



ALPHANORTH  
GROWTH FUND

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**Annual Management Report of Fund  
Performance**

December 31, 2017

# AlphaNorth Growth Fund

## Annual Management Report of Fund Performance

As at December 31, 2017

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements for AlphaNorth Growth Fund (the “Fund”). All references to dollars contained herein are to Canadian dollars. The annual financial statements of the Fund are attached behind this report and you can also get a copy of the annual financial statements at your request, and at no cost, by writing to us at AlphaNorth Growth Fund, c/o AlphaNorth Asset Management, 333 Bay Street, Suite 630, Toronto, Ontario M5H 2R2 or by visiting our website at [www.alphanorthasset.com](http://www.alphanorthasset.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Shareholders may also contact us using one of these methods to request a copy of the Fund’s interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the Fund.

### **A Note on Forward-looking Statements**

Certain statements included in this Management Report of Fund Performance constitute forward looking statements, including those identified by the expressions “anticipate”; “believe”; “plan”; “estimate”; “expect”; “may”; “will”; “intend” and similar expressions to the extent they relate to the Fund or AlphaNorth Asset Management (the “Manager”). These forward looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These risks and uncertainties include, but are not limited to, changes in the global economy, general economic and business conditions, existing governmental regulations, supply, demand and other market factors specific to the resource sector and to the securities of resource companies in which the Fund invests.

Although the Manager believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, forward-looking information involves numerous assumptions and inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund’s filings with Canadian securities regulatory authorities. The forward-looking information is given as of the date of this Management Report of Fund Performance, and the Manager undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

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### **MANAGEMENT DISCUSSION OF FUND PERFORMANCE**

#### **INVESTMENT OBJECTIVES AND STRATEGIES**

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, however, up to 25% of the Fund may be invested in foreign markets. The companies in which the Fund invests will typically have market capitalizations between \$100 million and \$5 billion.

#### **RISK**

The risks associated with investing in the Fund are as described in the prospectus. There were no significant changes during the year which would attribute to material changes in risk level.

#### **RESULTS OF OPERATIONS**

The S&P/TSX Total Return Index (the “TSX”) returned 9.1% in 2017. This compares to the S&P 500 Index (the “S&P”) which returned 21.8%. After strong outperformance in 2016, the TSX has underperformed the S&P in 2017. The continued weakness in the resource sectors can be blamed for much of the underperformance by the TSX. It is our view that there will be a sector rotation in the coming quarters into the resource sectors and as a result the TSX will begin to outperform. The S&P/TSX Venture Index (the “TSXV”), a benchmark for small cap equities in Canada, has also consolidated after returning a stellar 45.0% in 2016. In 2017, the TSXV returned 11.6%. The large weighting of the resource sectors, particularly precious metals, has had a significant negative impact in 2017. The BMO Small Cap Precious Metals and Energy sectors reflected this performance with negative returns in 2017 of (9.1%) and (23.1%) respectively. In the U.S., the large technology companies such as Google, Amazon, Facebook and Apple continued to contribute strongly to returns for the S&P.

The Fund’s performance in 2017 exceeded the above-noted Canadian indices returning 21.5%. The strong performance can largely be attributed to several investments in the technology and health care sectors which generated strong returns for the Fund.

During 2017 the Fund benefited from strong realized gains in Nexgen Energy and warrants held of Helius Medical Technology. Leonovus Inc. and Vogogo Inc. had large unrealized gains and were the largest positive contributors to returns in 2017. Diamcor Mining Inc. and Neurotrope Inc. contributed negatively to returns in 2017.

#### **RECENT DEVELOPMENTS**

There are continued signs of underlying strength for the TSXV. Financing activity, volume and value traded have continued to improve increasing by 38%, 15% and 52% respectively in 2017 as compared to 2016. These indicators reflect the improved investor sentiment in the Canadian small cap space.

The macro environment for equities continues to be very favourable. The positive impacts of U.S. corporate tax cuts combined with the strongest earnings growth since 2011 have been notable positives driving U.S. equities. This has contributed to strong returns for the large cap indices in recent months and investors had become complacent prior to the recent correction. An historically high reading of 60% bullishness for the AAII (American Association of Individual

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Investors) investor poll combined with the recent low level of the volatility index (VIX) were evidence of this complacency. The lack of a meaningful correction in more than two years set the broader equity indices up for what was a rapid change in sentiment in February resulting in a correction of approximately 10%. We are not concerned by market action as the environment for equities remains highly favourable given the strong global growth and the low interest rate environment.

