

1832 AM North American Preferred Share LP

Annual Management Report of Fund Performance

For the period ended December 31, 2017

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling toll-free 1-800-268-9269, by writing to us at 1832 Asset Management L.P., 1 Adelaide Street East, 28th Floor, Toronto, ON, M5C 2V9 or by visiting our website at www.scotiafunds.com or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

1832 Asset Management L.P. is the manager (the "Manager") of the fund. In this document, "we", "us", "our" and the "Manager" refer to 1832 Asset Management L.P. and the "Fund" refers to 1832 AM North American Preferred Share LP.

The term "net asset value" or "net asset value per unit" in this document refers to the net asset value determined in accordance with Part 14 of National Instrument 81-106 – Investment Fund Continuous Disclosure ("National Instrument 81-106"); while the term "net assets" or "net assets per unit" refers to total equity or net assets attributable to unitholders of the Fund as determined in accordance with International Financial Reporting Standards ("IFRS").

Caution Regarding Forward-Looking Statements

Certain portions of this report, including, but not limited to, "Recent Developments", may contain forward-looking statements about the Fund and the underlying funds, as applicable, including statements with respect to strategies, risks, expected performance events and conditions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "projects" and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects and possible future action by the Fund is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, current assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance and actual results or events could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, such as interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive. Some of these risks, uncertainties and other factors are described in the Fund's simplified prospectus, under the heading "Specific risks of mutual funds".

We encourage you to consider these and other factors carefully before making any investment decisions. Forward-looking statements should not be unduly relied upon. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next management report of fund performance, and that the forward-looking statements speak only to the date of this management report of fund performance.

Investment Objective and Strategies

The Fund's objective is to provide income and the potential for modest long term capital growth. It invests primarily in a diversified portfolio of preferred shares of North American corporations.

The portfolio advisor invests primarily in preferred shares of companies located across North America. The Fund may also invest in dividend paying common shares and other distribution paying equity, fixed income and interest carrying securities, including exchange-traded funds and closed end funds.

The portfolio advisor follows a top down and bottom up investment process, focusing on the risk return relationship of individual securities within a diversified portfolio. The process includes a macroeconomic forecast for the respective global and local economies, establishing investment themes and industries to overweight or underweight based on the portfolio advisor's outlook for a particular sector, view of current market trends and phase of the economic cycle. Fundamental credit research is then used to select securities believed to offer attractive risk adjusted returns based on the portfolio advisor's view of a company's growth prospects and ability to improve its credit metrics.

The Fund can invest up to 100% of its assets in foreign securities.

Risk

The risks associated with investing in Fund are as described in the simplified prospectus. Effective January 18, 2018, the Manager has implemented a new Risk Classification Methodology recently mandated by the Canadian Securities Administrators, which is used to determine the investment risk level of the Fund. There are no changes to the investment risk level, investment objectives or strategies, of the Fund as a result of the implementation.

Results of Operations

For the year ended December 31, 2017 (the “period”), the Series I units of the Fund returned 16.3%. Fund returns are reported net of all management fees and expenses, unlike the returns of the Fund’s benchmark, which is based on the performance of an index that does not pay fees or incur expenses.

The Fund’s broad-based benchmark, the S&P/TSX Preferred Share Index, returned 13.6% during the same period. In accordance with National Instrument 81-106, we have included a comparison to this broad-based index to help you understand the Fund’s performance relative to the general performance of the market.

The Fund outperformed its broad-based benchmark during the period due to strong security selection within both the Canadian and U.S. preferred share markets and its large position in discounted rate reset preferred shares in Canada.

During the period, the North American preferred share market produced positive results as both Canadian and U.S. preferred shares rallied higher. Within Canada the preferred share market was driven higher largely due to rising interest rates and strong investor demand. In Canada, where the preferred share market was primarily composed of discounted rate reset preferred shares at the beginning of the year, higher rates meant higher future coupons and hence higher prices. In particular, interest rates jumped towards the middle of the period as the Bank of Canada changed their tone from dovish to slightly hawkish, stating that the emergency cuts taken in 2015 had accomplished their goal of supporting economic growth during a weak commodity environment. The market began anticipating an increase in the Canadian benchmark overnight rate and 5 year Government of Canada yield increased by 76 basis points during the period, rising from 1.11% to 1.87%. New preferred shares issuance was lower than the previous year due to the emergence and the popularity of hybrid bonds from an investor perspective. It created a scarcity effect in the market. Preferred share ETFs were a large recipient of inflows as investor’s continued to be attracted to the asset class’ attractive valuations compared to other fixed income assets. These factors combined with a very good economic environment backdrop resulted in the second best annual performance for the Canadian preferred share index returning 13.6% during the Period, which was its second best annual performance since the inception of the index, behind only the great recovery in 2009 that returned 27%.

