Financial Statements of

MATCO BALANCED FUND

For the years ended December 31, 2017 and 2016

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Matco Balanced Fund

We have audited the accompanying financial statements of Matco Balanced Fund, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units, and cash flow for the years then ended, 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 audits. We conducted our audits 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 in our audits 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 Matco Balanced Fund as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 21, 2018
Calgary, Canada

MATCO BALANCED FUND

Statements of Financial Position

		December 31, 2017	December 31, 2016
Assets			
Investments, at fair value (note 4)	$	194,592,577	$167,113,884
Cash and cash equivalents		4,391,680	3,181,853
Subscription receivable		73,912	970
Dividends receivable		131,726	295,281
Other receivable		4,633	-
Interest receivable		-	335,578
		199,194,528	170,927,566
Liabilities			
Management fee payable		31,472	28,558
Redemptions payable		54,000	67,663
Distributions payable		40,049	156,986
Other accrued liabilities		55,214	47,751
		180,735	300,958
Net assets attributable to holders of redeemable units	$	199,013,793	$170,626,608
Net asset value attributable to holders of redeemable units:			
Series A	$	1,546,799	$ 850,450
Series F		35,213,129	31,964,542
Series O		162,253,865	137,811,616
Redeemable units outstanding:			
Series A		122,545	69,474
Series F		2,836,378	2,662,585
Series O		13,105,062	11,521,788
Net asset value attributable to holders of redeemable unit:			
Series A	$	12.62	$ 12.24
Series F		12.41	12.01
Series O		12.38	11.96

See accompanying notes to financial statements.

On behalf of the Manager of the Matco Balanced Fund:

Jason Vincent (signed) Director

MATCO BALANCED FUND

Statements of Comprehensive Income
Years ended December 31,

	2017	2016
Investment income:		
Dividends	$ 2,512,249	$ 1,934,571
Interest for distribution purposes and other income	1,749,432	1,685,764
Security lending income	40,229	12,623
Realized gain on sale of investments	6,791,014	11,657,251
Change in unrealized appreciation (depreciation) of investments	4,996,327	(2,742,134)
	16,089,251	12,548,075
Expenses:		
Management and trailer fees (note 8)	383,151	328,959
Transaction costs (note 5)	76,461	137,508
Securityholder reporting costs	53,837	46,872
Valuation fees	35,908	36,076
Custody fees	36,388	28,333
Legal and filing fees	32,433	20,903
Audit fees	16,798	14,971
Administrative fees	6,277	11,892
Independent review committee fees	5,586	13,988
Trustee fees	5,240	5,226
	652,079	644,728
Increase in net assets attributable to holders of redeemable units before tax:	15,437,172	11,903,347
Withholding tax expense	(19,396)	(46,802)
Increase in net assets attributable to holders of redeemable units	$15,417,776	$11,856,545
Increase in net assets attributable to holders of redeemable units per series:		
Series A	$ 99,975	$ 96,314
Series F	2,473,674	2,101,009
Series O	12,844,127	9,659,222
Weighted average number of units outstanding		
Series A	119,521	54,546
Series F	2,751,282	2,450,092
Series O	12,348,140	10,069,454
Increase in net assets attributable to holders of redeemable units per unit:		
Series A	$ 0.84	$ 1.77
Series F	0.90	0.86
Series O	1.04	0.96

See accompanying notes to financial statements.

MATCO BALANCED FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
Years ended December 31,

2017	Series A	Series F	Series O	Total Fund
Net assets, beginning of year	$ 850,450	$ 31,964,542	$ 137,811,616	$ 170,626,608
Increase in net assets attributable to holders of redeemable units	99,975	2,473,674	12,844,127	15,417,776
Transactions attributable to holders of Redeemable units:				
Issue of redeemable units	952,007	6,486,226	25,550,840	32,989,073
Redemption of redeemable units	(352,727)	(5,714,606)	(14,046,986)	(20,114,319)
Redeemable units issued on reinvestment of distributions	51,149	1,370,699	7,827,140	9,248,988
Total contribution and redemption by holders of redeemable units	650,429	2,142,319	19,330,994	22,123,742
Distributions declared to holders of redeemable units:				
From investments	(10,970)	(403,885)	(3,298,543)	(3,713,398)
From capital gains	(43,085)	(963,521)	(4,434,329)	(5,440,935)
Total distributions declared	(54,055)	(1,367,406)	(7,732,872)	(9,154,333)
Net assets, end of year	$ 1,546,799	$ 35,213,129	$ 162,253,865	$ 199,013,793
Distributions per unit to holders of redeemable units:				
From investments	$0.09	$0.15	$0.27	
From capital gains	$0.36	$0.36	$0.36	

See accompanying notes to financial statements.

