



# FINANCIAL STATEMENTS

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## ARCS OF FIRE TACTICAL BALANCED FUND



As at October 31, 2017



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Arcs of Fire Tactical Balanced Fund

We have audited the accompanying financial statements of Arcs of Fire Tactical Balanced Fund, which comprise the statement of financial position as at October 31, 2017, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the period from October 17, 2017 to October 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

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

We believe that the audit evidence we have obtained 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 Arcs of Fire Tactical Balanced Fund as at October 31, 2017 and its financial performance and its cash flows for the period from October 17, 2017 to October 31, 2017 in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Professional Accountants

December 14, 2017

Calgary, Canada

# ARCS OF FIRE TACTICAL BALANCED FUND

## Statement of Financial Position

(In Canadian dollars, except units outstanding and where noted)

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As at October 31  
2017

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### Assets

Cash and cash equivalents	13,592
Dividends and interest receivable	134
Due from Manager (note 7)	15,809
Investments - long, at fair value through profit or loss	432,618
<b>Total assets</b>	<b>462,153</b>

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### Liabilities

Accrued expenses (note 7)	16,248
<b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>16,248</b>
<b>Net assets attributable to holders of redeemable units:</b>	<b>445,905</b>

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Net assets attributable to holders of redeemable units:

Series A	217,727
Series F	228,178

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Redeemable units outstanding (note 6):

Series A	8,608
Series F	9,018

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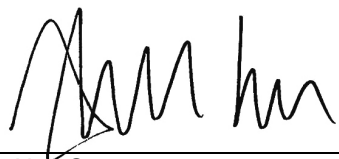
Net assets attributable to holders of redeemable units per unit:

Series A	25.29
Series F	25.30

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See accompanying notes to financial statements

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



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Alex Sasso  
Director



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Keith Leslie  
Director

# ARCS OF FIRE TACTICAL BALANCED FUND

## Statement of Comprehensive Income

Period from October 16 to October 31, 2017

*(In Canadian dollars)*

	2017
Dividend income	134
Interest for distribution purposes	152
Net gain (loss) on investments at fair value through profit or loss	
Net realized loss on investments	(175)
Net change in unrealized appreciation in fair value of investments	6,301
<b>Total investment revenue</b>	<b>6,412</b>
Audit and tax fees	12,500
HST/GST	1,557
Transaction costs	1,244
Custodian and record keeping fees	874
Other	612
Legal and filing fees	250
Management fees (note 7)	179
Administrative fees (note 7)	48
Independent review committee	42
Computer services	10
Operating expense recovery (note 7)	(15,809)
<b>Total operating expenses</b>	<b>1,507</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>4,905</b>
<b>Change in net assets attributable to holders of redeemable units (note 6):</b>	
Series A	1,727
Series F	3,178
<b>Change in net assets attributable to holders of redeemable units per unit (note 6):</b>	
Series A	0.32
Series F	0.35

See accompanying notes to financial statements

# ARCS OF FIRE TACTICAL BALANCED FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Period from October 16 to October 31, 2017

*(In Canadian dollars)*

	All Series	Series A	Series F
	2017	2017	2017
Net assets attributable to holders of redeemable units, beginning of period	-	-	-
Increase in net assets, attributable to holders of redeemable units	4,905	1,727	3,178
Transactions attributable to holders of redeemable units:			
Issuance of units	441,000	216,000	225,000
	441,000	216,000	225,000
Net assets attributable to holders of redeemable units, end of period	445,905	217,727	228,178

See accompanying notes to financial statements.

# ARCS OF FIRE TACTICAL BALANCED FUND

## Statement of Cash Flows

Period from October 16 to October 31, 2017

*(In Canadian dollars)*

	2017
<b>Cash flows from (used in) operating activities</b>	
Increase in net assets attributable to holders of redeemable units	4,905
Adjustments for:	
Net realized loss on sale of investments at fair value through profit or loss	175
Net change in unrealized appreciation of investments at fair value through profit or loss	(6,301)
Purchase of investments	(426,317)
Dividends and interest receivable	(134)
Accrued expenses	16,248
Due from Manager	(15,809)
<b>Net cash used in operating activities</b>	<b>(427,233)</b>
<b>Cash flows from financing activities</b>	
Proceeds from the issuance of redeemable units	441,000
<b>Net cash from financing activities</b>	<b>441,000</b>
Net increase in cash and cash equivalents	13,767
Effect of exchange rates on cash and cash equivalents	(175)
Cash and cash equivalents at beginning of period	-
<b>Cash and cash equivalents at end of period</b>	<b>13,592</b>
Interest received	152

See accompanying notes to financial statements.