South of the border preferred shares experienced a tale of two halves as U.S. preferred shares performed well initially but struggled during the second half of the period. The much forecasted rate hikes in the U.S. came to fruition in 2017 as the U.S. Federal

Reserve raised interest rates three times during the period. In the U.S., where a large portion of the market is at or above par, higher rates meant lower relative attractiveness of the asset class and hence lower/flat prices. Despite higher interests as a headwind, the preferred share market performed well during the first half of the period up 8.13%. However, the second half of period saw more muted demand in U.S. preferred shares in a generally supportive environment for risk assets, ending the period up 9.11%.

The Fund was led higher primarily due to its exposure towards Canadian preferred shares. The rate reset space within Canada performed particularly well and was the largest contributing segment of the market towards Fund performance as higher interest rates benefited these preferred share structures. Perpetual and floating rate preferred shares also contributed positively towards Fund performance. The Fund’s U.S. exposure also provided positive returns, though to a much lesser extent than the Fund’s Canadian preferred shares. Currency movements had no impact on Fund performance as the Fund fully hedges its currency exposure.

During the period, the Fund focused on preferred shares issued by corporations with very strong balance sheets and operations at attractive valuations, with particular attention paid to the discounted rate reset secondary market in Canada. The Fund benefited from constrained new issue supply during the period which put upward pressure on the Canadian preferred share market.

The Fund took advantage of opportunities surrounding inflows and outflows of passive preferred share products by deploying cash on weakness in the secondary market. Within the U.S., an area of focus was on soon-to-reset legacy U.S. preferred shares, which presented attractive yields and excellent optionality. The Fund’s primary focus remained on finding high quality preferred shares with strong market liquidity issued by companies with strong credit fundamentals, with the expectation of taking advantage of opportunities on both sides of the border.

The Fund’s net asset value increased by 7.9% to \$272.5 million at December 31, 2017, from \$252.6 million at December 31, 2016. This change was composed of investment performance of the Fund of \$39.8 million and net redemptions of \$19.9 million. The investment performance of the Fund includes income and expenses which vary year over year. The Fund’s income and expenses changed compared to the previous year mainly as a result of fluctuations in average net assets, portfolio activity and changes in the Fund’s income earning investments.

Recent Developments

IFRS 9, Financial Instruments

The final version of IFRS 9, Financial Instruments was issued by the International Accounting Standards Board (“IASB”) in July 2014 and will replace IAS 39, Financial Instruments: Recognition and Measurement, related to the classification and measurement of financial assets and financial liabilities.

IFRS 9 relates to the classification and measurement of financial assets and financial liabilities in the Fund. The new standard is

effective for the Fund for its fiscal year beginning January 1, 2018. The Manager has been evaluating the standard and has currently determined that the impact to the Fund will include additional disclosures related to changes to the classification of certain financial instruments to align with the classifications under IFRS 9. Adoption of the standard will not impact net assets attributable to holders of redeemable units.

Related Party Transactions

The Manager is a wholly-owned subsidiary of The Bank of Nova Scotia ("Scotiabank"). Scotiabank also owns, directly or indirectly, 100% of Scotia Securities Inc. and Tangerine Investment Funds Limited, each a mutual fund dealer, and Scotia Capital Inc. (which includes ScotiaMcLeod and Scotia iTRADE), an investment dealer.

On August 4, 2017, Industrial Alliance Insurance and Financial Services Inc. completed its acquisition of HollisWealth including HollisWealth Advisory Services Inc. (collectively, "HollisWealth"), a related party of the Manager. As such, HollisWealth ceased to be a related party.

The Manager, on behalf of the Fund, may enter into transactions or arrangements with other members of Scotiabank or certain other companies that are related or connected to the Manager (each a "related party"). All transactions between the Fund and the related parties are in the normal course of business and are carried out at arm's length terms.

The purpose of this section is to provide a brief description of any transaction involving the Fund and a related party.