MATCO BALANCED FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
Years ended December 31,

2016	Series A	Series F	Series O	Total Fund
Net assets, beginning of year	$ 333,709	$ 25,650,175	$105,419,856	$131,403,740
Increase in net assets attributable to holders of redeemable units	96,314	2,101,009	9,659,222	11,856,545
Transactions attributable to holders of Redeemable units:				
Issue of redeemable units	5,546,700	10,631,744	40,032,037	56,210,481
Redemption of redeemable units	(5,123,092)	(6,102,302)	(17,172,327)	(28,397,721)
Redeemable units issued on reinvestment of distributions	48,378	1,859,410	10,371,159	12,278,947
Total contribution and redemption by holders of redeemable units	471,986	6,388,852	33,230,869	40,091,707
Distributions declared to holders of redeemable units:				
From investments	(4,654)	(391,110)	(2,913,707)	(3,309,471)
From capital gains	(46,905)	(1,784,384)	(7,584,624)	(9,415,913)
Total distributions declared	(51,559)	(2,175,494)	(10,498,331)	(12,725,384)
Net assets, end of year	$ 850,450	$ 31,964,542	$ 137,811,616	$ 170,626,608
Distributions per unit to holders of redeemable units:				
From investments	$0.07	$0.16	$0.28	
From capital gains	$0.68	$0.71	$0.70	

See accompanying notes to financial statements.

MATCO BALANCED FUND

Statements of Cash Flow
Years ended December 31,

	2017	2016
Cash flow from (used in) operating activities:		
Dividends received	$ 2,656,408	$ 1,706,629
Interest and other income received	1,705,309	1,640,327
Proceeds from sale of investments	197,081,807	153,972,501
Purchase of investments	(212,397,591)	(184,125,600)
Operating expenses paid	(565,241)	(497,969)
	(11,519,308)	(27,304,112)
Cash flow from (used in) financing activities:		
Proceeds from issue of redeemable units	32,147,546	56,258,636
Payments on redemption of redeemable units	(22,282)	(28,459,350)
Dividends paid to holders of redeemable units	(19,359,397)	(289,451)
	12,765,867	27,509,835
Net increase in cash and cash equivalents	1,246,559	205,723
Effect of exchange rate changes on cash and cash equivalents	(36,732)	(354,184)
Cash and cash equivalents, beginning of year	3,181,853	3,330,314
Cash and cash equivalents, end of year	$ 4,391,680	$ 3,181,853

See accompanying notes to financial statements.

1. Reporting entity:

Matco Balanced Fund (the “Fund”) was established by way of a Declaration of Trust under the laws of Alberta on June 29, 2007 and changed its name from MFi Balanced Fund on August 12, 2011. The Fund’s principal place of business is Suite 400, 407-8th Ave SW Calgary, Alberta. Matco Financial Inc. (“Matco”) is the Manager and Portfolio Adviser of the Fund (“Manager”). RBC Investor Services Trust supplies trustee, custodian and record keeping services to the Fund. The Fund has multiple series; A, F N, and O all of which can be issued in unlimited number.

2. Basis of presentation:

(a) Statement of compliance

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

These financial statements were approved by the board of directors on March 21, 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Fund.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

3. Significant accounting policies:

The significant accounting policies set out below have been consistently applied 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 party to

3. Significant accounting policies (continued):

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

(i) Recognition and initial measurement (continued)

contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are 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, and subsequently measured at fair value. Financial assets and financial liabilities not at fair value through profit or loss are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and subsequently measured at amortized cost.

(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: derivative financial instruments
- Designated as fair value through profit or loss: debt securities and equity investments:

Financial assets at amortized cost:

- Loans and receivables: Cash and cash equivalents, dividends receivable, subscriptions receivable, other receivable and interest receivable

Financial liabilities at amortized cost:

- Other liabilities: Management fee payable, redemptions payable, distributions payable and other accrued liabilities

A financial instrument is classified as held for trading if:

- it is acquired or incurred principally for the purpose of selling in the near term
- 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 are on a fair value basis.

3. Significant accounting policies (continued):

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

(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.

When available, the Fund measures the 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 the last trade price.

If there is no quoted price in an active market, the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

There is no difference between the net asset value ("NAV") used for pricing and NAV calculated for accounting purposes.

(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 initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) Specific instruments

Cash is comprised of deposits with banks.

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's net assets.