# ARCS OF FIRE TACTICAL BALANCED FUND

Schedule of Investment Portfolio

As at October 31, 2017

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN EQUITIES</b>				
<b>Consumer Discretionary</b>				
BRP Inc.	350	14,137	15,176	
Canadian Tire Corp. Ltd., Class 'A'	110	17,501	17,413	
		31,638	32,589	7.3%
<b>Energy</b>				
Imperial Oil Ltd.	360	14,383	15,059	
Suncor Energy Inc.	340	14,463	14,892	
		28,846	29,951	6.7%
<b>Financials</b>				
Bank of Nova Scotia	180	14,663	14,990	
Toronto-Dominion Bank (The)	190	13,695	13,935	
		28,358	28,925	6.5%
<b>Health Care</b>				
Extencicare Inc.	1,570	14,713	14,711	
		14,713	14,711	3.3%
<b>Industrials</b>				
CAE Inc.	650	14,388	14,859	
Magellan Aerospace Corp.	750	14,296	14,490	
Maxar Technologies Ltd.	190	14,971	15,506	
		43,655	44,855	10.0%
<b>Telecommunication Services</b>				
BCE Inc.	240	14,266	14,297	
Rogers Communications Inc., Class 'B'	210	14,132	14,057	
		28,398	28,354	6.4%
<b>TOTAL CANADIAN EQUITIES</b>		<b>175,608</b>	<b>179,385</b>	<b>40.2%</b>
<b>UNITED STATES EQUITIES</b>				
<b>Consumer Discretionary</b>				
Tupperware Corp.	190	14,657	14,390	
		14,657	14,390	3.2%
<b>Consumer Staples</b>				
General Mills Inc.	240	15,795	16,063	
Philip Morris International Inc.	80	11,247	10,791	
		27,042	26,854	6.0%
<b>Health Care</b>				
HealthSouth Corp.	270	15,722	16,059	
		15,722	16,059	3.6%
<b>Industrials</b>				
Deere & Co.	90	14,691	15,417	
General Dynamics Corp.	50	13,205	13,083	
Rockwell Collins Inc.	60	10,103	10,488	
United Technologies Corp.	90	13,517	13,894	
		51,516	52,882	11.9%
<b>Information Technology</b>				
Cisco Systems Inc.	350	14,969	15,408	
International Business Machines Corp.	98	19,608	19,463	
		34,577	34,871	7.8%
<b>TOTAL UNITED STATES EQUITIES</b>		<b>143,514</b>	<b>145,056</b>	<b>32.5%</b>
<b>TOTAL EQUITIES</b>		<b>319,122</b>	<b>324,441</b>	<b>72.7%</b>



# ARCS OF FIRE TACTICAL BALANCED FUND

Schedule of Investment Portfolio (continued)

As at October 31, 2017

*(in Canadian dollars)*

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
<b>CANADIAN BONDS</b>				
<b>Exchange Traded Funds</b>				
Vanguard Canadian Short-Term Bond Index ETF	4,513	108,139	108,177	
		108,139	108,177	24.3%
<b>TOTAL BONDS</b>		<b>108,139</b>	<b>108,177</b>	<b>24.3%</b>
Less: Transaction costs included in average cost		(944)		
<b>TOTAL INVESTMENTS</b>		<b>426,317</b>	<b>432,618</b>	<b>97.0%</b>
Other assets, less liabilities			13,287	3.0%
<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			<b>445,905</b>	<b>100.0%</b>

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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## 1. Reporting Entity:

Arcs of Fire Tactical Balanced Fund (the "Fund") is an open-ended trust established under the laws of Alberta pursuant to a Declaration of Trust dated October 16, 2017 and commenced operations on October 17, 2017. The Fund's principal place of business is 1850, 333-7<sup>th</sup> Avenue SW Calgary, Alberta T2P 2Z1.

