securities are based mainly on recent significant transactions. Models use observable data, to the extent practicable. However, areas such as discounts based on restriction term and volatilities may require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 7 for further information about the fair value measurement of the Fund's financial instruments.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 4. Related party transactions:

The Manager provides investment management services to the Fund. In consideration for the service provided, the Manager receives a management fee of 2% of the net assets attributable to holders of redeemable shares for both Series A and Series F shares, calculated daily and paid monthly in arrears.

In addition to management fees, the Fund also pays a performance fee equal to excess return per share over the S&P/TSX Composite Index (including distributions) multiplied by the number of the shares outstanding at the end of the quarter, multiplied by 20%. There was no performance fee accrued for the periods ended June 30, 2016 and 2015.

Common expenses incurred by the Fund are allocated among the series on a pro-rata basis among all shares of all series. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents to shareholders. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

As at June 30, 2016, the Manager and related parties held \$723,804 (December 31, 2015 - \$748,193) in shares of the Fund.

## 5. Soft dollars:

Brokerage commissions, where applicable, are used as payment for order execution services or research services. The Manager may select brokers, including their affiliates, for such arrangements if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. It is the Manager's objective that over time, all clients receive benefits from client brokerage commissions. Soft dollars for the period ended June 30, 2016 were \$31,981 (June 30, 2015 - \$38,760).



# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 6. Management of financial risk:

In the normal course of business, the Fund is exposed to financial risk, including market risk (consisting of price risk and interest rate risk), custodian and prime brokerage risks, and liquidity risk. The Fund's overall risk management program seeks to minimize potentially adverse effects of those risks on the Fund's financial performance. The Fund moderates financial risks through the careful selection of portfolio investments and other financial instruments within the parameters of the investment guidelines, strategies and objectives.

### (a) Market risk:

#### (i) Price risk:

Price risk is the risk the value of a financial instrument will fluctuate because of changes in market prices. As at June 30, 2016 and December 31, 2015, the Fund's portfolio investments include equity securities of companies whose securities are actively traded on recognized public exchanges.

At June 30, 2016, a 10% increase or decrease in the prices of the Fund's investments would result in a \$197,223 (December 31, 2015 - \$192,015) increase or decrease in net assets attributable to holders of redeemable shares of the Fund, with all other factors held constant.

#### (ii) Interest rate risk:

Interest rate risk is the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. As at June 30, 2016 and December 31, 2015, interest-bearing financial instruments are at fixed rates over their respective terms of typically 90 days or less. The Fund has no floating rate long-term assets or long-term liabilities. A portion of the assets of the Fund may be invested in interest-bearing deposits (bankers' acceptances) with major Canadian chartered banks.

As at June 30, 2016 and December 31, 2015, changes in the interest rate would not have a material impact on net assets attributable to holders of redeemable shares.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 6. Management of financial risk (continued):

### (b) Custodian and prime brokerage risks:

There are risks involved with dealing with a custodian or prime broker who settle trades. In certain circumstances, the securities or other assets deposited with the custodian or prime broker may be exposed to credit risk with respect to those parties. In addition, there may be practical or timing problems associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

The Fund maintains a custody account with Laurentian Bank Securities ("Laurentian"). Although the Fund monitors Laurentian and believes it to be an appropriate custodian, there is no guarantee that Laurentian will not become insolvent. While there are government regulations intended to protect investor property in the event of a failure, liquidation or insolvency of a broker-dealer, there is no certainty that, in the event of a failure, the Fund will not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets, or both. Because substantially all the assets of the Fund are in the custody of a single custodian, such losses could be significant and could impair the ability of the Fund to achieve its investment objectives.

### (c) Liquidity risk:

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations when they become due. The Fund retains sufficient liquid investments (including cash and portfolio investments in equity securities traded in active markets) to maintain liquidity.