Fixed Administration Fees and Other Fund Costs

The Manager pays the operating expenses of the Fund, other than Other Fund Costs, in exchange for the payment by the Fund of a fixed rate administration fee (the "Fixed Administration Fee") to the Manager with respect to each series of the Fund. The expenses charged to the Fund in respect of the Fixed Administration Fee are disclosed in the Fund's financial statements. The Fixed Administration Fee is equal to a specified percentage of the net asset value of a series, calculated and paid in the same manner as the management fees for the Fund. Further details about the Fixed Administration Fee can be found in the Fund's most recent simplified prospectus.

In addition, each series of the Fund is responsible for its proportionate share of certain operating expenses ("Other Fund Costs"). Further details about Other Fund Costs can be found in the Fund's most recent simplified prospectus.

The Manager, at its sole discretion, may waive or absorb a portion of a series' expenses. These waivers or absorptions may be terminated at any time without notice.

Custodial Services

During the period, Scotiabank, as the custodian of the Fund, earned a fee for providing custody and related services. The custodian held investments of the Fund in safekeeping to ensure that

they were used only for the benefit of the investors of the Fund. The custodian fee was paid by the Manager, in exchange for the Fixed Administration Fee received from the Fund.

On October 2, 2017, State Street Trust Company Canada replaced Scotiabank in its capacity as custodian of the Fund.

Related Brokerage Commissions

From time to time, the Fund may enter into portfolio securities transactions with Scotia Capital or other related dealers in whom Scotiabank has a significant interest (a "Related Broker"). These Related Brokers may earn commission or spreads on such transactions, which are made on terms and conditions that are comparable to transactions made with non-related brokers.

During the period, the Fund paid \$12,543 in commissions to Related Brokers.

Other Fees

The Manager, or its affiliates, may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, custody, brokerage, foreign exchange and derivatives transactions. The Manager, or its affiliates, may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies.

Independent Review Committee

The Manager has established an independent review committee (the "IRC") in accordance with National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107") with a mandate to review and provide recommendations or approval, as required, on conflict of interest matters referred to it by the Manager on behalf of the Fund. The IRC is responsible for overseeing the Manager's decisions in situations where the Manager is faced with any present or perceived conflicts of interest, all in accordance with NI 81-107.

The IRC may also approve certain mergers between the Fund and other funds, and any change of the auditor of the Fund. Subject to any corporate and securities law requirements, no securityholder approval will be obtained in such circumstances, but you will be sent a written notice at least 60 days before the effective date of any such transaction or change of auditor. In certain circumstances, securityholder approval may be required to approve certain mergers.

The IRC has five members, Carol S. Perry (Chair), Brahm Gelfand, Simon Hitzig, D. Murray Paton and Jennifer L. Witterick, each of whom is independent of the Manager.

The IRC prepares and files a report to the securityholders each fiscal year that describes the IRC and its activities for securityholders as well as contains a complete list of the standing instructions. These standing instructions enable the Manager to act in a particular conflict of interest matter on a continuing basis provided the Manager complies with its policies and procedures established to address that conflict of interest matter and reports periodically to the IRC on the matter. This report to the

securityholders is available on the Manager's website or, at no cost, by contacting the Manager.

The compensation and other reasonable expenses of the IRC will be paid out of the assets of the Fund as well as out of the assets of the other investment funds for which the IRC may act as the independent review committee. The main components of compensation are an annual retainer and a fee for each committee meeting attended. The chair of the IRC is entitled to an additional fee. Expenses of the IRC may include premiums for insurance coverage, travel expenses and reasonable out-of-pocket expenses.

The Fund received the following standing instructions from the IRC with respect to related party transactions:

- Paying brokerage commissions and spreads to a related party for effecting security transactions on an agency and principal basis on behalf of the Fund;
- Purchases or sales of securities of an issuer from or to another investment fund managed by the Manager;
- Investments in the securities of issuers for which a related underwriter acted as an underwriter during the distribution of such securities and the 60-day period following the completion of such distribution;
- Executing foreign exchange transactions with a related party on behalf of the Fund;
- Purchases of securities of a related party;

- Entering into over-the-counter derivatives on behalf of the Fund with a related party;
- Entering into securities lending transactions with a related party;
- Outsourcing products and services to related parties which can be charged to the Fund;
- Acquisition of prohibited securities as defined by securities regulations;
- Trading in mortgages with a related party.