The Fund may issue an unlimited number of units. Each unit represents an equal undivided interest in the net assets of the Fund; however, the value of a Trust Unit in one Class may differ from the value of a Trust Unit in another Class, depending on the Net Asset Value of that particular Class.

Norrep Capital Management Ltd. ("Manager") manages business, operations, and affairs, including the day-to-day operations of the Fund. Cumberland Associates Investment Counsel Inc. ("Advisor and Portfolio Manager") provides investment management services to the Fund, including buying and selling all investments and dealing with brokers. Computershare Trust Company of Canada is the trustee, CIBC Mellon Trust Company ("CIBC Mellon") is the custodian of the Fund and Arcs of Fire Investments Inc. is the Promotor of the Fund.

## 2. Basis of preparation:

### (a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Fund's significant accounting policies under IFRS are presented in note 3. These policies have been applied consistently to the period presented.

The financial statements of the Fund were approved and were authorized for issue by the Manager's Board of Directors on December 14, 2017.

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for investments at fair value through profit or loss and derivative instruments which are measured at fair value.

### (c) Functional and presentation currency:

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

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

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

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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## 2. Basis of preparation (continued):

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant estimates include the valuation of investments and the unrealized gains/losses from investments.

## 3. Significant accounting policies:

The Fund has consistently applied the following accounting policies to the period presented in these financial statements.

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

#### (i) Recognition and initial measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they originated.

Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value, with transaction costs recognized in profit or loss.

#### (ii) Classification

The Fund classifies financial assets and financial liabilities into the following categories.

Financial assets at fair value through profit or loss:

- Held for trading: derivatives
- Designated at fair value through profit and loss: all investments

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents, receivables and units issued

Financial liabilities at amortised cost:

- Other liabilities: all liabilities other than unrealized loss on derivative instruments, which are designated at fair value through profit or loss

A financial instrument is classified as held for trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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### 3. Significant accounting policies (continued):

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

(ii) Classification (continued)

- on initial recognition, it is part of a portfolio that is managed together and for which there is evidence of a recent pattern of short-term profit taking; or
- it is a derivative, other than a designated and effective hedging instrument.

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

(iii) Fair value measurement

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

When available, the Fund measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at last traded price.

For securities where market quotes are not available, the Fund values the initial investment at the amount paid. After initial investment, the Fund uses estimation techniques to determine fair value including observable market data, discounted cash flows and internal models that compare the investments to its peer group.

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

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

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

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

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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### 3. Significant accounting policies (continued):

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

(iv) Amortized cost measurement

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

(v) Specific instruments

Cash and cash equivalents

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

Redeemable units

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has multiple classes of redeemable units that do not have identical features and therefore, do not qualify as equity under IAS 32, Financial Instruments. The redeemable units, which are classified as financial liabilities and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund's valuation policies at each redemption date. The units represent the residual interest in the Fund.

The value at which the units are issued or redeemed is determined by dividing the net assets at fair value by the total number of units outstanding by the series on the valuation date.

(b) Interest for distribution purposes:

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis and is recognized through profit or loss. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities.

(c) Dividend income and dividend expense:

Dividend income is recognized in profit or loss on the date on which the right to receive payment is established. This is usually the ex-dividend date.

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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### 3. Significant accounting policies (continued):

(d) Distributions to holders of redeemable units:

Any distribution made will be in proportion to the number of units held by each unitholder.

Distributions per unit are calculated as the total amount of distributions divided by the number of units at the record date of distribution.

(e) Net gain (loss) from financial instruments at fair value through profit or loss:

Net unrealized/realized gain/loss from financial instruments at fair value through profit or loss is calculated using the average cost method.

Average cost does not include amortization of premiums or discounts on fixed income securities.

(f) Income tax:

The Fund intends to become a “mutual fund trust” under the Income Tax Act (Canada) by March 15, 2018 and, accordingly, will not be taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund pays out sufficient net income and net realized capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made in these financial statements.

