



## **AUDITED FINANCIAL STATEMENTS DECEMBER 2014**

EXEMPLAR CANADIAN FOCUS PORTFOLIO | EXEMPLAR DIVERSIFIED PORTFOLIO |

# Exemplar Canadian Focus Portfolio

## Statements of Financial Position

	Note	As at December 31, 2014	As at December 31, 2013	As at January 1, 2013
<b>Assets</b>				
<b>Current assets</b>				
Financial assets designated at fair value through profit and loss		\$ 64,937,024	\$ 66,184,068	\$ 51,062,557
Cash		14,777,266	1,339,361	3,992,893
Margin deposit		2,487,499	9,472,312	9,919,102
Accrued interest receivable		19,574	29,782	57,448
Accrued dividends receivable		72,447	105,107	152,397
Accrued income tax receivable		-	21,162	22,098
Receivable for securities sold		328,458	113,474	-
Receivable for redeemable shares issued		106,604	88,620	45,000
		<b>82,728,872</b>	<b>77,353,886</b>	<b>65,251,495</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities held for trading				
Investments sold short		2,111,734	1,058,358	1,044,233
Payable for securities purchased		15,237	635,926	126,733
Accrued dividends payable		5,395	4,701	2,509
Payable for redeemable shares redeemed		159,029	88,669	33,201
Distributions payable		-	57,590	55,012
Other liabilities	9	151,571	3,585,811	147,523
		<b>2,442,966</b>	<b>5,431,055</b>	<b>1,409,211</b>
<b>Net assets attributable to holders of redeemable shares</b>		<b>\$ 80,285,906</b>	<b>\$ 71,922,831</b>	<b>\$ 63,842,284</b>
<b>Net assets attributable to holders of redeemable shares</b>				
Series A		\$ 43,776,926	\$ 50,885,858	\$ 45,069,711
Series F		\$ 30,891,999	\$ 16,981,360	\$ 12,333,505
Series L		\$ 5,616,981	\$ 4,055,613	\$ 2,090,940
Series R		\$ -	\$ -	\$ 4,348,128
<b>Number of shares outstanding</b>				
Series A	8	2,302,938	2,946,850	3,191,673
Series F		1,531,517	937,084	837,836
Series L		419,395	333,295	209,212
Series R		-	-	367,742
<b>Net assets attributable to holders of redeemable shares per share</b>				
Series A		\$ 19.01	\$ 17.27	\$ 14.12
Series F		\$ 20.17	\$ 18.12	\$ 14.72
Series L		\$ 13.39	\$ 12.17	\$ 9.99
Series R		\$ -	\$ -	\$ 11.82

Approved on behalf of the Board of Directors of Arrow Capital Management Inc.,  
the Manager of the Portfolio:

"James L. McGovern"

James L. McGovern, Director

"Robert W. Maxwell"

Robert W. Maxwell, Director

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

# Exemplar Canadian Focus Portfolio

## Statements of Comprehensive Income For the years ended December 31,

	Note	2014 \$	2013 \$
<b>Income</b>			
Net gains on investments and derivatives			
Interest for distribution purposes	5	157,856	265,865
Dividend income	5	957,595	1,194,146
Dividend expense on short sales	5	(20,804)	(29,612)
Net realized gain (loss) on investments and derivatives	5	7,055,108	973,551
Net change in unrealized appreciation (depreciation) in value of investments and derivatives	5	3,883,437	16,958,230
Net gains on investments and derivatives		12,033,192	19,362,180
Other Income Items:			
Interest on cash		32,954	82,981
Foreign exchange gain (loss)		98,134	(31,514)
Net change in unrealized foreign exchange gain (loss)		182,720	38,772
Total income (net)		12,347,000	19,452,419
<b>Expenses</b>			
Securityholder reporting fees		401,968	438,587
Management fees	9	1,041,511	959,366
Performance fees	9	1,897,371	3,102,744
Interest expense		14	369
Audit fees		25,091	27,905
Independent review committee fees		6,259	7,866
Legal fees		19,168	499
Custodial fees		13,500	3,665
Security borrowing expenses		14,284	6,570
Commissions and other portfolio transaction costs	9	85,909	57,997
Withholding tax expense		5,677	5,940
Harmonized sales tax		364,258	494,566
Income tax		22,009	-
Total expense before manager absorption		3,897,019	5,106,074
Less: expenses absorbed by manager	9	-	(70,026)
Total expenses after manager absorption		3,897,019	5,036,048
<b>Increase (decrease) in net assets attributable to holders of redeemable shares</b>		<b>8,449,981</b>	<b>14,416,371</b>
<i>Increase (decrease) in net assets attributable to holders of redeemable shares</i>			
Series A	11	5,175,655	10,316,167
Series F		2,766,705	3,133,653
Series L		507,621	655,598
Series R		-	310,953
<i>Increase (decrease) in net assets attributable to holders of redeemable shares per share</i>			
Series A	11	2.01	3.40
Series F		2.20	3.71
Series L		1.35	2.41
Series R		-	0.93

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

# Exemplar Canadian Focus Portfolio

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares For the years ended December 31,

	Note	2014 \$	2013 \$
Net assets attributable to holders of redeemable shares at beginning of year	Series A Series F Series L Series R	50,885,858 16,981,360 4,055,613 -	45,069,711 12,333,505 2,090,940 4,348,128
		<b>71,922,831</b>	<b>63,842,284</b>
Increase (decrease) in net assets attributable to holders of redeemable shares	Series A Series F Series L Series R	5,175,655 2,766,705 507,621 -	10,316,167 3,133,653 655,598 310,953
		<b>8,449,981</b>	<b>14,416,371</b>
Distributions to holders of redeemable shares			
From net investment income	Series A Series F Series L	(485,898) (342,184) (62,326)	(735,968) (245,467) (58,679)
		<b>(890,408)</b>	<b>(1,040,114)</b>
<b>Total distributions to holders of redeemable shares</b>		<b>(890,408)</b>	<b>(1,040,114)</b>
Redeemable share transactions			
Proceeds from redeemable shares issued	Series A Series F Series L	6,347,064 14,353,028 1,466,329	4,172,327 5,138,312 1,435,592
Reinvestments of distributions to holders of redeemable shares	Series A Series F Series L	471,046 309,591 53,714	714,725 216,244 52,557
Redemption of redeemable shares	Series A Series F Series L Series R	(18,616,799) (3,176,501) (403,970) -	(12,587,468) (3,594,887) (120,395) (722,717)
Shares issued (redeemed) upon share exchange	1(II) Series A Series R	- -	3,936,364 (3,936,364)
<b>Net increase (decrease) from redeemable share transactions</b>		<b>803,502</b>	<b>(5,295,710)</b>
<b>Net increase (decrease) in net assets attributable to holders of redeemable shares</b>		<b>8,363,075</b>	<b>8,080,547</b>
	Series A Series F Series L	43,776,926 30,891,999 5,616,981	50,885,858 16,981,360 4,055,613
<b>Net assets attributable to holders of redeemable shares at end of year</b>		<b>80,285,906</b>	<b>71,922,831</b>

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

# Exemplar Canadian Focus Portfolio

## Statements of Cash Flows For the years ended December 31,

	2014 \$	2013 \$
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable shares	8,449,981	14,416,371
Adjustment for:		
Net change in unrealized foreign exchange (gain) loss on cash	182,711	(38,772)
Net realized (gain) loss on investments and derivatives	(7,055,108)	(973,551)
Net change in unrealized (appreciation) depreciation in value of investments and derivatives	(3,883,437)	(16,958,230)
Purchase of investments	(34,299,237)	(36,286,166)
Proceeds on sale of investments	46,702,529	39,506,280
Decrease (increase) in accrued interest receivable	10,208	27,666
Decrease (increase) in accrued dividends receivable	32,660	47,290
Decrease (increase) in accrued income tax receivable	21,162	936
Increase (decrease) in dividends payable	694	2,192
Increase (decrease) in other liabilities	(3,434,240)	3,438,288
Decrease (increase) in margin deposit	6,984,813	446,790
<b>Net cash from (used in) operating activities</b>	<b>13,712,736</b>	<b>3,629,094</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from redeemable shares issued	22,148,437	10,702,611
Redemption of redeemable shares	(22,126,910)	(16,969,999)
Distributions paid to holders of redeemable shares, net of reinvested distributions	(113,647)	(54,010)
<b>Net cash from (used in) financing activities</b>	<b>(92,120)</b>	<b>(6,321,398)</b>
<b>Net Increase (decrease) in cash</b>	<b>13,620,616</b>	<b>(2,692,304)</b>
Cash at beginning of the year	1,339,361	3,992,893
Net change in unrealized foreign exchange gain (loss) on cash	(182,711)	38,772
<b>Cash at end of the year</b>	<b>14,777,266</b>	<b>1,339,361</b>
Interest received*	201,018	293,531
Dividends received, net of withholding tax*	984,578	1,235,496
Income tax paid*	(22,009)	-
Interest paid*	(14)	369
Dividend paid*	(20,110)	(27,420)
*Included as part of cash flows from operating activities		

