

**Celernus Absolute Growth Fund**  
**Financial Statements**  
For the year ended December 31, 2017

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**Financial Statements**  
For the year ended December 31, 2017

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## Independent Auditor's Report

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### To the Unitholders of Celernus Absolute Growth Fund

We have audited the accompanying financial statements of Celernus Absolute Growth Fund (the "Fund"), which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and 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.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Burlington, Ontario  
May 25, 2018

## Celernus Absolute Growth Fund Statement of Financial Position

**December 31** **2017** **2016**

### Assets

#### Current assets

Investments, at fair value	\$ 27,288,839	\$ 34,012,378
Interest and dividends receivable	124,856	42,811

Total assets	<u>27,413,695</u>	<u>34,055,189</u>
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### Liabilities

#### Current liabilities

Investments sold short, at fair value	6,228,330	8,539,820
Due to broker (Note 5)	1,944,091	1,192,266
Accounts payable and accrued liabilities	<u>41,339</u>	<u>83,457</u>

Total liabilities (excluding net assets attributable to holders of redeemable units)	<u>8,213,760</u>	<u>9,815,543</u>
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#### Net assets attributable to holders of redeemable units

	<u>\$ 19,199,935</u>	<u>\$ 24,239,646</u>
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#### Number of redeemable units outstanding (Note 6)

	<u>1,616,901</u>	<u>2,094,774</u>
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#### Net assets attributable to holders of redeemable units per unit

	<u>\$ 11.87</u>	<u>\$ 11.57</u>
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On behalf of the Fund, by the Manager,  
Celernus Investment Partners Inc.

\_\_\_\_\_  
Director

## Celernus Absolute Growth Fund Statement of Comprehensive Income

For the year ended December 31	2017	2016
<b>Income</b>		
Interest	\$ 373,727	\$ 539,063
Dividends	251,888	692,088
Distributions from investment in limited partnership units	1,257,650	-
Net realized loss on sale of investments	(233,348)	(289,746)
Net change in unrealized depreciation of investments	(1,238,206)	(2,620,236)
Unrealized appreciation of foreign currency	756,464	1,371,252
	<b>1,168,175</b>	<b>(307,579)</b>
<b>Expenses</b>		
Interest	320,901	366,646
Management fees (Note 7)	200,523	266,988
Fund administration	148,203	147,990
Transaction costs	47,335	34,625
	<b>716,962</b>	<b>816,249</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$ 451,213</b>	<b>\$ (1,123,828)</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit (Note 10)</b>	<b>\$ 0.25</b>	<b>\$ (0.46)</b>

The accompanying notes are an integral part of these financial statements.

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**Celernus Absolute Growth Fund**  
**Statement of Changes in Net Assets Attributable**  
**to Holders of Redeemable Units**

For the year ended December 31	2017	2016
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	<b>\$ 24,239,646</b>	<b>\$ 29,659,731</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>451,213</b>	<b>(1,123,828)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	510,129	1,937,731
Amounts paid on redemption of redeemable units	<b>(6,001,053)</b>	<b>(6,233,988)</b>
	<b>(5,490,924)</b>	<b>(4,296,257)</b>
<b>Net decrease in net assets attributable to holders of redeemable units for the year</b>	<b>(5,039,711)</b>	<b>(5,420,085)</b>
<b>Net assets attributable to holders of redeemable units, end of year</b>	<b>\$ 19,199,935</b>	<b>\$ 24,239,646</b>

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The accompanying notes are an integral part of these financial statements.

## Celernus Absolute Growth Fund Statement of Cash Flows

For the year ended December 31	2017	2016
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 451,213	\$ (1,123,828)
Adjustments to reconcile increase (decrease) in net assets attributable to holders of redeemable units to cash from operating activities:		
Net realized loss on sale of investments	233,348	289,746
Net change in unrealized depreciation of investments	1,238,206	2,620,236
Unrealized appreciation of foreign currency	(756,464)	(1,371,252)
Purchase of investments	(91,449,525)	(89,501,094)
Proceeds on disposal of investments	94,390,020	97,938,519
Changes in operating assets and liabilities		
Interest and dividends receivable	(82,045)	(30,385)
Subscriptions receivable	-	4,000
Accounts payable and accrued liabilities	(42,118)	44,038
	<b>3,982,635</b>	<b>8,869,980</b>
<b>Cash flows from investing activity</b>		
Repayments from related parties	-	1,900,000
	<b>-</b>	<b>1,900,000</b>
<b>Cash flows from financing activity</b>		
Proceeds from redeemable units issued	510,129	1,937,731
Amounts paid on redemption of redeemable units	(6,001,053)	(6,233,988)
Due to broker	751,825	(7,844,975)
	<b>(4,739,099)</b>	<b>(12,141,232)</b>
<b>Foreign exchange gain on cash held in foreign currency</b>	<b>756,464</b>	<b>1,371,252</b>
<b>Cash, beginning and end of year</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements.