However, certain dividend and interest income received by the Fund is subject to withholding tax imposed in certain countries of origin. Income that is subject to such tax is recognized gross of the taxes and the corresponding withholding tax is recognized as a tax expense.

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

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

(h) Translation of foreign currency:

Foreign currency amounts are expressed in Canadian dollars as follows:

- (i) fair value of investments and accrued receivables and payables and other assets and liabilities at the rate of exchange at the end of the period; and
- (ii) purchases and sales of investments and dividend and interest income at the rate of exchange prevailing on the respective dates of such transactions.

Foreign currency differences are recognized as a component of net gain/loss from financial instruments at fair value through profit or loss.

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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### 3. Significant accounting policies (continued):

(i) Derivative financial instruments:

The Fund may use derivative financial instruments to reduce their exposure to fluctuations in foreign currency exchange rates. Derivative financial instruments are recorded at mark to market with changes in fair value recorded in the statement of comprehensive income.

(j) Future accounting pronouncements:

*IFRS 9 Financial Instruments* introduces new requirements for the classification and measurement of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 (2010) introduces new additions relating to financial liabilities. In July 2014 new requirements were added to address the impairment of financial assets.

The mandatory effective date of IFRS 9 for the Fund is for the fiscal year beginning November 1, 2018.

Based on the initial assessment of the Manager, the standard is not expected to have a material impact on the Fund.

### 4. Fair value measurement:

(a) Investments:

The fair values of financial assets and financial liabilities that are traded on active markets are based on quoted market prices. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

- Inputs that are quoted prices (unadjusted) in active markets for identical instruments (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for instruments, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

## 4. Fair value measurement (continued):

(a) Investments (continued):

- Inputs for the instruments that are not based on observable market data (unobservable inputs) (Level 3). This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on the quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change occurred.

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

The tables below analyze investments measured at fair value at October 31, 2017 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

<i>(in Canadian dollars)</i>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>	<b>Total</b>
Public securities				
Equities	324,441	–	–	324,441
Exchange Traded Funds	108,177	–	–	108,177
<b>Total investments</b>	<b>432,618</b>	<b>–</b>	<b>–</b>	<b>432,618</b>

(c) Financial instruments not measured at fair value:

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

## 5. Financial instruments and associated risks:

The Fund's activities expose it to a variety of risks associated with financial instruments as follows: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Fund's overall risk management program seeks to maximize the returns for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments result in a risk of loss of capital.



# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

## 5. Financial instruments and associated risks (continued):

### Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of bonds as presented on the statement of investment portfolios represents the maximum credit risk exposure as at October 31, 2017. This also applies to cash and cash equivalents and receivables as they have a short-term settlement.

A portion of the Fund's portfolio may consist of instruments that have a credit quality rated below investment grade by internationally recognized credit rating organizations or may be unrated. These securities involve significant risk exposure as there is uncertainty regarding the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Low rated and unrated debt instruments generally offer a higher current yield than that available from higher grade issuers, but typically involve greater risk.

As at October 31, 2017 the Fund was invested in debt securities with the following credit rating:

Debt Security by Credit Rating	% of Net Assets
	2017
AA (includes Exchange Traded Funds)	24.3%

Credit risk arising on transactions for units purchased and portfolio assets sold relates to transactions awaiting settlement, also known as settlement risk.

'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

For the majority of the transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Also, legal entitlement will not pass until all monies have been received for the units purchased or the portfolio assets sold. If either party does not meet its obligation then the transaction will fail.

Substantially all of the assets of the Fund are held by CIBC Mellon, the custodian. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and credit rating and financial positions of the custodian. If the credit quality or the financial position deteriorates significantly then the Manager will move the investment holdings to another financial institution.

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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## 5. Financial instruments and associated risks (continued):

### Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

The Fund is exposed to daily cash redemptions of redeemable units. The Fund's investments may include unlisted equity and debt instruments which are not traded on an organized public market and which may be illiquid. As a result, the Fund may not be able to quickly liquidate some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements. The Fund believes it maintains sufficient cash and cash equivalent positions to maintain liquidity.