3. Significant accounting policies (continued):

(b) Revenue recognition:

(i) Interest recognized in profit or loss represents the coupon interest received by the Fund accounted for on an accrual basis. Income received from income trusts is recorded on the ex-distribution date and allocated between income, capital gains and return of capital when the information necessary for such an allocation becomes available.

(ii) Dividend income is recognized in profit or loss on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend.

(iii) Realized gains and losses on investments and unrealized appreciation (depreciation) in value of investments are calculated with reference to the average cost of the related investments.

(c) Transaction costs:

Transaction costs are expensed and are included in “Transaction costs” in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

(d) Foreign exchange:

Foreign currency amounts are expressed in Canadian dollars on the following basis:

(i) Market value of investments, other assets and liabilities at the rate of exchange prevailing at the period end date.

(ii) Value of investment transactions, income and expenses at the rates prevailing on the respective dates of such transactions.

(e) Net assets attributable to holders of redeemable units per unit and increase (decrease) in net assets attributable to holders of redeemable units per unit:

Net asset value per unit represents the net asset value for each series divided by the number of outstanding units of that series at period end. The increase (decrease) in net assets attributable to holders of redeemable units per unit in the statement of comprehensive income represents the increase (decrease) in net assets from operations attributable to each series for the period, divided by the weighted average number of outstanding units of that series during the period. Each series is allocated its specific costs for management fees based on the Prospectus and all other operating costs are allocated based on each Series A, F and O pro-rata share of closing net asset value on a daily basis.

3. Significant accounting policies (continued):

(f) Income taxes:

The Fund qualifies as a "mutual fund trust" under the Income Tax Act (Canada) and, accordingly, is not taxed on that portion of its taxable income that is paid or allocated to holders of redeemable units. 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.

Certain dividend and interest income received by the Fund is subject to withholding tax imposed in the country of origin. During the period the average withholding tax rate was 15%.

(g) Future accounting change:

IFRS 9, published in July 2014, replaces the existing guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting years beginning on or after January 1, 2018, with early adoption permitted.

The new classification and measurement approach reflects the business model in which the assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through profit or loss (FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income (FVTOCI). The standard eliminates the existing categories of held to maturity, loans and receivables and available for sale. For financial liabilities two measurement categories continue to exist – FVTPL and amortized cost.

IFRS 9 replaces the 'incurred loss" model with a forward-looking 'expected credit loss' (ECL) model.

Based on its assessment, the Manager does not believe the new classification requirements will have a material impact on its accounting for debt and equity investments. The Manager manages these assets and evaluates their performance based on fair value. The assets are neither held to collect contractual cash or to sell financial assets. The Manager is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The collection of contractual cash flows is only incidental to achieving the business model's objective. Therefore, the financial assets must be measured at fair value through profit or loss and the new impairment model does not apply. These financial assets are derecognized when the right to receive the cash flow from the asset has expired or the fund has transferred substantially all risks and rewards of ownership.

Other financial assets, such as cash and receivables, are classified as amortized cost. Other receivables are contractual obligations from unitholders, trade settlements, or interest and dividend payments. The estimated impairment is calculated based on the twelve-month ECL

3. Significant accounting policies (continued):

(g) Future accounting change:

model reflecting the short-term maturities of the exposures. As the credit risk is low, the Manager does not expect to recognize an impairment for these assets.

Classification of financial liabilities under IFRS 9 is measured at amortized cost. No impact is expected due to this change.

The Manager plans to adopt IFRS 9 beginning January 1, 2018.

4. Financial instruments:

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 judgement 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 price) 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.

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.

The fair values of other financial instruments approximate their carrying value due to the short term nature of these items.

4. Financial instruments (continued):

b) Valuation framework:

The Fund has an established control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function, which is independent of front office management. Specific controls include:

- verification of observable pricing inputs;
- a review and approval process for new models and changes to existing models;
- analysis and investigation of significant daily valuation variations; and
- review of unobservable inputs and valuation adjustments.

When third party information, such as broker quotes or pricing services, is used to measure fair value, then the portfolio valuation function assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirement of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Fund for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions; and
- if a number of quotes for the same financial instrument have been obtained, then how the fair value has been determined using those quotes.

c) Fair value hierarchy:

The following is a summary of investments measured at fair value as at the reporting date by the levels in the fair value hierarchy:

December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Index funds	$194,592,577	-	-	$ 194,592,577
Total investments	$194,592,577	-	-	$ 194,592,577

December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Public equity securities	$103,470,134	$ -	$ -	$ 103,470,134
Bonds	-	63,643,750		63,643,750
Total investments	$103,470,134	$ 63,643,750	$ -	$ 167,113,884

4. Financial instruments (continued):
c) Fair value hierarchy:

There were no transfers between levels during the years ended December 31, 2017 and December 31, 2016.