We believe that sector rotation in favour of the resource sectors over the next year will result in superior returns for the Canadian indices. The strong macro backdrop and continued positive trend for large cap equities provides the environment for Canadian small cap companies to continue to outperform. The TSX Venture index remains 76% below its all-time high set in 2007. We believe there remains significant runway left in the small cap bull market which began in 2016.

### **RELATED PARTY TRANSACTIONS**

The Manager provides or arranges for the provision of all general management and administrative services required by the Fund in its day-to-day operations, including providing or arranging the provision of investment advice, establishment of brokerage arrangements relating to the purchase and sale of the investment portfolio, and bookkeeping, record-keeping and other administrative services for the Fund. The Manager receives an annual fee, equal to 2% of the net assets attributable to the holders of redeemable shares of the Fund, calculated and paid monthly in arrears. The Manager may receive a performance fee if certain performance thresholds are met.

The Manager and an affiliate of the Manager may receive finders fees from issuers in whose securities the Fund invests. During 2017, the Manager received no fees and \$13,300 was paid to an affiliate (from Encore Energy Corp. and Leonovus Inc.). The IRC of the Fund has considered these finders fees and considers that it is fair and reasonable to the Fund for the Manager and the affiliate to receive these finders fees, provided they are disclosed.

During May and July 2017, the Manager reimbursed the Fund and the Series A shareholders who acquired or redeemed Series A shares since June 1, 2016, for an incorrect charge of performance fees in 2016 and reversed the performance fee accrual that had impacted the net asset value of the Series A shares since January 1, 2017 to April 26, 2017. \$22,735 was paid into the Fund for the benefit of the Series A shares as of May 1, with an additional \$29,812 being paid into the Fund for the benefit of the Series A shares in early July.

All Series A shares that were outstanding as of May 31, 2017 were redesignated to Series D shares on a one-for-one basis. From June 1, 2017, the performance fee payable to the Manager in respect of Series A shares was based on a highwater mark equal to the NAV of the Series A shares as of June 1, 2017.

The IRC of the Fund considered the above-noted matters regarding the incorrect charge of performance fees and provided its recommendation that the Manager proceed in the manner it did to reimburse the Fund and its applicable shareholders.

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The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance over the past five years.

### FINANCIAL HIGHLIGHTS - Series A

#### Net Assets Attributable to Holders of Redeemable Shares per share <sup>1</sup>

	2017	2016	2015	2014	2013
<b>Net Assets, beginning of period</b>	\$ 2.84	\$ 2.01	\$ 3.32	\$ 4.78	\$ 6.53
<b>Fund Transactions</b>					
<b>Increase (decrease) from operations</b>					
Total investment income	-	-	-	0.03	0.01
Total expenses	(0.31)	(0.24)	(0.33)	(0.33)	(0.34)
Realized gains (losses)	0.53	0.11	(1.18)	(0.90)	(2.01)
Unrealized gains (losses)	(1.07)	0.17	0.17	(0.27)	0.49
<b>Total increase (decrease) from operations</b>	<b>(0.85)</b>	<b>1.07</b>	<b>(1.34)</b>	<b>(1.47)</b>	<b>(1.85)</b>
<b>Net Assets at end of period<sup>3</sup></b>	<b>\$ 3.92</b>	<b>\$ 2.84</b>	<b>\$ 2.01</b>	<b>\$ 3.32</b>	<b>\$ 4.78</b>

<sup>1</sup> This information is derived from the Fund's audited financial statements. National Instrument 81 - 106 - Investment Fund Continuous Disclosure requires that net asset value for transactional purposes ("Net Asset Value"), be calculated based on the fair value of investments using the close or last trade price. The Fund prices warrants for transaction purposes using the intrinsic value. IFRS requires that net assets for financial reporting purposes ("Net Assets") be calculated using a price within the bid-ask spread. The Fund prices warrants for financial reporting purposes using the Black-Scholes model of an investment. Net Assets per share and Net Asset Value per share could be different due to the use of different valuation techniques.