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

# Exemplar Canadian Focus Portfolio

Schedule of Investment Portfolio - As at December 31, 2014

## EQUITY LONG POSITIONS 79.0%

SECURITY NAME	QUANTITY	FAIR VALUE	AVERAGE COST	SECURITY NAME	QUANTITY	FAIR VALUE	AVERAGE COST
<b>Consumer Discretionary</b>	<b>20.4%</b>			<b>Health Care</b>	<b>2.3%</b>		
Amaya Inc.	CAD	92,100 \$	2,629,455 \$	Allergan Inc.	USD	3,000	739,877
AutoCanada Inc.	CAD	39,400	1,753,300	Anthem Inc.	USD	1,400	204,106
Canadian Tire Corp. Ltd., Class 'A'	CAD	10,700	1,313,318	Concordia Healthcare Corp.	CAD	1,400	65,450
Cineplex Inc.	CAD	18,500	829,355	Health Care Select Sector SPDR Fund	USD	2,000	158,655
DHX Media Ltd.	CAD	547,800	5,319,138	Knight Therapeutics Inc.	CAD	59,000	408,280
EnerCare Inc.	CAD	33,900	491,550	Zealand Pharmaceuticals International Inc.	CAD	1,100	182,963
Gildan Activewear Inc.	CAD	12,900	847,530	Zoetis Inc.	USD	1,500	74,879
Home Depot Inc.	USD	400	48,710			1,834,210	1,313,354
Linamar Corp.	CAD	15,200	1,078,440				
Madison Square Garden Co., Class 'A'	USD	2,500	218,273	<b>Industrials</b>	<b>17.5%</b>		
Magna International Inc., Class 'A'	CAD	7,100	893,819	Alaska Air Group Inc.	USD	2,500	173,319
Marriott International Inc., Class 'A'	USD	600	54,314	Badger Daylighting Ltd.	CAD	78,500	2,076,325
Nike Inc., Class 'B'	USD	1,200	133,852	Boyd Group Income Fund	CAD	121,400	5,778,640
Performance Sports Group Ltd.	CAD	25,500	539,070	Canadian National Railway Co.	CAD	30,400	2,432,608
Polaris Industries Inc.	USD	1,500	263,180	Canadian Pacific Railway Ltd.	CAD	400	89,500
		16,413,304	7,961,037	Dirtr Environmental Solutions Ltd.	CAD	112,000	403,200
				Honeywell International Inc.	USD	2,900	336,160
<b>Consumer Staples</b>	<b>8.2%</b>			K-Bro Linen Inc.	CAD	9,100	419,601
AGT Food and Ingredients Inc.	CAD	9,900	272,646	Nielsen NV	USD	5,168	268,174
Alimentation Couche-Tard Inc., Class 'B'	CAD	86,000	4,187,340	Stantec Inc.	CAD	23,000	734,390
Clorox Co.	USD	2,600	314,324	Textron Inc.	USD	2,800	136,785
Constellation Brands Inc., Class 'A'	USD	2,100	239,163	TransForce Inc.	CAD	3,300	97,647
CVS Health Corp.	USD	1,600	178,767	United Parcel Service Inc., Class 'B'	USD	200	25,794
Hain Celestial Group Inc.	USD	2,400	162,293	WSP Global Inc.	CAD	31,200	1,087,632
High Liner Foods Inc.	CAD	19,300	437,338			14,059,775	6,551,922
Kroger Co.	USD	1,500	111,735				
Loblaw Cos. Ltd.	CAD	4,900	304,633	<b>Information Technology</b>	<b>11.6%</b>		
Mondelez International Inc., Class 'A'	USD	8,600	362,409	Apple Inc.	USD	700	89,636
		6,570,648	3,405,340	Avigilon Corp.	CAD	58,100	1,114,358
				Blackhawk Network Holdings Inc.	USD	2,300	100,566
<b>Energy</b>	<b>5.5%</b>			Celestica Inc.	CAD	200	2,730
AltaGas Ltd.	CAD	4,200	182,028	CGI Group Inc., Class 'A'	CAD	16,400	726,356
Canadian Energy Services & Technology Corp.	CAD	3,900	24,765	Constellation Software Inc.	CAD	4,800	1,658,112
Gibson Energy Inc.	CAD	32,800	891,832	Descartes Systems Group Inc.	CAD	80,000	1,380,000
Inter Pipeline Ltd.	CAD	10,900	391,746	DH Corp.	CAD	15,200	557,384
Keyera Corp.	CAD	29,100	2,359,137	Google Inc., Class 'A'	USD	400	246,247
Spartan Energy Corp.	CAD	30,000	83,700	Hewlett-Packard Co.	USD	1,900	88,454
Tourmaline Oil Corp.	CAD	12,100	468,270	Kinaxis Inc.	CAD	19,200	355,200
		4,401,478	3,178,603	MacDonald, Dettwiler and Associates Ltd.	CAD	20,200	1,917,990
				Open Text Corp.	CAD	15,000	1,014,150
				Yahoo! Inc.	USD	1,316	77,113
						9,328,296	6,368,242
<b>Financial Services</b>	<b>7.5%</b>			<b>Materials</b>	<b>5.9%</b>		
Callidus Capital Corp.	CAD	40,800	714,000	Bemis Co. Inc.	USD	2,500	131,120
CI Financial Corp.	CAD	51,300	1,656,477	Canam Group Inc., Class 'A'	CAD	30,900	350,097
Element Financial Corp.	CAD	52,500	742,350	Canfor Corp.	CAD	6,100	180,804
FirstService Corp.	CAD	1,600	94,848	CCL Industries Inc., Class 'B'	CAD	15,500	1,950,985
Intertain Group Ltd.	CAD	91,100	1,203,431	New Gold Inc.	CAD	400	1,992
National Bank of Canada	CAD	7,600	375,744	SPDR Gold Trust	USD	400	52,706
Royal Bank of Canada	CAD	8,500	682,040	Stella-Jones Inc.	CAD	62,400	2,042,976
Tricon Capital Group Inc.	CAD	66,500	579,880			4,710,680	2,877,617
		6,048,770	5,033,373	<b>Telecommunications Services</b>	<b>0.1%</b>		
				Cimpress NV	USD	200	17,363
						17,363	17,473
<b>Total Equity Long Positions</b>						\$ 63,384,524	\$ 36,706,961

## EQUITY SHORT POSITIONS -2.6%

SECURITY NAME	QUANTITY	FAIR VALUE	AVERAGE COST
<b>Index Equivalents</b>	<b>-2.2%</b>		
iShares Russell 2000 ETF	USD	(8,600) \$	(1,193,930) \$
SPDR S&P 500 ETF Trust	USD	(2,300)	(548,321)
		(1,742,251)	(1,563,071)
<b>Industrials</b>	<b>-0.4%</b>		
Deere & Co.	USD	(3,600)	(369,483)
		(369,483)	(355,202)
<b>Total Equity Short Positions</b>		\$ (2,111,734)	\$ (1,918,273)

## FIXED INCOME LONG POSITIONS 1.9%

SECURITY NAME	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE	AVERAGE COST
Boyd Group Income Fund, Convertible	CAD	5.75%	31-Dec-17	250,000 \$	\$ 512,500
Epsilon Energy Ltd., Convertible	CAD	7.75%	31-Mar-17	1,000,000	1,040,000
<b>Total Fixed Income Long Positions</b>				\$ 1,552,500	\$ 1,250,000

**EXEMPLAR CANADIAN FOCUS PORTFOLIO**  
**DISCUSSION OF NOTES 4 & 5: FINANCIAL INSTRUMENTS**  
**DECEMBER 31, 2014**

The investment objective of the Exemplar Canadian Focus Portfolio (the "Portfolio") is to achieve superior capital appreciation over both short and long term horizons primarily through the selection and management of a concentrated group of long and short positions in Canadian equity securities and equity derivative securities.