## Celernus Absolute Growth Fund Schedule of Investment Portfolio

**December 31, 2017**

No. of Units/Shares	Name	Avg. Cost (\$)	Fair Value (\$)	% of Net Asset Value
<b>Limited Partnership Units 23.82 % (Note 3)</b>				
100	Celernus London LP	2,222,560	2,222,560	11.58
200	Clifton Blake 1027 Yonge Street LP	2,000,000	2,350,000	12.24
		<u>4,222,560</u>	<u>4,572,560</u>	<u>23.82</u>
<b>Closed End Mutual Fund 5.61%</b>				
6,970	SPDR Gold Trust ETF	1,189,839	1,078,811	5.61
<b>Mortgage 18.58% (Note 3)</b>				
	Commercial	3,568,427	3,568,427	18.58
<b>Canadian Equities 1.42 (Note 3)</b>				
150,000	Desert Lion Energy Corp.	219,280	219,280	1.14
112,500	Warrants on Desert Lion Energy Corp. 2.28 strike - November 29, 2019	53,720	53,720	0.28
		<u>273,000</u>	<u>273,000</u>	<u>1.42</u>
<b>United States Equities 92.70 %</b>				
3,080	ANSYS Inc.	434,874	569,018	2.96
6,000	Bank New York Mellon Corp.	387,936	404,516	2.11
6,900	BB&T Corporation	389,439	429,436	2.24
9,420	CA Inc.	387,546	392,421	2.04
2,190	Chubb Ltd-New	386,451	400,592	2.09
6,410	Church & Dwight Co., Inc.	387,149	402,551	2.10
4,080	Cincinnati Financial Corp.	387,024	382,883	1.99
2,390	Clorox Company	386,601	444,984	2.32
8,230	Comcast Corp. - Class A	387,348	412,592	2.15
3,160	Disney Walt Company	387,564	425,260	2.21
3,360	Dr Pepper Snapple Group Inc.	435,096	408,224	2.13
3,150	DTE Energy Company	435,200	431,603	2.25
2,600	Ecolab Inc.	431,726	436,696	2.27
1,400	Everest Re Group Ltd	385,169	387,748	2.02
5,480	Eversource Energy	435,366	433,390	2.26
5,860	Expeditors International of Washington, Inc.	436,499	474,519	2.47
2,530	Gartner Inc.	387,395	390,008	2.03
6,500	General Electric Company	201,242	141,980	0.74
11,160	Great Plains Energy Inc.	436,624	450,378	2.35
2,920	Hershey Company	387,714	414,892	2.16
3,500	Ingersoll-Rand Plc	385,913	390,753	2.04
2,960	J.M. Smucker Co.	389,091	460,332	2.40
2,460	Kimberly Clark Corp.	435,777	371,550	1.94
2,060	Laboratory Corporation of America Holdings	386,162	411,314	2.14

The accompanying notes are an integral part of these financial statements.



## Celernus Absolute Growth Fund Schedule of Investment Portfolio

**December 31, 2017**

No. of Units/Shares	Name	Avg. Cost (\$)	Fair Value (\$)	% of Net Asset Value
<b>United States Equities (Continued)</b>				
6,350	Leggett & Platt Inc.	436,260	379,388	1.98
6,540	Loew's Corp.	387,396	409,569	2.13
3,230	McCormick & Co Inc. N.V.	388,234	412,038	2.15
2,930	Mid-America Apartment Communities	388,581	368,817	1.92
3,750	Motorola Solutions Inc.	388,376	424,062	2.21
4,160	Omnicom Group Inc.	387,040	379,247	1.98
6,500	Oracle Corp.	387,989	384,689	2.00
2,930	PepsiCo Inc.	435,874	439,823	2.29
3,230	Quest Diagnostics Inc.	378,294	398,211	2.07
3,890	Schein Henry Inc.	387,788	340,268	1.77
2,080	Snap-On Inc.	386,834	453,815	2.36
3,810	Starbucks Corp.	259,923	273,894	1.43
2,210	Stryker Corp.	386,319	428,345	2.23
2,540	Travelers Companies Inc.	387,757	431,261	2.25
2,730	United Technologies Corp.	387,967	435,943	2.27
6,720	Verizon Communications	436,522	445,235	2.32
5,580	Wal-Mart Stores Inc.	485,693	689,747	3.59
1,750	Waters Corp.	387,684	423,196	2.20
2,720	Zimmer Holdings Inc.	386,988	410,853	2.14
		16,962,425	17,796,041	92.70