<sup>2</sup> Net Assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial period.

<sup>3</sup> This schedule is not a reconciliation of Net Assets since it does not reflect shareholders' transactions as shown on the Statement of Changes in Net Assets.

#### Ratios and Supplemental Data

	2017	2016	2015	2014	2013
Net Asset Value (000's) <sup>1</sup>	\$81	\$584	\$1,661	\$3,638	\$ 5,778
Number of shares outstanding <sup>1</sup>	20,620	205,915	826,871	1,092,048	1,207,830
MER <sup>2</sup>	10.11%	12.23%	11.14%	7.60%	6.19%
Portfolio turnover rate <sup>3</sup>	101.51%	167.12%	121.20%	291.69%	181.16%
Trading expense ratio <sup>4</sup>	1.13%	1.95%	1.27%	2.29%	2.22%
Net Asset Value per share <sup>1</sup>	\$3.92	\$2.84	\$2.01	\$3.33	\$ 4.78

<sup>1</sup> This information is provided as at December 31st for the years shown.

<sup>2</sup> Management expense ratio ("MER") is based on total expenses for the stated period (excluding brokerage commissions) and is expressed as an annualized percentage of daily average net assets during the period.

<sup>3</sup> The Fund's portfolio turnover rate indicates how actively the Fund's Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio's turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

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### FINANCIAL HIGHLIGHTS - Series F

#### Net Assets Attributable to Holders of Redeemable Shares per share <sup>1</sup>

	2017	2016	2015	2014	2013
<b>Net Assets, beginning of period</b>	\$ 3.30	\$ 2.08	\$ 3.41	\$ 4.88	\$ 6.62
<b>Fund Transactions</b>					
<b>Increase (decrease) from operations</b>					
Total investment income	-	-	-	0.01	0.01
Total expenses	(0.24)	(0.28)	(0.31)	(0.29)	(0.29)
Realized gains (losses)	0.61	0.13	(1.13)	(0.92)	(2.34)
Unrealized gains (losses)	0.69	1.25	0.16	(0.23)	0.26
<b>Total increase (decrease) from operations</b>	1.06	1.10	(1.28)	(1.43)	(2.36)
<b>Net Assets at end of period<sup>3</sup></b>	\$ 4.63	\$ 3.30	\$ 2.08	\$ 3.41	\$ 4.88

1 This information is derived from the Fund's audited financial statements. National Instrument 81 - 106 - Investment Fund Continuous Disclosure requires that net asset value for transactional purposes ("Net Asset Value"), be calculated based on the fair value of investments using the close or last trade price. The Fund prices warrants for transaction purposes using the intrinsic value. IFRS requires that net assets for financial reporting purposes ("Net Assets") be calculated using a price within the bid-ask spread. The Fund prices warrants for financial reporting purposes using the Black-Scholes model of an investment. Net Assets per share and Net Asset Value per share could be different due to the use of different valuation techniques.

2 Net Assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial period.

3 This schedule is not a reconciliation of Net Assets since it does not reflect shareholders' transactions as shown on the Statement of Changes in Net Assets.

#### Ratios and Supplemental Data

	2017	2016	2015	2014	2013
Net Asset Value (000's) <sup>1</sup>	\$1,288	\$702	\$270	\$ 506	\$ 731
Number of shares outstanding <sup>1</sup>	278,565	212,494	129,844	148,025	149,667
MER <sup>2</sup>	6.71%	9.30%	10.12%	6.55%	4.84%
Portfolio turnover rate <sup>3</sup>	101.50%	167.12%	121.20%	291.69%	181.16%
Trading expense ratio <sup>4</sup>	1.13%	1.95%	1.27%	2.29%	2.22%
Net Asset Value per share <sup>1</sup>	\$4.63	\$3.30	\$2.08	\$ 3.42	\$ 4.88

1 This information is provided as at December 31st for the years shown.

2 Management expense ratio ("MER") is based on total expenses for the stated period (excluding brokerage commissions) and is expressed as an annualized percentage of daily average net assets during the period.

