



INTERIM FINANCIAL STATEMENTS

ARCS OF FIRE TACTICAL BALANCED FUND



For the six months ended April 30, 2018

ARCS OF FIRE TACTICAL BALANCED FUND


Interim Statements of Financial Position
(unaudited)

(in Canadian dollars, except units outstanding)

As at	April 30 2018	October 31 2017
Assets		
Cash and cash equivalents	15,075	13,592
Dividends and interest receivable	752	134
Due from Promoter (note 7)	72,690	16,983
Investments, at fair value through profit or loss	555,734	432,618
Total assets	644,251	463,327
Liabilities		
Accrued expenses (note 7)	39,880	16,248
Total liabilities (excluding net assets attributable to holders of redeemable units)	39,880	16,248
Net assets attributable to holders of redeemable units:	604,371	447,079
Net assets attributable to holders of redeemable units:		
Series A	349,249	218,300
Series F	255,122	228,779
Redeemable units outstanding (note 6):		
Series A	13,964	8,608
Series F	10,139	9,018
Net assets attributable to holders of redeemable units per unit:		
Series A	25.01	25.36
Series F	25.16	25.37

See accompanying notes to interim financial statements.

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



Alex Sasso



Keith Leslie

ARCS OF FIRE TACTICAL BALANCED FUND

Interim Statement of Comprehensive Loss
(unaudited)

Six months ended April 30, 2018
(in Canadian dollars)

	2018
Dividend income	5,588
Interest for distribution purposes	1,269
Net gain (loss) on investments at fair value through profit or loss	
Net realized gain (loss) on investments	(884)
Net change in unrealized appreciation (depreciation) in fair value of investments	(7,020)
Total investment revenue (loss)	(1,047)
Legal and filing fees	13,818
Audit and tax fees	13,661
Custodian and record keeping fees	12,759
Other	10,049
HST/GST	6,776
Management fees (note 7)	4,124
Transaction costs	635
Administrative fees (note 7)	301
Computer services	78
Independent review committee	6
Operating expense recovery (note 7)	(55,707)
Total operating expenses	6,500
Increase (decrease) in net assets attributable to holders of redeemable units	(7,547)
Withholding tax expense	259
Increase (decrease) in net assets attributable to holders of redeemable units	(7,806)
Change in net assets attributable to holders of redeemable units (note 6):	
Series A	(5,649)
Series F	(2,157)
Change in net assets attributable to holders of redeemable units per unit (note 6):	
Series A	(0.50)
Series F	(0.22)

See accompanying notes to interim financial statements.

ARCS OF FIRE TACTICAL BALANCED FUND

Interim Statement of Changes in Net Assets Attributable to Holders of Redeemable Units
(unaudited)

Six months ended April 30, 2018

(in Canadian dollars)

	All Series	Series A	Series F
	2018	2018	2018
Net assets attributable to holders of redeemable units, beginning of period	447,079	218,300	228,779
Increase (decrease) in net assets, attributable to holders of redeemable units	(7,806)	(5,649)	(2,157)
Transactions attributable to holders of redeemable units:			
Issuance of units	165,098	136,598	28,500
	165,098	136,598	28,500
Net assets attributable to holders of redeemable units, end of period	604,371	349,249	255,122

See accompanying notes to interim financial statements.

ARCS OF FIRE TACTICAL BALANCED FUND

Interim Statement of Cash Flows
(unaudited)

Six months ended April 30, 2018

(in Canadian dollars)

	2018
Cash flows from (used in) operating activities	
Increase (decrease) in net assets attributable to holders of redeemable units	(7,806)
Adjustments for:	
Net realized (gain) loss on sale of investments at fair value through profit or loss	884
Net change in unrealized (appreciation) depreciation of investments at fair value through profit or loss	7,020
Purchase of investments	(141,099)
Proceeds from the sale and maturity of investments	10,264
Dividends and interest receivable	(618)
Due from Promoter	(55,707)
Accrued expenses	23,632
Net cash from (used in) operating activities	(163,430)
Cash flows from (used in) financing activities	
Proceeds from the issuance of redeemable units	165,098
Net cash from (used in) financing activities	165,098
Net increase (decrease) in cash and cash equivalents	1,668
Effect of exchange rates on cash and cash equivalents	(185)
Cash and cash equivalents at beginning of period	13,592
Cash and cash equivalents at end of period	15,075
Dividends received, net of withholding tax paid	4,711
Interest received	1,269

See accompanying notes to interim financial statements.