### United States Equities Sold, but Not Yet Purchased (32.44)%

(490)	3M Company	(127,249)	(144,366)	(0.75)
(1,140)	American Express Co.	(126,782)	(141,715)	(0.74)
(4,640)	American Homes 4 Rent - Class A	(142,827)	(126,849)	(0.66)
(880)	American Tower Corp.	(143,018)	(157,157)	(0.82)
(2,960)	Aramark Holdings Corp.	(143,094)	(158,360)	(0.82)
(870)	Ashland Global Holdings Inc.	(67,805)	(77,538)	(0.40)
(2,630)	AT&T Inc.	(126,731)	(127,997)	(0.67)
(940)	Automatic Data Processing Inc.	(127,945)	(137,891)	(0.72)
(1,350)	Avery Dennison Corp.	(142,510)	(194,098)	(1.01)
(1,630)	Baxter International Inc.	(126,293)	(131,889)	(0.69)
(861)	Black Knight Inc.	(37,502)	(47,583)	(0.25)
(1,900)	Brown-Forman Corp. - Class B	(125,994)	(163,320)	(0.85)
(2,460)	CNA Financial Corp.	(142,133)	(163,357)	(0.85)
(2,630)	Cadence Design System	(126,931)	(137,676)	(0.72)
(3,840)	CenterPoint Energy Inc.	(143,156)	(136,319)	(0.71)
(1,440)	C.H. Robinson Worldwide	(142,883)	(160,587)	(0.84)
(300)	Coca Cola Co.	(16,927)	(17,229)	(0.09)
(1,400)	Colgate Palmolive Co.	(126,708)	(132,223)	(0.69)
(550)	Cooper Companies Inc.	(144,375)	(150,002)	(0.78)
(3,580)	Copart Inc.	(141,921)	(193,546)	(1.01)
(630)	Costco Wholesale Corp.	(142,401)	(146,775)	(0.76)
(1,610)	Emerson Electric Co.	(126,718)	(140,448)	(0.73)

The accompanying notes are an integral part of these financial statements.

## Celernus Absolute Growth Fund Schedule of Investment Portfolio

**December 31, 2017**

No. of Units/Shares	Name	Avg. Cost (\$)	Fair Value (\$)	% of Net Asset Value
<b>United States Equities Sold, but Not Yet Purchased</b> (continued)				
(1,300)	Exxon Mobil Corp.	(143,331)	(136,105)	(0.71)
(2,810)	FNF Group	(105,521)	(138,024)	(0.72)
(1,200)	Genuine Parts Co.	(142,504)	(142,715)	(0.74)
(1,190)	Hunt J.B. Transport Services Inc.	(143,316)	(171,272)	(0.89)
(3,030)	Intel Corporation	(143,028)	(175,076)	(0.91)
(4,380)	Interpublic Group Of Companies	(143,139)	(110,531)	(0.58)
(230)	Mettler-Toledo International Inc.	(145,144)	(178,362)	(0.93)
(1,690)	Paychex Inc.	(126,602)	(144,021)	(0.75)
(5,700)	People's United Financial Inc.	(126,755)	(133,424)	(0.69)
(1,880)	PerkinElmer Inc.	(142,800)	(172,073)	(0.90)
(1,820)	Pinnacle Foods Inc.	(143,321)	(135,484)	(0.71)
(1,260)	Pinnacle West Capital Corp.	(142,434)	(134,347)	(0.70)
(570)	Rockwell Automation Inc.	(125,654)	(140,095)	(0.73)
(780)	Rockwell Collins Inc.	(126,266)	(132,415)	(0.69)
(2,950)	Rollins Inc.	(143,004)	(171,820)	(0.89)
(770)	Spectrum Brands Hldgs Inc.	(143,467)	(108,337)	(0.56)
(1,090)	Time Warner Inc.- New	(142,989)	(124,803)	(0.65)
(1,400)	TJX Companies Inc.	(143,131)	(133,993)	(0.70)
(1,880)	U.S. Bancorp.	(126,487)	(126,090)	(0.66)
(570)	Vail Resorts Inc.	(142,766)	(151,597)	(0.79)
(2,388)	Valvoline Inc.	(74,977)	(74,909)	(0.39)
(1,200)	Varian Medical Systems Inc.	(143,029)	(166,959)	(0.87)
(970)	Verisign Inc.	(125,975)	(138,953)	(0.72)
		<u>(5,777,543)</u>	<u>(6,228,330)</u>	<u>(32.44)</u>
Transaction costs		<b>(47,335)</b>		
Total investments		<b><u>20,391,373</u></b>	<b><u>21,060,509</u></b>	<b><u>109.69</u></b>
Other net liabilities			<b><u>(1,860,574)</u></b>	<b><u>(9.69)</u></b>
Net assets attributable to holders of redeemable units			<b><u>19,199,935</u></b>	<b><u>100.00</u></b>

The accompanying notes are an integral part of these financial statements.