3 The Fund's portfolio turnover rate indicates how actively the Fund's Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio's turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

4 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

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### FINANCIAL HIGHLIGHTS - Series D

#### Net Assets Attributable to Holders of Redeemable Shares per share <sup>1</sup>

	2017	2016 <sup>5</sup>
<b>Net Assets, beginning of period</b>	\$ 3.15	-
<b>Fund Transactions</b>		
<b>Increase (decrease) from operations</b>		
Total investment income	-	-
Total expenses	(0.27)	(0.27)
Realized gains (losses)	0.58	0.12
Unrealized gains (losses)	1.01	1.19
<b>Total increase (decrease) from operations</b>	<u>1.33</u>	<u>2.23</u>
<b>Net Assets at end of period<sup>3</sup></b>	<u>\$ 4.38</u>	<u>\$ 3.15</u>

<sup>1</sup> This information is derived from the Fund's audited financial statements. National Instrument 81 - 106 - Investment Fund Continuous Disclosure requires that net asset value for transactional purposes ("Net Asset Value"), be calculated based on the fair value of investments using the close or last trade price. The Fund prices warrants for transaction purposes using the intrinsic value. IFRS requires that net assets for financial reporting purposes ("Net Assets") be calculated using a price within the bid-ask spread. The Fund prices warrants for financial reporting purposes using the Black-Scholes model of an investment. Net Assets per share and Net Asset Value per share could be different due to the use of different valuation techniques.

<sup>2</sup> Net Assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial period.

<sup>3</sup> This schedule is not a reconciliation of Net Assets since it does not reflect shareholders' transactions as shown on the Statement of Changes in Net Assets.

<b>Ratios and Supplemental Data</b>	<b>2017</b>	<b>2016</b>
Net Asset Value (000's) <sup>1</sup>	\$2,924	\$2,120
Number of shares outstanding <sup>1</sup>	667,830	672,742
MER <sup>2</sup>	7.84%	20.49%
Portfolio turnover rate <sup>3</sup>	101.50%	104.55%
Trading expense ratio <sup>4</sup>	1.13%	1.61%
Net Asset Value per share <sup>1</sup>	\$4.38	\$3.15

<sup>1</sup> This information is provided as at December 31st for the years shown.

<sup>2</sup> Management expense ratio ("MER") is based on total expenses for the stated period (excluding brokerage commissions) and is expressed as an annualized percentage of daily average net assets during the period.

<sup>3</sup> The Fund's portfolio turnover rate indicates how actively the Fund's Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio's turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

<sup>5</sup> The results shown are for the period from September 30, 2016 to December 31, 2016.

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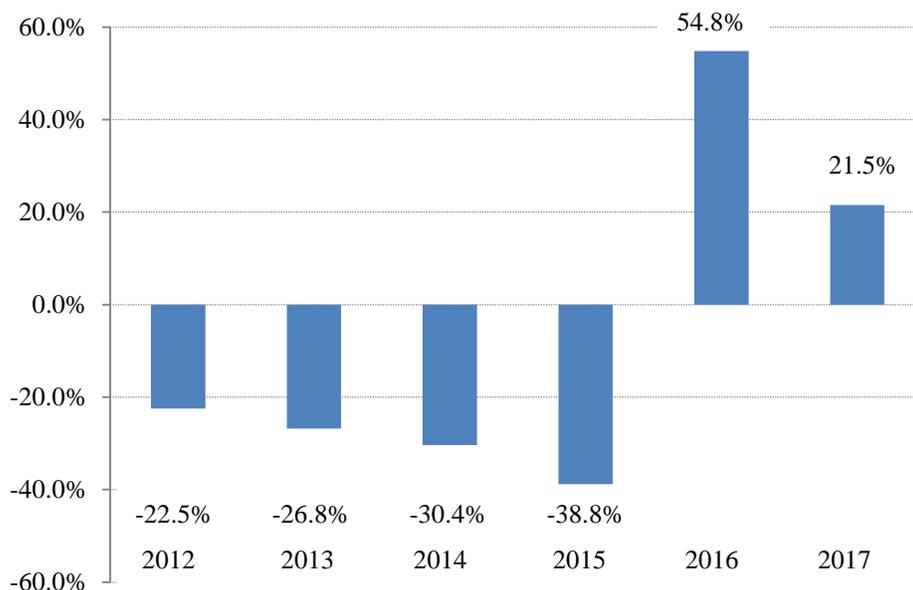
### PAST PERFORMANCE

The indicated rates of return are the historical total returns including changes in Share values and assume reinvestment of all distributions in additional Shares of the relevant Series of the Fund. These returns do not take into account sales, redemption, distribution or optional charges or income taxes payable by any Shareholder that may reduce returns. Please note that past performance is not indicative of future performance. All rates of return are calculated based on the net assets attributable to the holders of redeemable shares of the particular Series of the Fund.