The Fund's liquidity risk is managed on a daily basis by the Portfolio Manager. Minimum cash balances may be required to be maintained in the Fund at the discretion of the Portfolio Manager to allow for monies to cover redemptions. At October 31, 2017 the Fund had a cash balance equal to 3% of the net assets. The Fund's redemption policy allows for redemptions at any time during any given month. In certain circumstances, the Fund is required to settle the transaction by trade day plus two days.

The Fund is subject to regulatory requirements whereby the Fund shall not purchase an illiquid asset if, immediately after the purchase, more than ten percent of the net assets of the Fund, taken at market value at the time of purchase, would consist of illiquid assets. Residual contractual maturities of financial liabilities are all due on demand.

### Market risk:

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and price risk.

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund's investment objective is to maximize total investment returns through a balanced portfolio. The Fund is designed to provide investment markets exposure by investing primarily in U.S. and Canadian equity investments and fixed income investments.

The Portfolio Manager will execute a dynamic process for tactical asset allocation, which is the process of moving from one asset class to another.

The Fund will invest in individual public market securities, other direct investments, and in ETF's, and its allocations between these types of investments will vary from time to time.

The Fund may use derivatives to hedge against losses caused by changes in security prices or exchange rates.

The Fund may write covered call options and cash covered put options and purchase call options and put options. The Fund benefits from writing a covered call option if the price of a security stays below the strike price plus the premium of the written call option. If the price of the security

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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## 5. Financial instruments and associated risks (continued):

### Market risk (continued):

rises above the strike price plus the premium of the written call option, the strategy will have underperformed the price return of the security, however, the overall return on the position will still be positive.

If the price of the security falls to the strike price of the put option, the Fund may be assigned to purchase the security at the strike price. If the price of the security is below the strike price less the premium of the put option, the Fund will have a loss on the position; however, will have upside potential if the purchased security is held. Cash covered means that there are sufficient funds available to purchase the security at the strike price.

The Fund may temporarily depart from its investment objectives by investing all or a portion of its assets in cash or fixed income securities issued or guaranteed by a Canadian or U.S. government, government agency or company to try and protect it during a market downturn.

No material change in the investment objectives, policies or restrictions of the Fund may be made without the approval of a two-thirds majority of the votes cast by unitholders at a meeting of the Fund duly called for that purpose.

The Fund's market risk is managed on a daily basis by the Portfolio Manager in accordance with the policies and procedures in place.

Details of the nature of the Fund's investment portfolio at October 31, 2017 are disclosed in the schedule of investment portfolio.

#### (a) Currency risk:

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

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

At the reporting date the Fund had 32.5% of its net asset value in U.S. currency.

#### Sensitivity Analysis:

At October 31, 2017, had the Canadian dollar strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to the holders of redeemable units and the change in net assets attributable to holders of redeemable units would have increased or decreased by \$1,451. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

## 5. Financial instruments and associated risks (continued):

### Market risk (continued):

#### (b) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing market interest rates.

High yield corporate bond prices are impacted by the credit metrics, liquidity and business fundamentals of the corporate entity with a minimal correlation to interest rates. Thus, the high yield corporate bonds held in the Fund are empirically correlated with the related stock indices for those corporate investments.

The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets at fair values, categorized by the maturity dates.

As at October 31, 2017	Less than 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
All amounts stated in Canadian dollars					
Corporate bonds and Exchange Traded Funds	108,177	—	—	—	108,177

#### (c) Other price risk:

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

Price risk is managed by the Fund's Portfolio Manager by constructing a diverse portfolio of securities. The price of a security is affected by individual company developments and by general economic and financial conditions in those industries and countries where the issuer of the security is located, does business or where the security, if applicable, is listed for trading. Certain securities are not listed on any prescribed stock exchange and thus a liquid market for resale may not exist.

The Portfolio Manager will monitor these factors daily and make decisions regarding the portfolio based on their knowledge of the market conditions and diversify the portfolio of investments accordingly. The risk resulting from financial instruments is equivalent to their fair value.