**RISK MANAGEMENT**

The Portfolio's overall risk management program seeks to maximize the returns derived for the level of risk to which the Portfolio is exposed and seeks to minimize potential adverse effects on the Portfolio's financial performance. All investments present a risk of loss of capital. The maximum loss of capital on long equity and debt securities is limited to the fair value of those positions. The maximum loss on equities and debt sold short can be unlimited and the maximum loss on forward currency contracts is the notional contract value of those positions.

The management of these risks is carried out by the Manager and Portfolio Advisor in accordance with Portfolio's prospectus.

The Portfolio's use of leverage and borrowings can increase the Portfolio's exposure to these risks, which in turn can also increase the potential returns the Portfolio can achieve. The Portfolio Advisor manages these exposures on a daily basis in accordance with investment restrictions that have been established by the Portfolio to manage the overall potential exposure. The Portfolio will generally not use leverage in excess of 20% of its Net Asset Value.

A general discussion of risks associated with financial instruments for the Exemplar Portfolios is contained in Note 4: FINANCIAL INSTRUMENTS – RISK MANAGEMENT.

**Credit Risk**

The analysis below summarizes the credit quality of the Portfolio's debt portfolio at December 31, 2014, December 31, 2013 and January 1, 2013.

Credit Rating*	Percentage of total debt securities		
	As at December 31, 2014	As at December 31, 2013	As at January 1, 2013
Not Rated	100.0%	100.0%	100.0%
Total	100.0%	100.0%	100.0%

\* Credit ratings are obtained from Standard & Poor's, Moody's and/or Dominion Bond Rating Service. Where multiple ratings were obtained for a security, the lowest rating has been used.

The Portfolio is exposed to counterparty credit risk on cash, margin on deposit, receivable for securities sold and other receivable balances. The Portfolio's brokerage agreements require cash collateral in excess of 150% of the fair value of securities sold short. The Portfolio's brokerage services are provided BMO Nesbitt Burns which has a credit rating of Aa3 (December 31, 2013: Aa3, January 1, 2013 – A3) as rated by Moody's bond rating services.

The Portfolio's custodial services are provided by CIBC Mellon Trust Company which has a credit rating as rated by Moody's bond rating services of A1 (December 31, 2013: A1, January 1, 2013: Aa3).

The Portfolio is also exposed to credit risk on cash deposits held at TD Canada Trust which has a credit rating as rated by Moody's bond rating services of Aa1 (December 31, 2013: Aaa, January 1, 2013: Aaa).

**Liquidity Risk**

All of the Portfolio's liabilities are typically due in less than 3 months. Redeemable shares are redeemable on demand at the holder's option. However, holders of these instruments typically retain them for a longer period.

**Market Risk**

The following include sensitivity analyses that show how the net assets attributable to holders of redeemable shares would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

**(a) Currency Risk**

The tables below indicate the Portfolio's exposure to USD as at December 31, 2014, December 31, 2013 and January 1, 2013, in Canadian dollar terms. The tables also illustrate the potential impact on the net assets attributable to holders of redeemable shares if the Canadian dollar had strengthened or weakened by 10% in relation to USD, with all other variables held constant. Non-monetary is comprised of equity positions. Monetary includes cash, fixed income securities and other current receivables and payables.

December 31, 2014	Exposure			Impact on net assets attributable to holders of redeemable shares		
	Currency	Monetary	Non-Monetary	Total	Monetary	Non-Monetary
United States Dollar - Long	\$5,716,252	\$5,007,974	\$10,724,226	\$571,625	\$500,797	\$1,072,422
United States Dollar - Short	-	(2,111,734)	(2,111,734)	-	(211,173)	(211,173)
<b>Total</b>	<b>\$5,716,252</b>	<b>\$2,896,240</b>	<b>\$8,612,492</b>	<b>\$571,625</b>	<b>\$289,624</b>	<b>\$861,249</b>
% of net assets attributable to holders of redeemable shares	7.1%	3.6%	10.7%	0.7%	0.4%	1.1%

December 31, 2013	Exposure			Impact on net assets attributable to holders of redeemable shares		
	Currency	Monetary	Non-Monetary	Total	Monetary	Non-Monetary
United States Dollar - Long	\$475,200	\$7,077,622	\$7,552,822	\$47,520	\$707,762	\$755,282
United States Dollar - Short	-	(63,963)	(63,963)	-	(6,396)	(6,396)
<b>Total</b>	<b>\$475,200</b>	<b>\$7,013,659</b>	<b>\$7,488,859</b>	<b>\$47,520</b>	<b>\$701,366</b>	<b>\$748,886</b>
% of net assets attributable to holders of redeemable shares	0.7%	9.7%	10.4%	0.1%	0.9%	1.0%

January 1, 2013	Exposure			Impact on net assets attributable to holders of redeemable shares		
	Currency	Monetary	Non-Monetary	Total	Monetary	Non-Monetary
United States Dollar - Long	\$2,041,372	\$3,044,536	\$5,085,908	\$204,137	\$304,454	\$508,591
United States Dollar - Short	-	(155,551)	(155,551)	-	(15,555)	(15,555)
<b>Total</b>	<b>\$2,041,372</b>	<b>\$2,888,985</b>	<b>\$4,930,357</b>	<b>\$204,137</b>	<b>\$288,899</b>	<b>\$493,036</b>
% of net assets attributable to holders of redeemable shares	3.2%	4.5%	7.7%	0.3%	0.5%	0.8%

**(b) Interest Rate Risk**

The table below summarizes the Portfolio's exposure to interest rate risk as at December 31, 2014, December 31, 2013 and January 1, 2013. The table also illustrates the potential impact, or sensitivity, on the net assets attributable to holders of redeemable shares if the prevailing levels of market interest rates changed by 1.0%, assuming a parallel shift in the yield curve with all other variables held constant.

Term to Maturity	Total Exposure		
	December 31, 2014	December 31, 2013	January 1, 2013
1-3 years	\$1,040,000	-	-
3-5 years	512,500	\$2,023,000	\$3,830,534
Greater than 5 years	-	196,000	252,000
<b>Total</b>	<b>\$1,552,500</b>	<b>\$2,219,000</b>	<b>\$4,082,534</b>
Sensitivity:			
Total \$ sensitivity	\$272	\$2,023	\$9,281
Total % sensitivity	0.0%	0.0%	0.0%

**(c) Price Risk**

The Portfolio's policy is to manage price risk through diversification and selection of investments within specified limits established by the investment restrictions within the Portfolio's prospectus, as summarized below.

The Portfolio invests predominantly in large and mid capitalization companies. The Portfolio may also invest in bonds and other debt instruments if warranted by financial conditions. The Portfolio does not specialize in any one industry other than to concentrate investments in those industries that offer the best opportunities for exceptional returns at each stage of the economic



and market cycle. The Portfolio may also invest in options, including put options or call options either in respect of a specific security or in respect of a stock exchange index as a means to reduce volatility.

The Portfolio may engage in short selling of securities which the Manager believes are overvalued, especially securities of issuers with deteriorating fundamentals and weak balance sheets. Short positions of index securities such as exchange traded funds may also be employed for capital preservation and hedging purposes. Short selling positions will not in total exceed 40% of the Net Asset Value of the Portfolio.

The Portfolio holds cash and invests in short term securities for the purpose of preserving capital and/or maintaining liquidity, based upon the Manager's ongoing evaluation of current and anticipated economic and market conditions. The Portfolio may also invest in foreign securities of the same type and characteristics as described above.

The Portfolio may use derivatives for hedging and non-hedging purposes as permitted by applicable securities laws. The Portfolio may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income or as a short-term cash management tool.

The impact on net assets of the Portfolio due to a 5% change in market prices of equity securities with all other variables held constant, is presented in the following table.

Impact on net assets attributable to holders of redeemable shares			
	December 31, 2014	December 31, 2013	January 1, 2013
5% Increase	\$3,063,640	\$3,256,286	\$2,500,913
5% Decrease	\$(3,063,640)	\$(3,256,286)	\$(2,500,913)

The Portfolio engages in short selling activities, wherein it borrows securities and sells them to third parties. Until the Portfolio covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices which may be significantly higher than the fair value reflected on the financial statements.