### YEAR-BY-YEAR RETURNS

The following chart indicates the non-annualized performance of each Series of the Fund for each of the previous 12-month periods ended December 31. The chart shows, in percentage terms, how much an investment made on the first day of each period would have grown or decreased by the last day of each period.

Series A:

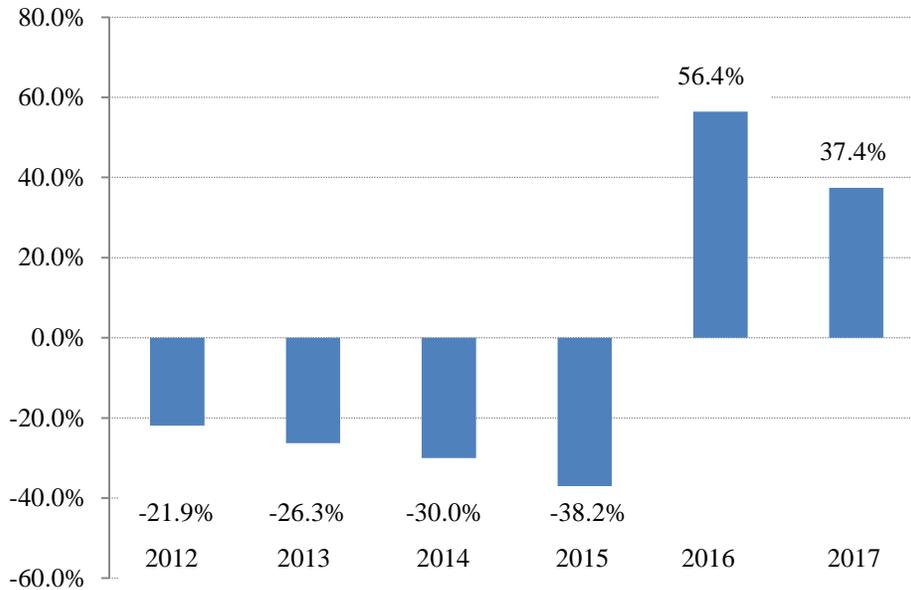


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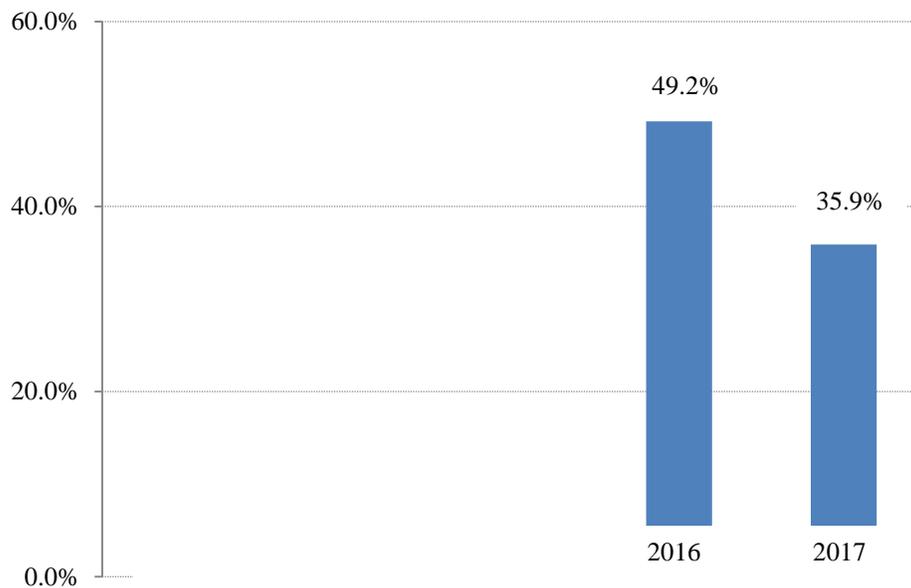
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Series F:



Series D:

Series D shareholders were previously shareholders in Series A shares which were transitioned to Series D in May 2016 and again in June 2017. Shareholders should look to the performance indicated above for the Series A shares for the 2017 and prior financial years.