The Manager is required to advise the IRC of any breach of a condition of the standing instructions. The standing instructions require, among other things, that the investment decision in respect to a related party transaction: (a) is made by the Manager free from any influence by an entity related to the Manager and without taking into account any consideration to any associate or affiliate of the Manager; (b) represents the business judgment of the Manager uninfluenced by considerations other than the best interests of the Fund; and (c) is made in compliance with the Manager's written policies and procedures. Transactions made by the Manager under the standing instructions are subsequently reviewed by the IRC to monitor compliance.

The Fund relied on IRC standing instructions regarding related party transactions during the period.

Financial Highlights

The following tables show selected key financial information about each series of the Fund and are intended to help you understand the Fund's financial performance for the periods indicated. The information on the following tables is based on prescribed regulations and as a result, is not expected to add down due to the increase (decrease) in net assets from operations being based on average units outstanding during the period and all other numbers being based on actual units outstanding at the relevant point in time. Footnotes for the tables are found at the end of the Financial Highlights section.

The Fund's Net Assets per Unit⁽¹⁾

For the period ended	Net Assets, beginning of period (\$)	Increase (decrease) from operations:					Distributions:					Net Assets, end of period (\$) ⁽¹⁾
		Total revenue	Total expenses	Realized gains (losses) for the period	Unrealized gains (losses) for the period	Total increase (decrease) from operations ⁽²⁾	From net investment income (excluding dividends)	From dividends	From capital gains	Return of capital	Total distributions ⁽³⁾	
Series I												
Dec. 31, 2017	10.61	0.54	(0.02)	0.23	1.01	1.76	–	–	–	–	–	12.34
Dec. 31, 2016	9.71	0.52	(0.05)	0.02	0.48	0.97	–	–	–	–	–	10.61
Dec. 31, 2015	10.57	0.53	(0.02)	(0.41)	(0.97)	(0.87)	–	–	–	–	–	9.71
Dec. 31, 2014*	10.00	0.44	(0.02)	(0.10)	0.26	0.58	–	–	–	–	–	10.57

* Start date for Series I was January 27.

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements may differ from the net asset value calculated for Fund pricing purposes. An explanation of these differences can be found in note 2 of the Fund's financial statements. The net asset value per unit at the end of the period is disclosed in Ratios and Supplemental Data.

⁽²⁾ Net assets per unit and distributions per unit are based on the actual number of units outstanding for the relevant series at the relevant time. The increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding over the period.

⁽³⁾ Distributions were paid in cash or reinvested in additional units of the Fund.

Ratios and Supplemental Data

As at	Total net asset value (000's) (\$) ⁽¹⁾	Number of units outstanding ⁽¹⁾	Management expense ratio ("MER") (%) ⁽²⁾	MER before waivers or absorptions (%) ⁽²⁾	Trading expense ratio (%) ⁽³⁾	Portfolio turnover rate (%) ⁽⁴⁾	Net asset value per unit (\$)
Series I							
Dec. 31, 2017	272,501	22,076,388	0.08	0.08	0.03	37.79	12.34
Dec. 31, 2016	252,665	23,809,910	0.08	0.08	0.05	34.50	10.61
Dec. 31, 2015	212,741	21,900,677	0.08	0.08	0.09	73.03	9.71
Dec. 31, 2014	368,775	34,870,877	0.05	0.05	0.13	12.65	10.58

⁽¹⁾ This information is provided as at the period end of the years shown.

⁽²⁾ The management expense ratio is based on total expenses (including sales tax, and excluding commissions and other portfolio transaction costs) of each series of the Fund and the underlying funds, where applicable, for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs of the Fund and the underlying funds, where applicable, expressed as an annualized percentage of the daily average net asset value of the Fund during the period.

⁽⁴⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor 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 period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, 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 a fund.

Management Fees

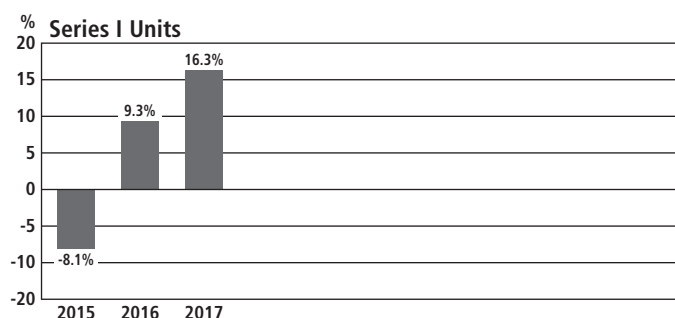
The Manager is not entitled to a management fee payable by the Fund in respect of Series I units. The management fee is negotiable and paid by unitholders directly to the Manager.