### Concentration Risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type.

The following is a summary of the Portfolio's concentration risk:

Market Segment	% of net assets attributable to holders of redeemable shares		
	December 31, 2014	December 31, 2013	January 1, 2013
<b>Long Positions</b>			
Consumer Discretionary	20.4%	18.3%	4.9%
Consumer Staples	8.2%	6.6%	3.3%
Energy	5.5%	12.1%	20.3%
Financial Services	7.5%	11.2%	10.5%
Health Care	2.3%	8.2%	5.6%
Index Equivalents	-	0.3%	0.1%
Industrials	17.5%	17.5%	12.0%
Information Technology	11.6%	10.8%	5.6%
Materials	5.9%	4.7%	9.5%
Telecommunication Services	0.1%	2.3%	6.2%
Utilities	-	-	1.9%
Fixed Income	1.9%	-	-
<b>Short Positions</b>			
Consumer Discretionary	-	(0.1)%	-
Consumer Staples	-	-	(0.2)%
Energy	-	-	(0.7)%
Financial Services	-	(0.6)%	-
Industrials	(0.4)%	-	(0.5)%
Materials	-	(0.3)%	(0.2)%
Index Equivalents	(2.2)%	(0.5)%	-

## FAIR VALUE MEASUREMENT

A general discussion of fair value measurement for the Exemplar Portfolios appears as Note 5: FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT.

The following table illustrates the classification of the Portfolio's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2014, December 31, 2013 and January 1, 2013:

As at December 31, 2014	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>				
Equities	\$63,384,524	-	-	\$63,384,524
Bonds	-	\$1,552,500	-	1,552,500
<b>Total</b>	<b>\$63,384,524</b>	<b>\$1,552,500</b>	<b>-</b>	<b>\$64,937,024</b>
<b>Financial liabilities at FVTPL</b>				
Equities sold short	(2,111,734)	-	-	(2,111,734)
<b>Total</b>	<b>\$(2,111,734)</b>	<b>-</b>	<b>-</b>	<b>\$(2,111,734)</b>

As at December 31, 2013	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>				
Equities	\$63,965,068	-	-	\$63,965,068
Bonds	-	\$2,219,000	-	2,219,000
<b>Total</b>	<b>\$63,965,068</b>	<b>\$2,219,000</b>	<b>-</b>	<b>\$66,184,068</b>
<b>Financial liabilities at FVTPL</b>				
Equities sold short	(1,058,358)	-	-	(1,058,358)
<b>Total</b>	<b>\$(1,058,358)</b>	<b>-</b>	<b>-</b>	<b>\$(1,058,358)</b>

As at January 1, 2013	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>				
Equities	\$46,980,023	-	-	\$46,980,023
Bonds	-	\$4,082,534	-	4,082,534
<b>Total</b>	<b>\$46,980,023</b>	<b>\$4,082,534</b>	<b>-</b>	<b>\$51,062,557</b>
<b>Financial liabilities at FVTPL</b>				
Equities sold short	(1,044,233)	-	-	(1,044,233)
<b>Total</b>	<b>\$(1,044,233)</b>	<b>-</b>	<b>-</b>	<b>\$(1,044,233)</b>

All fair value measurements above are recurring. The carrying values of all of the Portfolio's financial instruments not carried at FVTPL approximate their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it would be classified as Level 3.

The Portfolio Advisor is responsible for performing the fair value measurements included in the financial statements of the Portfolio, including Level 3 measurements, if any. The Portfolio Advisor obtains pricing from a third party pricing vendor which is monitored and reviewed daily by the finance department.

As at December 31, 2014, December 31, 2013 and January 1, 2013, the Portfolio did not hold any Level 3 financial instruments. There were no transfers between Levels 1, 2, and 3 during the years ending December 31, 2014 or December 31, 2013.

### a) Equities and equities sold short

The Portfolio's equity positions are classified as Level 1 as each security is actively traded and a quoted price is available.

### b) Bonds

The Portfolio's bond holdings are comprised of Canadian corporate bonds. Bond pricing is obtained from bid and ask prices provided by independent security pricing services or recognized investment dealers. Bond prices may be derived by using models

which include inputs such as interest rate curves, credit spreads and volatilities. The inputs that are significant to valuation are generally observable and therefore the Portfolio's bonds have been classified as Level 2.

### Financial Instruments by Category

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the years ended December 31, 2014 and 2013.

December 31, 2014

	Net realized gains/(losses)	Net unrealized gains/(losses)	Interest income	Dividend income	Dividend expense	Total
Financial assets at FVTPL:						
Designated as FVTPL	\$7,130,355	\$4,026,651	\$157,856	\$957,595	-	\$12,272,457
Financial liabilities at FVTPL:						
HFT	(75,247)	(143,214)	-	-	(20,804)	(239,265)
Total:	\$7,055,108	\$3,883,437	\$157,856	\$957,595	\$(20,804)	\$12,033,192

December 31, 2013

	Net realized gains/(losses)	Net unrealized gains/(losses)	Interest income	Dividend income	Dividend expense	Total
Financial assets at FVTPL:						
Designated as FVTPL	\$1,289,254	\$16,870,050	\$265,865	\$1,194,146	-	\$19,619,315
Financial liabilities at FVTPL:						
HFT	(315,703)	88,180	-	-	(29,612)	(257,135)
Total:	\$973,551	\$16,958,230	\$265,865	\$1,194,146	\$(29,612)	\$19,362,180

The accompanying notes are an integral part of these financial statements

# Exemplar Diversified Portfolio

## Statements of Financial Position

	Note	As at December 31, 2014	As at December 31, 2013	As at January 1, 2013
<b>Assets</b>				
<b>Current assets</b>				
<b>Financial assets held for trading</b>				
Unrealized gain on futures - long		\$ 489,079	\$ 996,210	\$ 727,393
Unrealized gain on futures - short		1,887,618	750,516	724,107
Unrealized gain on options - long		40,281	-	-
Cash		20,761,142	18,206,299	32,163,178
Margin deposit		20,897,100	15,416,586	9,384,285
Receivable for redeemable shares issued		145,430	82,752	140,001
		<b>44,220,650</b>	<b>35,452,363</b>	<b>43,138,964</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
<b>Financial liabilities held for trading</b>				
Unrealized loss on futures - long		206,816	168,953	734,129
Unrealized loss on futures - short		224,043	210,907	488,155
Unrealized loss on options - short		100,855	-	-
Payable for redeemable shares redeemed		36,596	42,691	71,218
Other liabilities	9	208,666	62,322	79,582
		<b>776,976</b>	<b>484,873</b>	<b>1,373,084</b>
<b>Net assets attributable to holders of redeemable shares</b>		<b>\$ 43,443,674</b>	<b>\$ 34,967,490</b>	<b>\$ 41,765,880</b>
<b>Net assets attributable to holders of redeemable shares</b>				
Series A		\$ 7,245,031	\$ 12,977,312	\$ 20,891,798
Series F		\$ 26,578,556	\$ 15,529,710	\$ 15,852,770
Series I		\$ 7,836,247	\$ 5,130,434	\$ 3,769,947
Series L		\$ 1,783,840	\$ 1,330,034	\$ 1,251,365
<b>Number of shares outstanding</b>				
Series A	8	570,704	1,196,227	2,084,878
Series F		1,990,816	1,362,244	1,522,164
Series I		657,665	498,211	406,869
Series L		161,645	138,538	140,658
<b>Net assets attributable to holders of redeemable shares per share</b>				
Series A		\$ 12.69	\$ 10.85	\$ 10.02
Series F		\$ 13.35	\$ 11.40	\$ 10.41
Series I		\$ 11.92	\$ 10.30	\$ 9.27
Series L		\$ 11.04	\$ 9.60	\$ 8.90

Approved on behalf of the Board of Directors of Arrow Capital Management Inc.,  
the Manager of the Portfolio:

"James L. McGovern"

James L. McGovern, Director

"Robert W. Maxwell"

Robert W. Maxwell, Director

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

# Exemplar Diversified Portfolio

## Statements of Comprehensive Income For the years ended December 31,

	Note	2014 \$	2013 \$
<b>Income</b>			
Net gains on investments and derivatives			
Net realized gain (loss) on futures	5	7,287,569	2,814,365
Net change in unrealized appreciation (depreciation) in value of futures	5	578,971	1,137,650
Net realized gain (loss) on investments and derivatives	5	27,758	-
Net change in unrealized appreciation (depreciation) in value of investments and derivatives	5	(183,606)	-
Net gains on investments and derivatives		7,710,692	3,952,015
<b>Other Income Items:</b>			
Interest on cash		197,279	327,832
Foreign exchange gain (loss)		160,774	(4)
Net change in unrealized foreign exchange gain (loss)		110,316	7,434
Total income (net)		8,179,061	4,287,277
<b>Expenses</b>			
Management fees	9	413,718	533,403
Performance fees	9	1,001,382	-
Securityholder reporting fees		210,620	359,321
Interest expense		210	-
Independent review committee fees		5,515	4,327
Audit fees		20,576	27,905
Custodial fees		-	2,266
Legal fees		16,781	60,134
Commissions and other portfolio transaction costs	9	384,988	38,986
Harmonized sales tax		214,584	91,779
Total expenses before manager absorption		2,268,374	1,118,121
Less: expenses absorbed by manager	9	(53,565)	(173,252)
Total expenses after manager absorption		2,214,809	944,869
<b>Increase (decrease) in net assets attributable to holders of redeemable shares</b>		<b>5,964,252</b>	<b>3,342,408</b>
<i>Increase (decrease) in net assets attributable to holders of redeemable shares</i>			
Series A	11	807,434	1,332,682
Series F		3,785,442	1,442,721
Series I		1,145,652	469,304
Series L		225,724	97,701
<i>Increase (decrease) in net assets attributable to holders of redeemable shares per share</i>			
Series A	11	0.97	0.81
Series F		2.15	0.96
Series I		1.83	1.07
Series L		1.53	0.70