### (d) Concentration risk:

The Fund may concentrate its' investments in a relatively small number of securities, certain sectors or specific regions or countries. This may result in higher volatility, as the value of the Fund may vary more in response to changes in the market value of these securities, sectors, regions or countries. At December 31, 2015, a security represented 31.9% of the Fund. As at June 30, 2016, the same security represented 0.16%. The Fund turns over its' positions periodically to mitigate excessive concentration risk, and intends to sell this security in 2016.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 7. Fair value measurement:

(a) Financial instruments measured at fair value:

The tables below summarize the fair value of the Fund's financial instruments as at June 30, 2016 and December 31, 2015 using the following fair value hierarchy:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 - Inputs that are unobservable and where there is little, if any, market activity. Inputs into the determination of fair value require significant management judgment or estimation.

Financial assets at fair value as at June 30, 2016				
	Level 1	Level 2	Level 3	Total
Equities	\$ 1,720,024	\$ 45,045	\$ 129,170	\$ 1,894,239
Warrants	77,587	406	–	77,993
<b>Total</b>	<b>\$ 1,797,611</b>	<b>\$ 45,451</b>	<b>\$ 129,170</b>	<b>\$ 1,972,232</b>

During the period ended June 30, 2016, Acasti Pharma Inc., Warrants (Exp. 12/03/18) \$323 (December 31, 2015 – 96) was transferred from Level 3 to Level 2 due to a change in valuation methodology.

Financial assets at fair value as at December 31, 2015				
	Level 1	Level 2	Level 3	Total
Equities	\$ 1,796,841	\$ 11,138	\$ 110,720	\$ 1,918,699
Warrants	–	1,350	96	1,446
<b>Total</b>	<b>\$ 1,796,841</b>	<b>\$ 12,488</b>	<b>\$ 110,816</b>	<b>\$ 1,920,145</b>

There were no transfers of investments between Levels 1, 2, and 3 for the year ended December 31, 2015.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 7. Fair value measurement (continued):

During the period ended June 30, 2016 and the year ended December 31, 2015, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	2016	2015
Balance at beginning of period	\$ 110,816	\$ 320,540
Purchases	—	123,050
Sales	—	(169,140)
Net transfers into and/or out of Level 3	(323)	—
Change in unrealized depreciation	18,677	(163,634)
<b>Balance at end of period</b>	<b>\$ 129,170</b>	<b>\$ 110,816</b>
Total change in unrealized depreciation during the period for amounts held at period end	\$ 18,677	\$ (163,730)

The table below sets out information about significant unobservable inputs used at June 30, 2016 and December 31, 2015 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value		Valuation technique	Unobservable input	Range (weighted average)		Sensitivity to changes in significant unobservable inputs	
	2016	2015			2016	2015	2016	2015
Warrants	\$ —	\$ 96	Black Scholes	Volatility	N/a	24% - 50% (average 36%)	The estimated fair value would increase by \$3,639 or 79% for a 5 point increase in the volatility or decrease by \$253 or 5% for 5 point decrease in the volatility	The estimated fair value would increase by \$232 or 242% for a 5 point increase in the volatility or decrease by \$79 or 83% for a 5 point decrease in the volatility
Unlisted equity investment	\$ 129,170	\$ 110,720	Market price of comparable freely trading security with discount	Discount rate	6% - 16% (average 11%)	5% - 20% (average 8%)	The estimated fair value would decrease by \$71,675 or 65% for a 5 percent increase in the discount rate or increase by \$67,385 or 61% for a 5 percent decrease in the discount rate	The estimated fair value would decrease by \$6,900 or 6% for a 5 percent increase in the discount rate or increase by \$7,000 or 6% for a 5 percent decrease in the discount rate

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 7. Fair value measurement (continued):

The unlisted equity investment which constitutes the remaining financial instruments categorized in Level 3 was nil at June 30, 2016 (December 31, 2015 - nil). This instrument was valued based on the most recent transactions of comparable securities of the issuer.

The Manager is responsible for performing the fair value measurements included in the financial statements of the Fund, including Level 3 measurements.

The Manager reviews and approves pricing for Level 3 financial instruments immediately as pricing information is available.

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

The financial instruments not measured at fair value through profit or loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

The Fund's redeemable shares are measured at the redemption amount and are considered a residual interest in the assets of the Fund after deducting all of its liabilities. The shares are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Fund's net asset value attributable to the share class as described in the prospectus.