5. Commission and other transaction costs:

During 2017 the Fund paid $ 76,461 (2016 – $137,508) in brokerage commissions and other transaction costs for portfolio transactions.

6. Redeemable units:

The Fund may issue an unlimited number of units of each series.

The authorized capital of the Fund consists of an unlimited number of redeemable units, each representing an equal undivided interest in the net assets of the Fund. Currently, there are three series outstanding, Series A, Series F, and Series O. 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 the proportion to the annual weighted average units of each series.

Series A are sold under the front-end sales charge option. A commission ranging from 0% to 6% is paid by the investor to the dealer with a 2% redemption fee being charged if the shares are redeemed in the first 90 days. A switch fee of up to 2% is payable upon an exchange of redeemable shares within 90 days of original purchase.

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. A switch fee of up to 2% is payable upon an exchange of redeemable shares within 90 days of original purchase.

Series O are 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. A switch fee of up to 2% is payable upon an exchange of redeemable shares within 90 days of original purchase.

The attributes attached to the redeemable units are as follows:

- The units may be redeemed daily at the net asset value per share of the respective series;
- Redeemable units have no voting rights; and
- The holders of redeemable units are entitled to receive all dividends declared by the Fund. Each series will rank equally with respect to the distributions based on their respective series net asset values.

6. Redeemable units(continued):

Changes in outstanding units of the Fund for the year ended December 31, 2017 and December 31, 2016, were as follows:

Years ended December 31, 2017	Series A	Series F	Series O
Redeemable units, beginning of year	69,474	2,662,585	11,521,788
Subscriptions	76,972	529,918	2,087,574
Redemptions	(27,960)	(466,861)	(1,139,580)
Reinvestment of distributions	4,059	110,736	635,280
Redeemable units, end of year	122,545	2,836,378	13,105,062

Year ended December 31, 2016	Series A	Series F	Series O
Redeemable units, beginning of year	27,186	2,128,089	8,781,664
Subscriptions	436,127	871,812	3,281,684
Redemptions	(397,800)	(492,415)	(1,407,685)
Reinvestment of distributions	3,961	155,089	866,125
Redeemable units, end of year	69,474	2,662,585	11,521,788

7. Financial instruments and associated risk:

Financial instrument risk:

The investment objective of the Fund is to seek a balance of long-term capital appreciation and current income by investing in a portfolio that is diversified by asset class, geographic location and market capitalization. The amount of capital invested in each asset class is subject to a minimum and maximum range and will vary relative to the Manager's view of the markets.

Asset Class Ranges:	
Cash	0%-10%
Fixed Income	40%-60%
Canadian Equities	25%-45%
U.S. Equities	5%-25%
International Equities	5%-25%

The Manager's approach is strategic and incorporates active investment management allowing for asset class movements within the ranges above.

No one individual security holding (excluding a mutual fund holding which is subject to NI 81-102 and government backed securities) can be greater than 7% of the net asset value of the fund. The Fund

7. Financial instruments and associated risk (continued):

Financial instrument risk (continued):

can invest in proprietary and/or non-proprietary mutual funds and individual security portfolios to achieve its objective.

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through diversification of the investment portfolio. The Investment Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

At December 31, 2017, the Fund's market risk is affected by two main components: changes in actual market prices and interest rates. Of these securities at fair value through profit or loss, 100% (December 31, 2016 – 61%) represent assets that were subject to market risk, while Nil% (December 31, 2016 – 39%) of these assets have market risks discussed below in other risk areas. If the global stock exchanges at December 31, 2017 had increased or decreased by 5%, with all other variables held constant, this would have increased or decreased the net assets of the Fund by approximately $9,729,790 (December 31, 2016 - $5,563,109).

7. Financial instruments and associated risk (continued):

Interest rate risk:

At December 31, 2017 the fund held Nil% of its investments in assets that are subject to interest rate risk (December 31, 2016 – 39%). Any excess cash and cash equivalents are invested in short-term market interest rates.

The Fund's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in prevailing levels of market interest rates on its financial position and cash flows. A decrease in market interest rates will generally result in an increase in fair value of fixed income securities.

The table below summarizes the Fund's exposure to interest rate risks, categorized by the earlier of contractual re-pricing or maturity dates.