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

# Exemplar Diversified Portfolio

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares For the years ended December 31,

		2014 \$	2013 \$
Net assets attributable to holders of redeemable shares at beginning of year			
	Series A	12,977,312	20,891,798
	Series F	15,529,710	15,852,770
	Series I	5,130,434	3,769,947
	Series L	1,330,034	1,251,365
		<b>34,967,490</b>	<b>41,765,880</b>
Increase (decrease) in net assets attributable to holders of redeemable shares			
	Series A	807,434	1,332,682
	Series F	3,785,442	1,442,721
	Series I	1,145,652	469,304
	Series L	225,724	97,701
		<b>5,964,252</b>	<b>3,342,408</b>
Redeemable share transactions			
Proceeds from redeemable shares issued			
	Series A	488,477	3,210,838
	Series F	14,158,835	7,237,127
	Series I	1,867,361	1,082,902
	Series L	293,500	141,500
Redemption of redeemable shares			
	Series A	(7,028,192)	(12,458,006)
	Series F	(6,895,431)	(9,002,908)
	Series I	(307,200)	(191,719)
	Series L	(65,418)	(160,532)
<b>Net increase (decrease) from redeemable share transactions</b>		<b>2,511,932</b>	<b>(10,140,798)</b>
<b>Net increase (decrease) in net assets attributable to holders of redeemable shares</b>		<b>8,476,184</b>	<b>(6,798,390)</b>
	Series A	7,245,031	12,977,312
	Series F	26,578,556	15,529,710
	Series I	7,836,247	5,130,434
	Series L	1,783,840	1,330,034
<b>Net assets attributable to holders of redeemable shares at end of year</b>		<b>43,443,674</b>	<b>34,967,490</b>

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

# Exemplar Diversified Portfolio

## Statements of Cash Flows For the years ended December 31,

	2014 \$	2013 \$
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable shares	5,964,252	3,342,408
Adjustment for:		
Net change in unrealized foreign exchange (gain) loss on cash	(115,714)	(7,434)
Net realized loss (gain) on investments and derivatives	(27,758)	-
Net change in unrealized depreciation (appreciation) in value of investments and derivatives	183,606	-
Net change in unrealized depreciation (appreciation) in value of futures	(578,971)	(1,137,650)
Purchase of investments and derivatives	(264,836)	-
Proceeds from sale of investments and derivatives	169,562	-
(Increase) decrease in margin deposit	(5,480,514)	(6,032,301)
(Decrease) increase in other liabilities	146,344	(17,260)
Net cash from (used in) operating activities	(4,029)	(3,852,237)
<b>Cash flows from (used in) financing activities</b>		
Proceeds from redeemable shares issued	16,745,494	11,729,616
Redemption of redeemable shares	(14,302,336)	(21,841,692)
Net cash from (used in) financing activities	2,443,158	(10,112,076)
Net Increase (decrease) in cash	2,439,129	(13,964,313)
Cash at beginning of the year	18,206,299	32,163,178
Net change in unrealized foreign exchange gain (loss) on cash	115,714	7,434
Cash at end of the year	20,761,142	18,206,299
Interest received*	197,279	327,832
Interest paid*	(210)	-
*Included as part of cash flows from operating activities		

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

# Exemplar Diversified Portfolio

Schedule of Investment Portfolio - As at December 31, 2014

## LONG OPTION POSITIONS 0.1%

SECURITY NAME	CONTRACTS	EXPIRY DATE	STRIKE PRICE	FAIR VALUE	AVERAGE COST
Crude Oil Future Call	66	14-Jan-15	70 \$	1,529 \$	101,994
Crude Oil Future Call	56	14-Jan-15	60	14,270	72,407
E-mini S&P 500 Index Put	95	16-Jan-15	1,900	24,482	46,340
<b>Total Long Option Contracts</b>				\$ 40,281 \$	220,741

## SHORT OPTION POSITIONS -0.2%

SECURITY NAME	CONTRACTS	EXPIRY DATE	STRIKE PRICE	FAIR VALUE	PROCEEDS
E-mini S&P 500 Index Call	(6)	18-Sep-15	2,050 \$	(38,743) \$	(36,022)
E-mini S&P 500 Index Call	(6)	19-Jun-15	2,050	(31,186)	(29,274)
E-mini S&P 500 Index Call	(6)	20-Mar-15	2,050	(21,370)	(20,648)
E-mini S&P 500 Index Call	(6)	16-Jan-15	2,050	(9,556)	(11,764)
<b>Total Short Option Contracts</b>				\$ (100,855) \$	(97,708)

## FUTURES CONTRACTS - LONG 0.6%

SECURITY NAME	CONTRACTS	EXPIRY DATE	NOTIONAL VALUE	CONTRACT SIZE	UNREALIZED GAIN/(LOSS)
<b>Bond Futures 0.1%</b>					
US TREAS BD FUTURE (CBT)	42	20-Mar-15	6,071,625	1,000 \$	44,681
US 10YR TREAS NTS FUTURE (CBT)	28	20-Mar-15	3,550,313	1,000	(13,718)
US 5YR TREAS NTS FUTURE (CBT)	24	31-Mar-15	2,854,313	1,000	(7,891)
90 DAY AUSTRALIAN BK BILL(SFE)	408	12-Mar-15	405,450,660	10,000	(9,028)
90DAY BANK ACCEPT FUTURE (MSE)	7	16-Mar-15	1,726,988	2,500	(688)
CANADA 10YR BOND FUTURE (MSE)	56	20-Mar-15	7,757,120	1,000	23,156
					36,512
<b>Commodity Futures -0.1%</b>					
COCOA FUTURE (NYB)	8	16-Mar-15	232,800	10	(5,733)
LIVE CATTLE FUTURE (CME)	6	27-Feb-15	392,520	400	(12,756)
PALLADIUM FUTURE (NYM)	1	27-Mar-15	79,840	100	(1,691)
CANOLA FUTURE (WCE)	90	13-Mar-15	791,640	20	(4,906)
					(25,086)
<b>Currency Futures 0.5%</b>					
AUSTRALIAN 10YR BOND FUT (SFE)	79	16-Mar-15	10,123,456	1,000	152,036
UK LONG GILT FUTURES (LIF)	41	27-Mar-15	4,900,730	1,000	127,034
90DAY STERLING LIBOR FUT (LIF)	121	18-Mar-15	15,034,250	1,250	519
EURO/JPY FUTURE (CME)	14	16-Mar-15	253,767,500	125,000	(47,796)
					231,793
<b>Index Futures 0.1%</b>					
NASDAQ 100 E-MINI IND FUT(CME)	41	20-Mar-15	3,470,855	20	16,751
S & P 500 EMINI INDEX FUT (CME)	35	20-Mar-15	3,591,875	50	61,816
SPI 200 INDEX FUTURE (SFE)	13	19-Mar-15	1,749,475	25	(2,938)
DAX INDEX FUTURE (EUX)	7	20-Mar-15	1,722,613	25	63,087
NIKKEI 225 INDEX FUTURE (SGX)	41	12-Mar-15	356,290,000	500	(97,712)
S&P/TSE 60 INDEX FUTURES (MSE)	3	19-Mar-15	510,960	200	(1,960)
					39,044
<b>Total Long Futures Contracts</b>				\$	282,263