ARCS OF FIRE TACTICAL BALANCED FUND

Schedule of Investment Portfolio
(unaudited)

As at April 30, 2018

(in Canadian dollars)

Description	Number of Shares	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN EQUITIES				
Consumer Discretionary				
BRP Inc.	350	14,137	18,179	
Canadian Tire Corp. Ltd., Class 'A'	110	17,502	19,248	
		31,639	37,427	6.2%
Energy				
Imperial Oil Ltd.	360	14,383	14,375	
Suncor Energy Inc.	340	14,463	16,694	
		28,846	31,069	5.1%
Financials				
Bank of Nova Scotia	255	20,827	20,125	
Toronto-Dominion Bank (The)	255	18,553	18,388	
		39,380	38,513	6.4%
Health Care				
Extendicare Inc.	1,570	14,713	13,078	
		14,713	13,078	2.2%
Industrials				
CAE Inc.	750	16,631	18,202	
Magellan Aerospace Corp.	1,140	22,478	22,070	
Maxar Technologies Ltd.	405	28,731	23,531	
		67,840	63,803	10.5%
Telecommunication Services				
BCE Inc.	340	19,857	18,527	
Rogers Communications Inc., Class 'B'	410	25,825	24,850	
		45,682	43,377	7.2%
TOTAL CANADIAN EQUITIES		228,100	227,267	37.6%
UNITED STATES EQUITIES				
Consumer Discretionary				
Tupperware Corp.	190	14,657	10,853	
		14,657	10,853	1.8%
Consumer Staples				
General Mills Inc.	240	15,795	13,457	
Philip Morris International Inc.	80	11,247	8,410	
		27,042	21,867	3.6%
Health Care				
HealthSouth Corp.	270	15,722	21,051	
		15,722	21,051	3.5%
Industrials				
Deere & Co.	90	14,691	15,614	
General Dynamics Corp.	95	24,550	24,517	
United Technologies Corp.	130	20,315	20,023	
		59,556	60,154	10.0%
Information Technology				
Cisco Systems Inc.	350	14,968	19,872	
International Business Machines Corp.	158	30,985	29,362	
		45,953	49,234	8.1%
TOTAL UNITED STATES EQUITIES		162,930	163,159	27.0%
TOTAL EQUITIES		391,030	390,426	64.6%

ARCS OF FIRE TACTICAL BALANCED FUND

Schedule of Investment Portfolio (continued)
(unaudited)

As at April 30, 2018

(in Canadian dollars)

Description	Par Value	Cost (\$)	Fair Value (\$)	% of Net Assets
CANADIAN BONDS				
Exchange Traded Funds				
iShares Canadian Short Term Bond Index ETF	435	11,999	11,849	
Vanguard Canadian Short-Term Bond Index ETF	6,497	155,520	153,459	
		<u>167,519</u>	<u>165,308</u>	<u>27.4%</u>
TOTAL CANADIAN BONDS		167,519	165,308	27.4%
Less: Transaction costs included in average cost		<u>(1,152)</u>		
TOTAL INVESTMENTS		557,397	555,734	92.0%
Other assets, less liabilities			<u>48,637</u>	<u>8.0%</u>
TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			604,371	100.0%

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

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, 333-7th 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.

These interim financial statements have also been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting.

The interim financial statements of the Fund were approved and were authorized for issue by the Manager’s Board of Directors on June 25, 2018.

(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 Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

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 all periods 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

Effective November 1, 2017, the Fund adopted IFRS 9 Financial Instruments. The new standard requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI) based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Assessment and decision on the business model approach used is an accounting judgement.

Upon transition to IFRS 9, the Fund's financial assets and financial liabilities that were classified as fair value through profit and loss (FVTPL) under IAS 39 continued to be categorized as fair value through profit and loss. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

Under IFRS 9, derivatives are classified as FVTPL like other financial assets and liabilities, so there is no requirement to present separately the different component amounts on the Statement of Comprehensive Income as they fall within the same classification; this is a change from the requirement under IAS 39 where derivatives were classified as Held for Trading.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

3. Significant accounting policies: (continued)

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

(ii) Classification (continued)

However, Canadian Security Administrators (“CSA”) regulatory requirements under NI 81-106 prescribe the individual line items that are required to be disclosed which includes separate disclosure for derivatives.

The Funds classify financial assets and financial liabilities into the following categories.

Financial assets at fair value through profit or loss:

- All investments, including derivatives

Financial assets at amortized cost:

- Loans and receivables: cash and cash equivalents and receivables

Financial liabilities at amortised cost:

- Other liabilities: all liabilities other than redeemable units

The Funds designate all financial assets and liabilities at fair value through profit or loss on initial recognition because it manages securities on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these securities and the Fund as a whole is on a fair value basis. The Manager also receives management fees which are based on the overall fair value of the Fund.