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# Celernus Absolute Growth Fund

## Notes to Financial Statements

December 31, 2017

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### 1. The Fund

Celernus Absolute Growth Fund (the “Fund”) is a unit trust which was established on January 24, 2012 by a Trust Indenture under the laws of the Province of Ontario. The principal address of the Fund is 1300 Cornwall Road, Suite 204, Oakville, Ontario, L6J 7W5. The Fund is offered pursuant to prospectus exemptions to qualified investors in Canada and offshore. In Canada, investors must be “accredited investors”, or purchase a sufficient amount of the Funds to qualify for a prospectus exemption. The minimum purchase amount for accredited investors or other exempt investors is \$25,000.

The Fund aims to provide investors with attractive returns over the market cycle using extensive quantitative, fundamental and technical research combined with proprietary market model to identify opportunities and manage risk. The Fund will be long and short primarily in North American equities. In addition to publicly traded common equities, the Fund may also invest in asset-backed debt, government and corporate bonds and debentures, convertible debt, warrants, preferred shares, trust units, real estate investment trusts, derivative instruments, private equity and other securities. It may utilize future or other derivative products to hedge equity, market or currency risk. The net exposure of the fund will vary between 200% long and 20% short.

Celernus Investment Partners Inc. (the “Manager”) is the manager, portfolio adviser and trustee of the Fund.

The Fund is not a reporting issuer under securities legislation and therefore is relying on Part 2.11 of National Instrument 81-106 (“NI 81-106”) for exemption from the requirement to file financial statements with the applicable securities regulatory authorities.

These financial statements for the year ended December 31, 2017 were authorized for issue by the Manager on May 25, 2018.

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### 2. Significant Accounting Policies

The principal accounting policies applied in the presentation of these financial statements are set out below:

#### **Basis of Presentation**

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

#### **Basis of Measurement**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, and are presented in Canadian dollars, which is the Fund’s functional and presentation currency.

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# Celernus Absolute Growth Fund

## Notes to Financial Statements

December 31, 2017

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### 2. Significant Accounting Policies (Continued)

#### Valuation of Investments

Investments in securities and securities sold, but not yet purchased are measured at fair value. The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices. In accordance with the provisions of the Fund's Offering Memorandum, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions. For financial reporting purposes, the Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund has procedures to determine the fair value of securities for which market prices are not readily available or which may not be reliably priced. Under these fair valuation procedures, the Fund primarily employs a market-based approach, which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value. The fair value of warrants is calculated utilizing the Black-Scholes option pricing method.

Mortgage investments for which there is no active market are valued at fair value using valuation techniques which include net present value and discounted cash flow models and comparisons with similar instruments for which observable market price exists. Assumptions and inputs used in valuation techniques include risk-free interest rate, loan to value ratio, property charge and property type. The output of the valuation technique is an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held by the Fund. Valuations are therefore adjusted where appropriate, to allow for additional factors including interest rate risk, liquidity risk and counterparty risk.

Investments in the limited partnership units for which there is no active market are valued at fair value using comparisons with similar instruments for which observable market price exists. The output of the valuation technique is an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held by the Fund. Valuations are therefore adjusted where appropriate, to allow for additional factors including liquidity and counterparty risk.

#### Classification

The Fund classifies its investments as financial assets at fair value through profit or loss.

This category has two sub-categories: financial assets held for trading; and financial assets designated at fair value through profit or loss at inception.

##### *(i) Financial assets held for trading*

The Fund does not classify any financial assets as held for trading.

##### *(ii) Financial assets designated at fair value through profit or loss at inception*

Financial assets designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

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# Celernus Absolute Growth Fund

## Notes to Financial Statements

December 31, 2017

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### 2. Significant Accounting Policies (Continued)

#### **Classification** (continued)

In accordance with the exception under IFRS 10 Consolidated Financial Statements, the Fund does not consolidate subsidiaries in the financial statements. Investments in the subsidiaries are accounted for as financial instruments at fair value through profit or loss.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. There is an element of market risk in that, if the securities increase in value, it will be necessary to purchase the securities at a cost in excess of the price reflected in the Statement of Financial Position.