## FUTURES CONTRACTS - SHORT

3.9%

SECURITY NAME	CONTRACTS	EXPIRY DATE	NOTIONAL VALUE	CONTRACT SIZE	UNREALIZED GAIN/(LOSS)
<b>Bond Futures</b>					<b>0.0%</b>
EURO-BUND FUTURE (EUX)	(17)	6-Mar-15	(2,649,790)	1,000	\$ (15,123)
					(15,123)
<b>Commodity Futures</b>					<b>3.0%</b>
GAS OIL FUTURE (ICE)	(21)	12-Feb-15	(1,094,625)	100	86,290
PLATINUM FUTURE (NYM)	(32)	28-Apr-15	(1,935,200)	50	(24,115)
COPPER FUTURE (CMX)	(44)	27-Mar-15	(3,108,050)	250	24,060
LEAN HOGS FUTURE (CME)	(66)	13-Feb-15	(2,143,680)	400	122,111
COFFEE 'C' FUTURE (NYB)	(11)	19-Mar-15	(687,225)	375	43,000
COCOA FUTURE (NYB)	(1)	16-Mar-15	(29,100)	10	(602)
SOYBEAN OIL FUTURE (CBT)	(49)	13-Mar-15	(944,916)	600	28
CORN FUTURE (CBT)	(10)	13-Mar-15	(198,500)	50	(677)
COTTON NO 2 FUTURE (NYB)	(24)	9-Mar-15	(723,240)	500	(4,191)
CRUDE OIL FUTURE (NYM)	(17)	20-Jan-15	(905,590)	1,000	97,131
SUGAR #11 WORLD FUTURE (NYB)	(139)	27-Feb-15	(2,260,474)	1,120	130,965
HEATING OIL FUTURE (NYM)	(17)	30-Jan-15	(1,309,190)	420	90,891
BRENT CRUDE OIL FUTURE (ICE)	(25)	15-Jan-15	(1,433,250)	1,000	285,960
GASOLINE RBOB FUTURE (NYM)	(21)	30-Jan-15	(1,298,392)	420	70,348
GOLD 100 OZ FUTURE (CMX)	(21)	25-Feb-15	(2,486,610)	100	9,331
COFFEE ROBUSTA 10TN FUT (LIF)	(49)	31-Mar-15	(938,840)	10	12,683
NATURAL GAS FUTURE (NYM)	(24)	25-Feb-15	(695,040)	10,000	104,694
NATURAL GAS FUTURE (NYM)	(46)	28-Sep-15	(1,397,480)	10,000	96,343
SILVER FUTURE (CMX)	(14)	27-Mar-15	(1,091,930)	5,000	46,759
WHITE SUGAR (LIF)	(125)	13-Feb-15	(2,445,000)	50	57,953
ZINC FUTURE (LME)	(21)	16-Mar-15	(1,142,663)	25	4,083
NICKEL FUTURE (LME)	(8)	16-Mar-15	(726,624)	6	28,604
ALUMINUM HG FUTURE (LME)	(34)	16-Mar-15	(1,571,310)	25	54,687
RUBBER FUTURE (TCM)	(28)	25-May-15	(29,694,000)	5,000	(22,514)
PALM OIL FUTURE (MDE)	(10)	13-Mar-15	(566,500)	25	(9,706)
					1,304,116
<b>Currency Futures</b>					<b>0.9%</b>
SWISS FUTURE CCY FUTURE (CME)	(52)	16-Mar-15	(6,548,100)	1,250	117,807
JAPANESE YEN CCY FUTURE (CME)	(34)	16-Mar-15	(3,548,325)	1,250	6,501
CANADIAN DOLLAR FUTURES (CME)	(87)	17-Mar-15	(7,479,390)	1,000	40,759
BRITISH POUND CURRENCY FUTURE	(48)	16-Mar-15	(4,671,000)	625	12,082
MEXICAN PESO FUTURE (CME)	(100)	16-Mar-15	(3,375,000)	5,000	70,891
EURO FX CURR FUTURE (CME)	(38)	16-Mar-15	(5,750,825)	125,000	108,593
AUSTRALIAN DOLLAR CCY FUT(CME)	(69)	16-Mar-15	(5,604,180)	1,000	76,977
EURO-BOBL FUTURE (EUX)	(114)	6-Mar-15	(14,851,920)	1,000	(82,691)
EURO/CHF FUTURE (CME)	(31)	16-Mar-15	(4,656,975)	125,000	(2,521)
EURO/GBP FUTURE (CME)	(38)	16-Mar-15	(3,693,600)	125,000	88,088
JAPAN 10YR MINI BD FUT (SGX)	(97)	10-Mar-15	(1,434,048,000)	100,000	(37,328)
3MO EURO EURIBOR FUTURE (LIF)	(173)	16-Mar-15	(43,217,563)	2,500	(6,377)
					392,781
<b>Index Futures</b>					<b>0.0%</b>
SPI 200 INDEX FUTURE (SFE)	(3)	19-Mar-15	(403,725)	25	(18,199)
					(18,199)
<b>Total Short Futures Contracts</b>					<b>\$ 1,663,575</b>

**EXEMPLAR DIVERSIFIED PORTFOLIO**  
**DISCUSSION OF NOTES 4 & 5: FINANCIAL INSTRUMENTS**  
**DECEMBER 31, 2014**

The investment objective of the Exemplar Diversified Portfolio (the "Portfolio") is to seek superior long term absolute and risk-adjusted returns with the potential for low correlation to global equity and fixed-income market returns through the selection and management of long and short positions in a globally diversified portfolio of futures, options, forward contracts and other financial derivative instruments on agricultural and soft commodities, metals, energies, currencies, interest rates and equity indices.

**RISK MANAGEMENT**

The Portfolio's overall risk management program seeks to maximize the returns derived for the level of risk to which the Portfolio is exposed and seeks to minimize potential adverse effects on the Portfolio's financial performance. All investments present a risk of loss of capital. The maximum loss of capital on long equity, options and debt securities is limited to the fair value of those positions. The maximum loss on equities, options and debt sold short can be unlimited and the maximum loss on futures contracts is the notional contract value of those positions.

The management of these risks is carried out by the Manager and Portfolio Sub-Advisor in accordance with the Portfolio's prospectus.

The Portfolio's use of leverage and borrowings can increase the Portfolio's exposure to these risks, which in turn can also increase the potential returns the Portfolio can achieve. The Portfolio Sub-Advisor manages these exposures on a daily basis in accordance with investment restrictions that have been established by the Portfolio to manage the overall potential exposure. Futures and forward contracts and investments to which the Portfolio may have exposure at any time may be substantially larger than the actual amount invested with the result that the Portfolio will be exposed to a form of notional leverage. The notional leverage of the Portfolio, excluding futures on government securities and Euro dollars, is generally between 0% and 300% and can never go above 500%. The notional leverage of the Portfolio, including futures on government securities and Euro dollars, is typically around 300% but from time to time may be as high as 1,000%. No form of cash leverage is permitted and in the case of government securities and Euro dollars, futures positions are restricted to those that are based on investment grade government securities and Euro dollars.

A general discussion of risks associated with financial instruments for the Exemplar Portfolios is contained in Note 4: FINANCIAL INSTRUMENTS – RISK MANAGEMENT.

**Credit Risk**

As at December 31, 2014, December 31, 2013 and January 1, 2013, the Portfolio had no investments in debt instruments and therefore was not subject to related credit risk.

The Portfolio is exposed to credit risk on cash, margin deposits, derivatives, receivable for securities sold and other receivable balances. The Portfolio's brokerage agreements require cash collateral to be maintained in respect of futures transactions entered into. The brokers for the Portfolio are Societe Generale SA, Royal Bank and Bank of Montreal which have credit ratings as obtained from Moody's bond rating services of A2, Aa3 and Aa3, respectively (December 31, 2013 - A2, Aa3 and Aa3, respectively, January 1, 2013: A2, Aa3 and A3, respectively).

The Portfolio's custodial services are provided by CIBC Mellon Trust Company which has a credit rating as rated by Moody's bond rating services of A1 (December 31, 2013: A1, January 1, 2013: Aa3).

The Portfolio is also exposed to credit risk on cash deposits held at TD Canada Trust which has a credit rating as rated by Moody's bond rating services of Aa1 (December 31, 2013: Aaa, January 1, 2013: Aaa).

**Liquidity Risk**

All of the Portfolio's liabilities are typically due in less than 3 months. Redeemable shares are redeemable on demand at the holder's option. However, holders of these instruments typically retain them for a longer period.

## Market Risk

### (a) Currency Risk

The table below indicates the foreign currencies to which the Portfolio had significant exposure at December 31, 2014, December 31, 2013 and January 1, 2013, in Canadian dollar terms. The table also illustrates the potential impact on the net assets attributable to holders of redeemable shares if the Canadian dollar had strengthened or weakened by 10% in relation to each of the other currencies, with all other variables held constant. Non-monetary is comprised of non-financial options. Monetary items include cash, margin deposits, futures, financial options, and other current receivables and payables.