Cash and receivable for shares issued include the contractual amounts for settlement of trades and other obligations due to the Fund. Payable for shares repurchased or redeemed, management fees payable and accounts payable and accrued liabilities represent the contractual amounts and obligations due by the Fund for settlement of trades and expenses.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 8. Net gain (loss) from financial assets at fair value through profit or loss:

	2016	2015
Net realized loss on financial assets:		
Financial assets held for trading	\$ (6,954)	\$ —
Financial assets designated at fair value through profit or loss	(209,013)	(667,111)
	(215,967)	(667,111)
Net change in unrealized gain (loss) on financial assets:		
Financial assets held for trading	81,345	66,469
Financial assets designated at fair value through profit or loss	308,747	303,793
	390,092	370,262
	\$ 174,125	\$ (296,849)

The net realized gain (loss) on financial assets at fair value through profit or loss represents the difference between the carrying amount of the financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its sale or settlement price.

The net change in unrealized gain (loss) on financial assets represents the difference between the carrying amount of a financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its carrying amount at the end of the reporting period.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

## 9. Share capital:

The shares and common shares of the Corporation have equal rights and privileges except that the common shares may not be redeemed.

Changes in issued mutual fund shares of the Fund for the periods ended June 30, 2016 and June 30, 2015 are summarized as follows:

	Series A	
	2016	2015
Redeemable shares outstanding, beginning of period	826,871	1,092,048
Redeemable shares issued	14,420	38,402
Total	14,420	38,402
Redeemable shares redeemed	(55,392)	(173,449)
Net decrease in redeemable shares	(40,972)	(135,047)
Redeemable shares outstanding, end of period	785,889	957,001

	Series F	
	2016	2015
Redeemable shares outstanding, beginning of period	129,844	148,025
Redeemable shares issued	69,795	33,892
Total	69,795	33,892
Redeemable shares redeemed	(21,280)	(35,008)
Net increase (decrease) in redeemable shares	48,515	(1,116)
Redeemable shares outstanding at end of period	178,359	146,909

The average number of Series A and Series F shares outstanding during the period ended June 30, 2016 were 796,981 (June 30, 2015 - 1,011,453) and 130,191 (June 30, 2015 - 160,192), respectively. These numbers were used to calculate the respective net increase (decrease) in net assets attributable to holders of redeemable shares.

# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## 10. Net assets and net asset value:

National Instrument 81 - 106 - Investment Fund Continuous Disclosure requires that the net asset value for transactional purposes ("Net Asset Value"), be calculated based on the fair value of investments. The Fund prices warrants for transactional purposes at the intrinsic value. The Fund prices warrants for financial reporting purposes using the Black-Scholes model. Net assets per share and Net Asset Value per share could be different due to the use of different valuation techniques.

The Net Asset Value per share and net assets per share as at June 30, 2016 is as below:

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	Net Asset Value per share	Net assets per share
Series A	\$ 2.03	\$ 2.06
Series F	2.12	2.14

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The Net Asset Value per share and net assets per share as at December 31, 2015 is as below:

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	Net Asset Value per share	Net assets per share
Series A	\$ 2.04	\$ 2.01
Series F	2.11	2.08

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# ALPHANORTH GROWTH FUND

Notes to Financial Statements (continued)

June 30, 2016 (Unaudited)

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## **11. Capital management:**

The Fund's capital is its net assets attributable to holders of redeemable shares. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to maximize value for holders of redeemable shares, and maintain financial strength.

The Fund is not subject to any externally-imposed capital requirements.

## **12. Dividends to holders of redeemable shares:**

Dividends to holders of redeemable shares from the Fund are made to minimize income taxes payable by the Fund. Accordingly, dividends will vary from the accounting income reflected in these financial statements. Dividends of the Fund, unless otherwise specified by the shareholder, are automatically reinvested in additional shares of the Fund at the per share Net assets attributable to holders of redeemable shares without sales charge. During the period ended June 30, 2016 and the year ended December 31, 2015, the Fund did not pay a notional distribution. A notional distribution results in the Fund declaring a distribution of additional shares, then completing a concurrent shares consolidation such that the number of shares outstanding after a consolidation is identical to the number of shares held before the distribution was paid.



AlphaNorth  
Asset Management

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