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Interest and dividends receivable, due to broker and accounts payable and accrued liabilities are measured at amortized cost. Under this method, the amount required to be received or paid, is discounted, when appropriate, at the contract's effective interest rate. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. The Fund's accounting policies for measuring the fair value of its investments are identical to those used in measuring its net asset value (Trading NAV) for transactions with unitholders.

#### **Fair Value Measurements**

The Fund's investments held are each classified into one of three fair value levels.

The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Fund's investments in common shares and closed end mutual funds were classified as Level 1 at December 31, 2017. The Fund's investments in limited partnership units, privately held shares and warrants and mortgages were classified as Level 3 at December 31, 2017 (Note 3).

#### **Investment Transactions and Income Recognition**

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date. Realized gains and losses from investment transactions are calculated as the difference between the proceeds and average cost of the investments. The net change in unrealized depreciation of investments is calculated as the difference between the fair value and average cost of the investments.

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# Celernus Absolute Growth Fund

## Notes to Financial Statements

December 31, 2017

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### 2. Significant Accounting Policies (Continued)

#### **Recognition/derecognition**

The Fund recognizes financial assets or financial liabilities designated as trading securities on the trade date, the date it commits to purchase or sell short the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the Statement of Comprehensive Income.

#### **Related Parties**

For the purpose of these financial statements, a party is considered related to the Fund if such party or the Fund has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Fund and such party are subject to common significant influence. Related parties may be individuals or other entities.

#### **Translation of Foreign Currencies**

Transactions in currencies other than the Canadian dollar are translated at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting date. Resulting exchange differences are recognized in the Statement of Comprehensive Income.

#### **Valuation of Redeemable Units**

Net asset value per unit is calculated at 4:00 p.m. (Eastern time) on each business week by dividing the net assets attributable to holders of redeemable units by the outstanding units. The net assets are computed by calculating the value of the Fund's assets less the Fund's liabilities.

#### **Net Assets Attributable to Holders of Redeemable Units per Unit**

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units by the total number of units outstanding at the end of the year.

#### **Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit**

Increase (decrease) in net assets attributable to holders of redeemable units per unit is based on the increase (decrease) in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year.

#### **Income Taxes**

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient capital gains realized in any period are required to be distributed to unitholders such that no tax is payable by the Fund. As a result, the Fund does not record income taxes.

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# Celernus Absolute Growth Fund

## Notes to Financial Statements

December 31, 2017

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### 2. Significant Accounting Policies (Continued)

#### **Critical Estimates and Judgments**

In the application of the Fund's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources.

The most significant estimates that the Fund is required to make relate to the fair value of the investments in limited partnership units, privately held shares and warrants and mortgages. The estimates may include: assumptions regarding local real estate market conditions; share price of privately held shares; average volatilities of warrants; interest rates and the availability of credit; cost and terms of financing; the impact of present or future legislation or regulation; prior encumbrances and other factors affecting the limited partnership and underlying assets held by the limited partnership.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning the future events. Credit markets, equity markets and consumer spending are factors in the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of fair value are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimate fair value could change by a material amount.

The Fund has concluded that the unlisted limited partnership in which it invests, but that it does not consolidate, meets the definition of structured entity because: the voting rights in the limited partnership is not dominate rights in deciding who controls it as it relates to administrative tasks only; the limited partnership's activities are restricted by the limited partnership agreement; and the limited partnership has narrow and well-defined objectives to provide investment opportunities to investors.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **New Standards, Interpretations and Amendments not yet Adopted**

The following new standards and amendments to existing standards were issued by the International Accounting Standards Board ("IASB"):

##### IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the Fund's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Fund is in the process of evaluating the impact of the new standard.

## Celernus Absolute Growth Fund Notes to Financial Statements

**December 31, 2017**

### 3. Reconciliation of Level 3 Fair Value Measurements of Financial Assets

	2017	2016
Investments, beginning of year	\$ 8,525,000	\$ 7,850,000
Limited partnership units purchased	-	2,000,000
Distribution of limited partnership units	(1,252,441)	(275,000)
Unrealized appreciation of investment in limited partnership units	350,000	-
Mortgages funded	3,782,864	1,300,000
Mortgages repaid	(3,264,437)	(2,350,000)
Privately held shares and warrants purchased	273,000	-
	<b>\$ 8,413,986</b>	<b>\$ 8,525,000</b>
Investments, end of year	<b>\$ 8,413,986</b>	<b>\$ 8,525,000</b>

There were no transfers into or out of Level 3 for the years ending December 31, 2017 or 2016.