December 31, 2014	Exposure			Impact on net assets attributable to holders of redeemable shares		
	Currency	Monetary	Non-Monetary	Total	Monetary	Non-Monetary
Australian Dollar	\$137,434	-	\$137,434	\$13,743	-	\$13,743
British Pound Sterling	224,729	-	224,729	22,473	-	22,473
Euro Currency	(128,910)	-	(128,910)	(12,891)	-	(12,891)
Hong Kong Dollar	(36,718)	-	(36,718)	(3,672)	-	(3,672)
Japanese Yen	(256,565)	-	(256,565)	(25,657)	-	(25,657)
Malaysian Ringgit	(94,514)	-	(94,514)	(9,451)	-	(9,451)
Swiss Franc	(1,190)	-	(1,190)	(119)	-	(119)
United States Dollar	9,157,172	-	9,157,172	915,717	-	915,717
<b>Total</b>	<b>\$9,001,438</b>	<b>-</b>	<b>\$9,001,438</b>	<b>\$900,143</b>	<b>-</b>	<b>\$900,143</b>
<b>% of net assets attributable to holders of redeemable shares</b>	<b>20.7%</b>	<b>-</b>	<b>20.7%</b>	<b>2.1%</b>	<b>-</b>	<b>2.1%</b>

December 31, 2013	Exposure			Impact on net assets attributable to holders of redeemable shares		
	Currency	Monetary	Non-Monetary	Total	Monetary	Non-Monetary
Australian Dollar	\$102,275	-	\$102,275	\$10,228	-	\$10,228
British Pound Sterling	14,309	-	14,309	1,431	-	1,431
Euro Currency	486,631	-	486,631	48,663	-	48,663
Hong Kong Dollar	(33,206)	-	(33,206)	(3,321)	-	(3,321)
Japanese Yen	675,420	-	675,420	67,542	-	67,542
Malaysian Ringgit	97,985	-	97,985	9,799	-	9,799
Swiss Franc	(25,439)	-	(25,439)	(2,544)	-	(2,544)
United States Dollar	861,369	-	861,369	86,137	-	86,137
<b>Total</b>	<b>\$2,179,344</b>	<b>-</b>	<b>\$2,179,344</b>	<b>\$217,935</b>	<b>-</b>	<b>\$217,935</b>
<b>% of net assets attributable to holders of redeemable shares</b>	<b>6.2%</b>	<b>-</b>	<b>6.2%</b>	<b>0.6%</b>	<b>-</b>	<b>0.6%</b>

January 1, 2013	Exposure			Impact on net assets attributable to holders of redeemable shares		
	Currency	Monetary	Non-Monetary	Total	Monetary	Non-Monetary
Australian Dollar	\$(10,217)	-	\$(10,217)	\$(1,022)	-	\$(1,022)
British Pound Sterling	(15,580)	-	(15,580)	(1,558)	-	(1,558)
Euro Currency	688,702	-	688,702	68,870	-	68,870
Hong Kong Dollar	82,573	-	82,573	8,257	-	8,257
Japanese Yen	118,936	-	118,936	11,893	-	11,893
Malaysian Ringgit	(92,676)	-	(92,676)	(9,268)	-	(9,268)
South African Rand	61,047	-	61,047	6,105	-	6,105
Swiss Franc	(33,010)	-	(33,010)	(3,301)	-	(3,301)
United States Dollar	(2,874,150)	-	(2,874,150)	(287,415)	-	(287,415)
<b>Total</b>	<b>\$(2,074,375)</b>	<b>-</b>	<b>\$(2,074,375)</b>	<b>\$(207,439)</b>	<b>-</b>	<b>\$(207,439)</b>
<b>% of net assets attributable to holders of redeemable shares</b>	<b>(5.0)%</b>	<b>-</b>	<b>(5.0)%</b>	<b>(0.5)%</b>	<b>-</b>	<b>(0.5)%</b>

**(b) Interest Rate Risk**

As at December 31, 2014, December 31, 2013 and January 1, 2013 the Portfolio did not hold any interest-bearing securities, and therefore was not subject to significant interest rate risk.

**(c) Price Risk**

The Portfolio's policy is to manage price risk through diversification and selection of investments within specified limits established by the investment restrictions within the prospectus, as summarized below.

The core investment strategy of the Portfolio is based on a risk budgeting strategy of allocating capital to markets and utilizing that capital based on the amount of risk premium being priced into markets. As a result of this allocation methodology, generally 50% of the portfolio risk budget is allocated to globally-traded industrial and agricultural commodity futures markets, and 50% is allocated to global currency, treasury debt and equity index futures markets.

The Portfolio transacts on highly liquid exchanges globally that may include, but are not limited to, all futures exchanges in the United States and Canada, the London Metals Exchange (LME), Euronext-LIFFE (LIFFE), the Eurex Deutschland (EUREX), the International Petroleum Exchange of London Limited (IPE), the Singapore International Monetary Exchange (SIMEX), the Sydney Futures Exchange Ltd. (SFE) and the Tokyo Commodities Exchange (TCE).

The Portfolio also has the ability to take short positions, in total not exceeding 40% of the Net Asset Value of the Portfolio.

The Portfolio may hold cash or invest in short term securities for the purpose of preserving capital and/or maintaining liquidity, based upon the portfolio manager's ongoing evaluation of current and anticipated economic and market conditions.

As at December 31, 2014, December 31, 2013 and January 1, 2013, if the Portfolio's relevant benchmark index, New Edge Commodity Trading Index (CAD), had increased or decreased by 10%, with all other variables constant, the net assets attributable to holders of redeemable shares of the Portfolio would have increased or decreased as follows:

Benchmark	Impact on net assets attributable to holders of redeemable shares		
	December 31, 2014	December 31, 2013	January 1, 2013
New Edge Commodity Trading Index	12.4%	12.8%	12.7%

**Concentration Risk**

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type.

The following is a summary of the Portfolio's concentration risk:

Market Segment	% of net assets attributable to holders of redeemable shares		
	December 31, 2014	December 31, 2013	January 1, 2013
<b>Long Positions</b>			
Options	0.1%	-	-
Bond Futures	0.1%	(0.1)%	-
Commodity Futures	(0.1)%	(0.3)%	(0.3)%
Currency Futures	0.5%	0.4%	(0.5)%
Index Futures	0.1%	2.3%	0.8%
<b>Short Positions</b>			
Options	(0.2)%	-	-
Bond Futures	(0.0)%	0.5%	-
Commodity Futures	3.0%	0.7%	(0.4)%
Currency Futures	0.9%	0.5%	1.4%
Index Futures	(0.0)%	-	-

**FAIR VALUE MEASUREMENT**

A general discussion of fair value measurement for the Exemplar Portfolios appears as Note 5: FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT.

All fair value measurements are recurring. The carrying values of all of the Portfolio's financial instruments not carried at FVTPL approximate their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it would be classified as Level 3.

The Portfolio Sub-Advisor is responsible for performing the fair value measurements included in the financial statements of the Portfolio, including Level 3 measurements if any. The Portfolio Sub-Advisor obtains pricing from a third party pricing vendor which is monitored and reviewed daily by the finance department.

As at December 31, 2014, December 31, 2013 and January 1, 2013, all of the Portfolio's financial assets and financial liabilities held for trading were classified as Level 1. There were no transfers between levels 1, 2 and 3 during the years ending December 31, 2014 and December 31, 2013.

Derivative assets and liabilities consist of options and futures contracts which are exchange traded.

### Financial Instruments by Category

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the years ended December 31, 2014 and 2013.

December 31, 2014

	Net realized gains / (losses)	Net unrealized gains / (losses)	Total
Financial assets at FVTPL:			
HFT	\$7,315,327	\$449,510	\$7,764,837
Financial liabilities at FVTPL:			
HFT	-	(54,145)	(54,145)
Total:	\$7,315,327	\$395,365	\$7,710,692

December 31, 2013

	Net realized gains / (losses)	Net unrealized gains / (losses)	Total
Financial assets at FVTPL:			
HFT	\$2,814,365	\$295,226	\$3,109,591
Financial liabilities at FVTPL:			
HFT	-	842,424	842,424
Total:	\$2,814,365	\$1,137,650	\$3,952,015

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**1. THE PORTFOLIOS**

**(I) The Portfolios**

Exemplar Portfolios Ltd. (the "Company") is a mutual fund corporation incorporated under the Business Corporations Act (Ontario). The Company was incorporated on March 18, 2008.

The address of the Portfolios' registered office is 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5.