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### Annual Compound Returns

The following table illustrates the annual compound total return for Series A, F and D shares of the Fund for the periods shown. The S&P/TSX Composite Index (the “TSX Composite”) and S&P/TSX Venture Index (TSX Venture) are capitalization-weighted indices where the TSX Composite represents some of the largest float-adjusted stocks. Since the Fund does not necessarily invest in the same securities as the TSX Composite or TSX Venture or in the same proportion, the performance of the Fund is not expected to equal their performance. In addition, the Fund is subject to costs, such as fees and trading expenses that are not borne by the indices.

	1-Year	3-Year	5-Year	Since Inception*
AlphaNorth Growth Fund - Series A	21.5%	4.8%	-10.1%	-61.7%
AlphaNorth Growth Fund - Series F	37.4%	9.8%	-7.1%	-54.8%
AlphaNorth Growth Fund - Series D	35.9%	-	-	-
S&P/TSX Venture Index	11.6%	6.9%	-7.0%	-58.2%
S&P/TSX Total Return Index	9.1%	6.6%	8.6%	46.1%

\*Inception of the Fund was July 25, 2011

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### SUMMARY OF INVESTMENT PORTFOLIO

The following summary of the Fund's investment portfolio reports the portfolio as at December 31, 2017, breaks down the entire portfolio into appropriate subgroups, reports the percentage of the aggregate net assets attributable to the holders of redeemable shares in each, and discloses the top positions held by the Fund as a percentage of the net assets attributable to the holders of redeemable shares of the Fund. The information contained in this section is subject to change due to the ongoing portfolio transactions of the Fund.

As at December 31, 2017

Top Holdings		Portfolio Allocation	
Issuer	% of NAV		% of NAV
LeoNovus Inc.	14.4%	<b>Long Positions</b>	
LeoNovus Inc., Warrants (Exp. 2022/03/18)	11.5%		
Global Energy Metals Corp.	9.9%	Materials	27.4%
Vuzix Corp.	9.1%	Energy	7.2%
Vogogo Inc.	8.4%	Technology	43.5%
Walker Innovation Inc.	6.4%	Consumer Discretionary	3.7%
LSC Lithium Corp.	5.5%	Health Care	18.5%
Blackbird Energy Inc., Warrants (Exp. 2021/05/19)	4.0%	Other	0.0%
Assure Holdings Inc.	3.6%		
Copper Mountain Mining Corp., Warrants (Exp. 2019/08/02)	3.5%	<b>Total Long Positions</b>	<b>100.3%</b>
Auryn Resources Inc.	2.8%		
Neurotrope Inc.	2.5%		
The ONE Group Hospitality Inc.	2.5%		
Encore Energy Corp.	2.1%	<b>Total Investment Portfolio</b>	<b>100.3%</b>
Jaguar Animal Health Inc.	2.0%		
Diamcor Mining Inc.	1.9%	Other net liabilities	-0.3%
POET Technologies Inc.	1.8%		
Nano One Materials Corp., Restricted	1.3%	<b>Total Net Assets</b>	<b>100.0%</b>
Sintana Energy Inc.	1.1%		
Global Energy Metals Corp., Warrants (Exp. 2018/03/01)	1.1%		
Harvest One Cannabis Inc., Warrants (Exp. 2020/04/26)	1.1%		
Evolving Gold Corp.	0.9%		
Canada Carbon Inc.	0.9%		
eCobalt Solutions Inc., Warrants (Exp. 2019/02/28)	0.7%		
NeutriSci International Inc.	0.6%		
POET Technologies Inc., Warrants (Exp. 2021-11-02)	0.4%		
Mezzi Holdings Inc.	0.2%		
Nano One Materials Corp., Warrants (Exp. 2019-09-08)	0.1%		

The "Top Holdings" excludes any temporary cash investments.  
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AlphaNorth  
Asset Management

**ALPHANORTH ASSET MANAGEMENT**

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