#### *Mortgage Investments*

The mortgage investments are secured by the real property to which they relate, bear interest at a weighted average interest rate of 8.43% (2016 – 9.15%) and mature in 2018. Provided that the loan is not in default and has not been in default throughout the term of the loan and at the sole discretion of the Fund, the Fund has the option to renew the mortgage loans for a further term not exceeding 12 months, as offered by the Fund. Upon renewal or extension of the mortgage term, the rate of interest charged may be changed or increased.

The table below summarizes the significant unobservable input used in fair value measurement of the mortgage investments and the impact to the valuation of a reasonably possible change to the significant unobservable input. The unobservable input, loan to value ratio, is dependent on the fair value of the underlying property and the principal balance of the respective mortgages as at December 31, 2017. There is inherently significant measurement uncertainty associated with such investments. The actual results on realization of the positions could materially differ from the estimates of fair value on the report date.

Description	Fair Value as at December 31, 2017	Valuation Technique	Unobservable Input	Change in input	Impact to fair value
Investments, at fair value	\$ 3,568,427	Net present value	Loan to value ratio	±5%	\$ 2,554



## Celernus Absolute Growth Fund Notes to Financial Statements

December 31, 2017

### 3. Reconciliation of Level 3 Fair Value Measurements of Financial Assets (Continued)

#### *Private Shares and Warrants*

The privately held warrants have been valued using a Black-Scholes model with a stock price of \$1.45, an exercise price of \$2.28, an expected life of 1.91 years, risk-free rate of 1.67%, and a volatility of 85%. The privately held shares have been valued based on recent market transactions. The fair values of these shares and warrants are determined using inputs that are not based on observable market data. The significant unobservable inputs are the volatility and share price. The volatility is determined based on average volatilities of publicly comparable companies. The range of volatilities and the respective impact on the fair value of the shares and warrants is included below:

Description	Quantity	Low – 69.5%	Mid – 79.70%	High – 106.80%
Shares	150,000	195,970	217,740	217,740
Warrants	112,500	48,350	53,720	53,720
Total	262,500	244,320	271,460	271,460

The impact on the fair value of the shares and warrants based on a  $\pm 5\%$  and  $\pm 10\%$  change in the share price is shown below:

Description	Quantity	-10.00%	-5.00%	Base	5.00%	10.00%
Shares	150,000	196,500	207,000	217,500	228,000	240,000
Warrants	112,500	33,750	37,125	40,500	43,875	48,375
Total	262,500	230,250	244,125	258,000	271,875	288,375

#### *Limited Partnership Units*

The limited partnership units have been valued based on comparable market transactions. The fair values of these limited partnership units are determined using inputs that are not based on observable market data. The significant unobservable inputs are the market price per square foot and the capitalization rate of the LPs investment properties. The range of market prices per square foot of the underlying properties are included below:

	Low – \$38.25	Mid – \$42.50	High – \$46.75
Celernus London LP	\$2,222,560	\$2,769,000	\$3,090,000
Clifton Blake 1027 Yonge Street LP	\$2,350,000	\$2,766,668	\$3,027,418

The impact on the fair value of the Clifton Blake 1027 Yonge Street limited partnership units based on a  $\pm 0.25\%$  and  $\pm 0.50\%$  change in the capitalization rate is shown below:

	Quantity	-0.50%	-0.25%	0.25%	0.50%
Clifton Blake 1027 Yonge Street LP	200	\$137,812	\$66,035	\$(60,955)	\$(117,395)

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## Celernus Absolute Growth Fund Notes to Financial Statements

**December 31, 2017**

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#### **4. Related Party Transactions**

As at December 31, 2017, 204,209 (2016 - 256,224) units of the Fund were held by directors or immediate family members of the Manager. The market value of these units is approximately \$2,424,877 (2016 - \$2,965,305).

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#### **5. Due to Broker**

The Fund maintains a margin account with National Bank Independent Network Inc. with which it is able to borrow to purchase securities up to 70% of the value of the securities. Interest is charged on borrowings at the US federal funds rate plus 1.10%. The borrowings are secured by the purchased securities and are due on demand.

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#### **6. Redeemable Units**

The Fund may issue an unlimited number of Units. The Units of the Fund shall be issued without nominal or par value and shall be issued as fully paid and non-assessable and voting. Each Unit of the Fund shall represent an undivided beneficial interest in the assets of the Fund, Units are non-transferable, no Unit shall have any conversion, exchange or preemptive right. Each Unit shall entitle the holder thereof to participate equally with respect to all payments made to Unitholders of the Fund whether by way of interest, dividend or capital and, on liquidation, to participate equally in the net assets of the Fund remaining after satisfaction of all outstanding liabilities.