Past Performance

The following shows the past performance for each series and will not necessarily indicate how the Fund will perform in the future. The information shown assumes that all distributions made by each series of the Fund in the periods shown were reinvested in additional units of the relevant series. In addition, the information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance.

Year-by-Year Returns

The following charts show the performance for each series of the Fund and illustrate how performance has varied from year to year. The charts show, in percentage terms, how much an investment held on the first day of each calendar year would have increased or decreased by the last day of each calendar year for that series.



Annual Compound Returns

The annual compound returns table below compares each series of the Fund's performance to one or more benchmarks. A benchmark is usually an index or a composite of more than one index.

Fund returns are reported net of all management fees and expenses for all series, unlike the return of benchmarks which are based on the performance of an index that does not pay fees or incur expenses.

		One Year	Three Years	Five Years	Ten Years	Since Inception
Series I	%	16.3	5.3	–	–	5.5
S&P/TSX Preferred Share Index	%	13.6	1.1	–	–	2.3

Index Descriptions

S&P/TSX Preferred Share Index – This index is comprised of preferred stocks trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity, issuer rating, and exchange listing.

A discussion of the performance of the Fund as compared to its benchmark(s) is found in the Results of Operations section of this report.

Summary of Investment Portfolio

The Summary of Investment Portfolio may change due to ongoing portfolio transactions. A quarterly portfolio update is available to the investor at no cost by calling 1-800-268-9269, or by visiting www.scotiafunds.com, 60 days after quarter end, except for December 31, which is the calendar year end, when they are available after 90 days.

By Industry	% of net asset value ⁽¹⁾
Financials	46.2
Energy	23.3
Utilities	10.9
Corporate Bonds	8.0
Telecommunication Services	5.6
Cash and Cash Equivalents	2.2
Real Estate	1.8
Other Net Assets (Liabilities)	1.2
Consumer Discretionary	0.7

Top 25 Holdings

Issuer	% of net asset value⁽¹⁾
Pembina Pipeline Corporation, 4.90%, Preferred, Series 21	2.3
Cash and Cash Equivalents	2.2
Canadian Imperial Bank of Commerce, 4.40%, Preferred, Series 45	1.9
BCE Inc., 4.15%, Preferred, Series AK	1.8
TransCanada Trust (Callable) 4.65% May 18, 2027	1.5
TransCanada Corporation, 4.90%, Preferred, Series 15	1.4
TransCanada PipeLines Ltd. (Callable) 6.35% May 15, 2067	1.3
Enbridge Inc., 4.00%, Preferred, Series 3	1.3
Brookfield Properties Corporation, Inc., 6.15%, Preferred, Series N	1.3
Brookfield Renewable Partners LP, Preferred, Series 5	1.3
BCE Inc., 4.85%, Preferred, Series AM	1.3
Bank of America Corporation 6.25% Sep 05, 2024	1.1
TransAlta Corporation, 4.60%, Preferred, Series C	1.1
Royal Bank of Canada, 3.60%, Preferred, Series BF	1.1
Pembina Pipeline Corporation, 4.50%, Preferred, Series 7	1.1
Intact Financial Corporation, 4.20%, Preferred, Series 1	1.1
Brookfield Asset Management Inc., 4.85%, Preferred, Series 36	1.1
Brookfield Asset Management Inc., 4.20%, Preferred, Series 34	1.1
TransAlta Corporation, 4.60%, Preferred, Series A	1.0
TransCanada Corporation, 4.00%, Preferred, Series 7	1.0
Brookfield Renewable Power Inc., 4.40%, Preferred, Series 3	1.0
Enbridge Inc., 4.00%, Preferred, Series 1	1.0
TransAlta Corporation, 5.00%, Preferred, Series E	1.0
Enbridge Inc., 4.00%, Preferred, Series L	1.0
JPMorgan Chase & Co. (Callable) 5.15% May 01, 2023	1.0

⁽¹⁾ Based on the net asset value, therefore, weightings presented in the Schedule of Investments will differ from the ones disclosed above.