As at December 31, 2017	< 1 year	1-5 years	>5 years	Total
Interest rate exposure	$ -	-	-	-

As at December 31, 2016	< 1 year	1-5 years	>5 years	Total
Interest rate exposure	$ -	$ 23,567,195	$ 40,076,555	$ 63,643,750

As at December 31, 2017, if the prevailing interest rate had been raised or lowered by 1%, assuming a parallel shift in yield curve, with all other factors remaining constant, net assets for the Fund could possibly have decreased or increased, respectively, by approximately $Nil (December 31, 2016 - $3,506,771). The Fund's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results will differ from this sensitivity analysis and the difference could be material.

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 with the Fund.

Financial instruments that potentially subject the Fund to a concentration of credit risk consist primarily of cash and short-term investments, and bond and mortgage backed investments. The Fund limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality government and financial institutions. To maximize the credit quality of its investments, the Fund's manager performs on going credit evaluations based upon factors surrounding the credit risk of its investments, historical trends and other information.

7. Financial instruments and associated risk (continued):

Credit rate risk (continued):

Credit rating	2017	2016
AAA/AAa	-	11.02%
AA/Aa	-	12.88%
A/A	-	6.78%
BBB/Bbb	-	6.63%
Total	Nil%	37.31%

All transactions in listed securities are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk:

The Fund is exposed to daily cash redemptions of units. The Fund's investments are considered readily realizable and highly liquid, therefore this risk is considered minimal.

The Fund's financial liabilities are not significant and are due within one month.

Currency risk:

The Fund holds assets and liabilities, including cash, short-term investments and equities that are denominated in currencies other than the Canadian Dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies fluctuate due to changes in exchange rates. The table below summarizes the Fund's exposure to currency risks:

	December 31, 2017		December 31, 2016	
	Currency exposure ($)	As % of Net assets (%)	Currency exposure ($)	As % of Net assets (%)
US dollar All amounts in CAD$	$ -	-%	$ 17,704,787	10.38%

7. Financial instruments and associated risk (continued):

Currency risk (continued):

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other factors remaining constant, net assets for the Fund could have increased or decreased by approximately $Nil (December 31, 2016 - $885,239). In practice, actual results will differ from this sensitivity analysis and the difference could be material.

8. Management fee's, expenses and key contracts

(a) Manager and management fees:

The Series A units paid a monthly management fee to the Manager of 1/12 of 0.75% of the average net asset value of the series. Series F units paid a monthly management fee to the manager of 1/12 of 1.00% of the average net asset value of the series. Included in accrued expenses at December 31, 2017 is $31,472 (December 31, 2016 - $28,558) related to these fees. No management fee is charged to the Series O units. Instead, the investors pay a management fee directly to the Manager in an amount determined through negotiation with the Manager.

	December 31, 2017	December 31, 2016
Management fees paid to manager	$ 367,147	$ 321,785
Trailer fees paid to third party	16,004	7,174
Management and trailer fees	$ 383,151	$ 328,959

(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.

9. Securities lending

The Fund has entered into a securities lending program with its custodian, RBC Investor Services Trust, in order to earn additional revenue. The aggregate market value of all securities loaned by the Fund will not exceed 50% of the fair value of the assets of the Fund. The Fund will receive collateral of at least 102% of the fair value of the securities on loan. Collateral held is generally comprised of cash and securities of, or guaranteed by, the Government of Canada or a province thereof. Securities lending income reported in the statements of comprehensive income is net of a securities lending charge which the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

9. Securities lending (continued):

For the year ended December 31, 2017 and 2016, securities lending income for the Fund was as follows:

		2017		2016
Gross securities lending income	$	85,679	$	33,670
Securities lending charges		(40,071)		(16,835)
Net securities lending income		45,608		16,835
Withholding taxes on securities lending income		(5,379)		(4,212)
Net securities lending income	$	$40,229	$	$12,623

The following table summarizes the securities loaned and collateral held as at December 31, 2017 and 2016:

		2017	2016
Securities loaned	$	-	$ 29,883,948
Collateral received		-	30,481,635
Collateral percentage of securities loaned		Nil%	1.02%

MATCO BALANCED FUND

Schedule of Investment Portfolio

As at December 31, 2017

Description	Number of shares	Cost	Fair value
Index funds:			
iShares Core S&P 500 Index ETF (CAD-Hedged)	440,425	11,309,575	13,388,920
Matco Fixed Income Fund	7,142,208	71,443,287	71,914,892
Matco Global Equity Fund	3,473,195	34,731,947	36,801,971
Matco Canadian Equity Fund	3,612,442	44,914,087	50,175,741
Matco Small Cap Fund	1,189,872	18,227,249	22,311,053
Total index funds		180,629,373	194,592,577
Transaction costs		(9,518)	
Total investment portfolio		$ 180,619,855	$ 194,592,577