Each Unitholder of the Fund shall be entitled at any time and from time to time, to require the Fund to redeem all or any of his or her Units by giving written notice to the Manager. Such notice shall contain a clear request that a specified number or dollar amount of Units be redeemed, shall be irrevocable and the signature thereon shall be guaranteed by a Canadian chartered bank, a trust company or an investment dealer if required by the Manager. The redemption of Units in respect of which a duly completed redemption request has been received by the Manager at least five (5) days prior to a Valuation Day will be redeemed on such Valuation Day and, in all other cases, will be redeemed on the second Valuation Day following the day on which such redemption request was received by the Manager. The Manager may, in its sole discretion, waive the foregoing five (5) day notice requirement in respect of any redemption request.

The Manager has a general discretion to instruct the Trustee to suspend the right of Unitholders to require the Fund to redeem Units and the obligation of the Trustee to make payment therefore in any event where the Manager determines that processing such redemption(s) will have a material negative effect on the Fund. The Trustee shall, at the direction of the Manager, apply the suspension to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect.

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## Celernus Absolute Growth Fund Notes to Financial Statements

**December 31, 2017**

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### 6. Redeemable Units (Continued)

All Unitholders making such requests shall (unless the suspension lasts for less than 48 hours) be given notice by the Manager advising of the suspension, that redemptions will be effected on the basis of the Net Asset Value Per Unit determined on the first Valuation Day following the termination of the suspension and that they have the right to withdraw their requests for redemption prior to the termination of the suspension. Any declaration of suspension or termination of suspension made by the Manager shall be final and conclusive. Notwithstanding the foregoing, the suspension shall terminate in any event on the first Business Day after the circumstances which gave rise to the suspension cease to exist.

The Manager reserves the right to instruct the Trustee to withhold the amount of four per cent (4%) from redemption proceeds payable to a Unitholder in the event the redemption request is made during the first 12 months after acquisition of the Units being redeemed.

There are no differences between the NAV per unit of the Fund and Net Assets Attributable to Holders of Redeemable Units per Unit of the Fund.

#### Summary of sales and redemptions of redeemable units for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Redeemable units outstanding, beginning of year	<b>2,094,774</b>	2,469,605
Redeemable units issued	<b>44,644</b>	172,921
Redeemable units redeemed	<b>(522,517)</b>	(547,752)
	<hr/>	<hr/>
Redeemable units outstanding, end of year	<b>1,616,901</b>	2,094,774

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### 7. Management Fees and Expenses

The Fund pays the Manager an annual management fee of 0.85% of the NAV of the Fund, which is calculated and charged to the Fund monthly. The Fund is responsible for the payment of all fees and expenses relating to its operations, including record keeping, audit, accounting and administrative costs, legal fees, custody and safekeeping charges, bank charges and interest expenses, brokerage commissions and other fees relating to the purchase and sale of assets of the Fund. Management fees were \$200,523 (2016 - \$266,988) during the year.

The Manager is also entitled to receive a performance fee of 20% of the change in NAV of the Fund between a new high-water mark and the previous high-water mark for which a performance fee was earned by the Manager and charged to the Fund. A performance fee will only be earned at such time as the compound annual return of the Fund is greater or equal to 6%. No performance fees have been earned for the years ended December 31, 2017 and 2016.

## Celernus Absolute Growth Fund Notes to Financial Statements

**December 31, 2017**

### 8. Financial Instruments and Risk Management

#### Financial Risk Factors

The Fund may be exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, currency risk, and other price risk). The level of risk depends on the Fund's investment objectives and the type of securities it invests in. The Schedule of Investment Portfolio presents the investments held by the Fund as at December 31, 2017, and group the investments by asset type, geographic region and/or market segment.

The following is a summary of the Fund's main risks:

#### Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with a fund. The risk of default on transactions in listed securities is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase when the securities have been received by the broker. This risk has not changed from the previous year.

#### Liquidity Risk

Liquidity risk is defined as the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to weekly cash redemptions of redeemable units. The Fund is dependent upon future subscriptions and funds from the broker to meet liquidity requirements.

The Units of the Fund are issued and redeemed on demand at the then current Trading NAV per unit at the option of the Unitholder. All liabilities are payable within a year. The Fund is invested in limited partnership units, privately held shares and warrants and mortgages which are illiquid in nature and are therefore not readily convertible to cash. This is mitigated by the Fund's investments in publicly traded equity securities that are liquid in nature and can therefore be readily disposed of as liquidity needs arise. This risk has not changed from the previous year.