(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 restriction.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

3. Significant accounting policies (continued):

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

(iii) Fair value measurement (continued)

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 in which service provider used..

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

(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.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

3. Significant accounting policies (continued):

(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:

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.

(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 on 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 is considered a registered investment and intends to become a “mutual fund trust” under the Income Tax Act (Canada) 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

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

3. Significant accounting policies (continued):

(h) Translation of foreign currency (continued):

- (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.

(i) Derivative financial instruments:

The Fund may use derivative financial instruments to reduce its 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.

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
- 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.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

4. Fair value measurement (continued):

(a) Investments (continued):

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The Fund recognizes 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 the reporting dates 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>	Level 1	Level 2	Level 3	Total
April 30, 2018				
Public securities				
Equities - long	390,426	—	—	390,426
Exchange Traded Funds	165,308	—	—	165,308
Total Investments	555,734	—	—	555,734

<i>(in Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
October 31, 2017				
Public securities				
Equities - long	324,441	—	—	324,441
Exchange Traded Funds	108,177	—	—	108,177
Total Investments	432,618	—	—	432,618

There were no transfers into or out of Level 1, Level 2 and Level 3 during the periods ended April 30, 2018 and October 31, 2017.

(c) Financial instruments not measured at fair value:

The carrying values of cash and cash equivalents, dividends and interest receivable, accrued expenses, and 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 derived 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.

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

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

5. Financial instruments and associated risks (continued):

Credit risk (continued):

on the statement of investment portfolios represents the maximum credit risk exposure as at April 30, 2018 and 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.

Credit risk arising on transactions for units issued 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.

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.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

5. Financial instruments and associated risks (continued):

Liquidity risk (continued):

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 April 30, 2018 the Fund had a cash balance equal to 2.5% (October 31, 2017 – 3.0%) 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 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.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

5. Financial instruments and associated risks (continued):

Market risk (continued):

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 April 30, 2018 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 27.7% (October 31, 2017 – 32.5%) of its net asset value in U.S. currency.

Sensitivity Analysis:

At April 30, 2018, 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 \$1,675 (October 31, 2017- \$1,451). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(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.

(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

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
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Six months ended April 30, 2018

5. Financial instruments and associated risks (continued):

Market risk (continued):

(c) Other price risk (continued):

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.

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 April 30, 2018 would have impacted the net assets attributable to unitholders and the changes in net assets attributable to unitholders by approximately \$5,557 (October 31, 2017- \$4,326).

The Fund's financial assets exposed to other price risk were concentrated in the following industries at April 30, 2018 and October 31, 2017:

	2018	2017
Equities		
Energy	5.6%	6.9%
Industrials	22.3%	22.6%
Consumer Discretionary	8.7%	10.8%
Consumer Staples	3.9%	6.2%
Health Care	6.2%	7.1%
Financials	6.9%	6.7%
Information Technology	8.9%	8.1%
Telecommunication Services	7.8%	6.6%
Bonds	29.7%	25.0%
Total	100.0%	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 distributions 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

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

6. Redeemable units (continued):

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.

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 April 30, 2018 was as follows:

Series A	2018
Balance, opening	8,608
Issued for cash	5,356
Balance, April 30	13,964
Series F	2018
Balance, opening	9,018
Issued for cash	1,121
Balance, April 30	10,139

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 not reflect the absolute figures.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

6. Redeemable units (continued):

Series A	2018	2017
Increase (decrease) in net assets attributable to holders of redeemable units	(5,649)	-
Average units outstanding during the period	11,129	-
Increase (decrease) in net assets attributable to holders of redeemable units per unit	(0.50)	-

Series F	2018	2017
Increase (decrease) in net assets attributable to holders of redeemable units	(2,157)	-
Average units outstanding during the period	10,019	-
Increase (decrease) in net assets attributable to holders of redeemable units per unit	(0.22)	-

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 April 30, 2018 is \$795 (October 31, 2017- \$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 April 30, 2018 \$62 (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 at April 30, 2018 is \$72,690 (October 31, 2017- \$15,809) related to such expenses.

(d) Transaction cost recovery:

The Promoter has agreed to absorb a portion of the transaction costs associated with the Fund. Such absorptions may be terminated at any time without notice. Included in accounts receivable at April 30, 2018 is \$nil (October 31, 2017- \$1,174) related to such expenses.

ARCS OF FIRE TACTICAL BALANCED FUND

Notes to Interim Financial Statements
(unaudited)

Six months ended April 30, 2018

8. Brokerage commissions on securities transactions:

The Fund paid brokerage commissions amounting to \$311 (April 30, 2017 - \$nil) in connection with portfolio transactions during the period.

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