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

## 5. Financial instruments and associated risks (continued):

### Market risk (continued):

(c) Other price risk (continued):

Sensitivity analysis:

A 1% increase or decrease in the Blended Index: TSX Composite (35%), S&P 500 Index (35%) Hedged to \$Cdn. Canadian DEX Bond Universe Index (25%) and Cash or Cash instruments (5%) at October 31, 2017 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by approximately \$4,326.

The Fund's financial assets exposed to other price risk were concentrated in the following industries at October 31, 2017.

	2017
Energy	6.9%
Industrials	22.6%
Consumer Discretionary	10.8%
Consumer Staples	6.2%
Health Care	7.1%
Financials	6.7%
Information Technology	8.1%
Telecommunication Services	6.6%
Bonds	25.0%
Total	100.0%

## 6. Redeemable units:

The authorized capital of the Fund consists of an unlimited number of units, each representing an equal undivided interest in the net assets of the Fund. Currently, there are two series outstanding, Series A and Series F. Each series ranks equally with respect to dividends and return of capital in the event of liquidation, dissolution or winding up based on their respective series' net asset values. Each series pays its own fees and expenses. The general expenses that are not series specific are allocated in proportion to the annual weighted average units of each series. Series A is sold under the front end sales charge option. A commission ranging from 0% to 5% is paid by the investor to the dealer with a 2% redemption fee being charged if the units are redeemed in the first 90 days.

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

## 6. Redeemable units (continued):

Series F is sold without commission provided the purchaser is enrolled in a fee-for-service or wrap program with the dealer. A 2% redemption fee is charged if the Series F is redeemed in the first 90 days.

Series I is sold without commission and are available to certain investors at the Portfolio Manager's discretion. A 2% redemption fee is charged if the units are redeemed in the first 90 days.

The rights attached to the redeemable units are as follows:

- The units may be redeemed daily at the net asset value per unit of the respective series;
- Redeemable units carry a right to receive notice of, attend and vote at meetings called in accordance with the Declaration of Trust; and
- The holders of redeemable units are entitled to receive all distributions declared by the Fund. Each series will rank equally with respect to the distributions based on their respective series net asset values. Distributions paid in cash will be paid in the currency in which the investor bought the units.

The analysis of movements in the number of redeemable units and net assets attributable to holders of redeemable units during the period ended October 31, 2017 was as follows:

Series A	2017
Balance, opening	-
Issued for cash	8,608
Balance, October 31	8,608

Series F	2017
Balance, opening	-
Issued for cash	9,018
Balance, October 31	9,018

The calculation of the increase (decrease) in net assets attributable to holders of redeemable units per unit is presented below. Due to rounding, numbers presented may not calculate precisely and may not reflect the absolute figures.

Series A	2017
Increase in net assets attributable to holders of redeemable units	1,727
Average units outstanding during the period	5,401
Increase in net assets attributable to holders of redeemable units per unit	0.32

# ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Financial Statements

Period from October 16 to October 31, 2017

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## 6. Redeemable units (continued):

Series F	2017
Increase in net assets attributable to holders of redeemable units	3,178
Average units outstanding during the period	9,016
Increase in net assets attributable to holders of redeemable units per unit	0.35

## 7. Management fees, expenses and key contracts:

### (a) Manager and management fees:

The Series A paid an annual management fee to the Manager of 2% of the net asset value of the series. Series F paid an annual management fee to the Manager of 1% of the net asset value of the series. The management fee is calculated and paid monthly. Included in accrued expenses at October 31, 2017 is \$179 related to these fees.

### (b) Expenses:

All fees and expenses applicable to the administration and operation of the Fund, including recordkeeping and communication costs, custodian fees, legal and filing fees, audit, applicable taxes and bank charges are payable by the Fund. The Manager has charged the Fund for administration services. As at October 31, 2017 \$48 is included in accrued expenses.

### (c) Operating expense recoveries:

The Promoter has agreed to absorb certain expenses associated with the Fund. Such absorptions may be terminated at any time without notice. Included in accounts receivable is \$15,809 related to such expenses.

## 8. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$944 in connection with portfolio transactions during the period.

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