#### **December 31, 2017**

Financial liabilities	On Demand	< 3 Months	Total
Due to broker	\$ 1,944,091	\$ -	\$ 1,944,091
Accounts payable and accrued liabilities	-	41,339	41,339
Redeemable units	19,199,935	-	19,199,935
	<b>\$ 21,144,026</b>	<b>\$ 41,339</b>	<b>\$ 21,185,365</b>

#### December 31, 2016

Financial liabilities	On Demand	< 3 Months	Total
Due to broker	\$ 1,192,266	\$ -	\$ 1,192,266
Accounts payable and accrued liabilities	-	83,457	83,457
Redeemable units	24,239,732	-	24,239,732
	<b>\$ 25,431,998</b>	<b>\$ 83,457</b>	<b>\$ 25,515,455</b>

## Celernus Absolute Growth Fund Notes to Financial Statements

**December 31, 2017**

### 8. Financial Instruments and Risk Management (Continued)

#### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Fund is exposed to interest rate risk from its margin account, which bears interest at a floating interest rate of the United States federal funds rate plus 1.10%. The objective of the Fund's interest rate management activities is to minimize the volatility of the Fund's earnings. This risk has not changed from the prior year.

#### Currency Risk

Currency risk arises from financial instruments that are denominated in a currency other than Canadian dollars. Exposures to foreign currencies as at December 31, 2017 and 2016 are summarized in the table below:

Currency	Monetary	Non-Monetary	Total Exposure	% of Net Assets Attributable to Holders of Redeemable Units
<b>December 31, 2017</b>				
U.S. Dollar	\$ (12,030,099)	\$ 11,567,711	\$ (462,388)	(2.41)%
<b>December 31, 2016</b>				
U.S. Dollar	\$ (19,655,274)	\$ 15,921,763	\$ (3,733,511)	(15.40)%

If the exchange rate with the Canadian dollar increased or decreased by 5%, with all variables held constant, net asset attributable to holders of redeemable units would have increased or decreased, respectively, by \$23,119 (2016 - \$186,676). Actual results may differ from this sensitivity analysis and the difference could be material.

#### Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. All investments present a risk of loss of capital. The Manager manages the Fund's market risk on a daily basis in accordance with the Fund's investment objective and policies. The maximum risk resulting from financial instruments is equivalent to their fair value.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. There is an element of market risk in that, if the securities increase in value, it will be necessary to purchase the securities at a cost in excess of the price reflected in the Statement of Financial Position.

The impact on net assets attributable to holders of redeemable units of the Fund due to a 5% change in market value as at December 31, 2017, with all other variables held constant, is \$1,053,025 (2016 - \$1,273,628). In practice, the actual results may differ and the difference could be material.

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## Celernus Absolute Growth Fund Notes to Financial Statements

**December 31, 2017**

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### 9. Capital Management

The capital of the Fund is represented by issued redeemable units with no par value. The Unitholders are entitled to distributions, if any, and to payment of a proportionate unit of the Fund's net asset value per unit upon redemption. The relevant movements of Fund units are shown on the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with its investment objectives and strategies and the risk management practices outlined in Note 8, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of investments where necessary.

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### 10. Decrease in Net Assets Attributable to Holders of Redeemable Units per Unit

The decrease in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2017 and 2016 is calculated as follows:

	Increase (decrease) in net assets attributable to holders of redeemable units	Weighted average number of redeemable units outstanding during the year	Increase (decrease) in net assets attributable to holders of redeemable units per unit
<b>2017</b>	<b>\$ 451,213</b>	<b>1,823,857</b>	<b>\$ 0.25</b>
2016	(1,123,828)	2,435,902	(0.46)

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### 11. Involvement with Unconsolidated Structured Entities

The Fund has determined that the Limited Partnerships in which it owns approximately 100% and 17% of the issued and outstanding limited partnership units, respectively, are unconsolidated structured entities. This represents a significant judgment by the Fund and generally because decision making about the Limited Partnerships' investing activities are not governed by voting rights held by the Fund and other investors.

The Limited Partnerships finance their operations by issuing redeemable units which are puttable at the holder's option, and entitle the holder to a proportional stake in the Limited Partnerships' net assets. The Fund holds redeemable shares in the Limited Partnerships.

The change in fair value of the Limited Partnerships are included in the Statement of Comprehensive Income in 'Net change in unrealized depreciation of investments'.