These financial statements only present the financial information of the Exemplar Canadian Focus Portfolio class (the "Canadian Focus Portfolio") and the Exemplar Diversified Portfolio class (the "Diversified Portfolio"). If the Company cannot satisfy its obligations related to each legally distinct class, it may be required to satisfy such obligations using assets attributable to one or both the Canadian Focus Portfolio and Diversified Portfolio. The Manager believes that the risk of such cross-class liability is remote.

Arrow Capital Management Inc. is the manager ("Arrow" or the "Manager") of the Portfolios. Prior to December 2, 2013, the manager of the Portfolios was BluMont Capital Corporation ("BluMont"). On December 2, 2013, Arrow acquired all the outstanding shares of BluMont, resulting in a change of control of BluMont. On April 1, 2014, Arrow and BluMont amalgamated, continuing under the name "Arrow Capital Management Inc.". At a special meeting of shareholders on November 27, 2013, the shareholders of the Portfolios approved a change of manager from BluMont to Arrow.

Arrow is the portfolio advisor "Portfolio Advisor" of the Canadian Focus Portfolio. Integrated Managed Futures Corp. ("IMFC") is the portfolio sub-advisor "Portfolio Sub-Advisor" of the Diversified Portfolio.

**(II) Share Exchange**

On June 12, 2013, all outstanding Series R Shares of the Canadian Focus Portfolio were exchanged for Series A Shares of the Canadian Focus Portfolio. The elimination of Series R Shares allowed for increased economies of scale for operating expenses and eliminated the administrative and regulatory costs of operating two separate series that are essentially identical. The Series A Shares and Series R Shares are identical in terms of investment returns, management fees and operating expense rates and the exchange occurred on a tax deferred basis.

Details relating to the Canadian Focus Portfolio share exchange are as follows:

Net Assets acquired by Series A Shares	\$3,936,364
Series A Shares issued	259,196
Series R Shares redeemed	309,738
Exchange Ratio	0.8368

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of Presentation and Adoption of IFRS**

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The Portfolios adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Portfolios prepared their financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the Chartered Professional Accountant (CPA) Canada Handbook ("Canadian GAAP"). The Portfolios have consistently applied the accounting policies used in the preparation of their opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Note 12 discloses the impact of the transition to IFRS on the Portfolios' reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Portfolios' financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

These financial statements were authorized for issue by the Manager on March 31, 2015.

**b) Financial Instruments**

The Portfolios recognize financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at fair value through profit and loss ("FVTPL"). Regular way purchases and sales of financial assets are recognized at their trade date. The Portfolios' long investment positions are designated at FVTPL. The Portfolios' short investment positions, futures contracts and options are classified as held for trading ("HFT") and are measured at FVTPL. The Portfolios' obligation for net assets attributable to holders of redeemable shares is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Portfolios' accounting policies for measuring the fair value of their investments and derivatives are the same as those used in measuring its net asset value ("NAV") for transactions with shareholders. There were no differences between the net asset value attributable to holders of redeemable shares used for reporting purposes under IFRS and that used for transactions with shareholders as at December 31, 2014, December 31, 2013 and January 1, 2013.

Realized gains and losses on sale of investments and unrealized appreciation or depreciation in investments are determined on an average cost basis. Realized gains and losses on securities sold short and unrealized appreciation or depreciation on securities sold short are calculated with reference to the average proceeds of the related securities. Average cost does not include amortization of premiums or discounts on fixed income securities.

Interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by a Portfolio accounted for on an accrual basis.

The Portfolios do not amortize premiums or discounts received on the purchase of fixed income securities.

Dividend income and expense is recognized in the statement of comprehensive income on the ex-dividend date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Portfolios enter into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts.

**c) Financial Instruments - 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. The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. The Portfolios use the last traded market price for securities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The fair value of bonds is determined using mid-market pricing derived from bid and ask prices provided by independent security pricing services or recognized investment dealers. The fair value of futures contracts is based on the settlement price assigned by the exchange. Gains and losses arising from changes in the fair value of financial assets or liabilities are presented in the statement of comprehensive income. The Portfolios' policy is to recognize transfers into and out of the fair value hierarchy levels at the beginning of each period.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Portfolios may use a variety of methods and make assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same and other commonly used methods by market participants which make the maximum use of observable inputs.

**d) Impairment of Financial Assets**

At each reporting date, each Portfolio assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Portfolio recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of future cash flows discounted using the asset's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

**e) Foreign Currency Translation**

The Portfolios' functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash are presented as 'Foreign exchange gain (loss)' and those relating to other investments and derivatives are presented within 'Net realized gain (loss) on investments and derivatives' and 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the statement of comprehensive income.

**f) Cash**

Cash is comprised of deposits with financial institutions.

**g) Margin Deposit**

Cash collateral provided by each Portfolio to brokers for securities sold short and counterparties to derivative transactions is identified in that Portfolio's statement of financial position as 'Margin deposit'.

**h) Options**

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. When a Portfolio purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When a Portfolio writes an option, an amount equal to fair value which is based on the premium received by the Portfolio is recorded as a liability. Options held by a Portfolio are exchange-traded. Subsequent to initial recognition, changes in fair value, the difference between the premium paid or received, and fair value, are presented in 'Change in unrealized appreciation (depreciation) in value of investments and derivatives' in the statement of comprehensive income. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the statement of comprehensive income within 'Net realized gain (loss) on investments and derivatives'.

**i) Forward Currency Contracts**

Each Portfolio may enter into forward currency contracts for purposes of minimizing currency exposure or to establish an exposure to a particular currency. The value of forward currency contracts entered into by a Portfolio is recorded as the difference between the contract rate and the current forward rates at the measurement date, applied to the contract's notional amount and adjusted for counterparty risk. The change in the fair value of forward currency contracts is included in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the statement of comprehensive income. Upon closing of a contract, the gain or loss is included in 'Net realized gain (loss) on investments and derivatives' in the statement of comprehensive income.

**j) Futures Contracts**

The Portfolios may purchase or sell exchange traded futures contracts. Futures contracts are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price established in an organized market. Subsequent to initial recognition, changes in fair value are presented in 'Net change in unrealized appreciation (depreciation) in value of futures' in the statement of comprehensive income. When futures contracts are closed out, the gain or loss is included in 'Net realized gain (loss) on futures' in the statement of comprehensive income.



**k) Commissions and Other Portfolio Transaction Costs**

Commissions and other portfolio transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers. Such costs are expensed when incurred.

**l) Income and Expense Allocation**

The net assets of each series of each Portfolio are computed by calculating the value of that series' proportionate share of that Portfolio's assets less that series' proportionate share of that Portfolio's common liabilities less series specific liabilities, if any. Expenses directly attributable to a series are charged to that series. Other income, expenses and gains/losses are allocated based on a reasonable allocation methodology which will include allocations based on the assets of the Portfolios or the number of shareholders in the Portfolios or other methodology the Manager determines is fair.

**m) Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares per Share**

The increase (decrease) in net assets attributable to holders of redeemable shares per share is calculated by dividing the increase (decrease) in net assets attributable to the series divided by the weighted average number of redeemable shares outstanding in that series during the year. Refer to Note 11 for the calculation.

**n) Classification of Redeemable Shares issued by the Portfolios**

The features of each series of each Portfolio's redeemable shares are not identical and consequently the shares, do not meet the conditions to be classified as equity. As a result, the Portfolios obligations for net assets attributable to holders of redeemable shares are financial liabilities under IFRS, presented at the redemption amounts.

**o) Investments in Structured Entities**

The Portfolios may invest in underlying funds ("Underlying Funds") that are managed by their respective Investment Advisors and whose investment objectives may range from achieving short-term to long-term income and capital growth. Underlying Funds may use leverage in a manner consistent with their respective objectives and as permitted by their respective governing regulatory authorities. Underlying Funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitles the holder to a proportionate stake in the respective Underlying Fund's net assets. The Portfolios' interest in Underlying Funds as at December 31, 2014 and 2013, and January 1, 2013, held the form of redeemable units, which are included at their fair value in the Statements of Financial Position which represents the Portfolios' maximum exposure in these Underlying Funds. The Portfolios do not provide, and have not committed to provide, any additional significant financial or other support to the Underlying Funds. The change in fair value of each of the Underlying Funds during the years is included in 'Change in unrealized appreciation (depreciation) of value of investments and derivatives' and 'Net gains (losses) on investments and derivatives' in the Statements of Comprehensive Income.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Manager has made in preparing the financial statements:

**Use of Estimates**

*Fair Value measurement of derivatives and securities not quoted in an active market*

The Portfolios may hold financial instruments that are not quoted in active markets, including derivatives. Fair value of such instruments is determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, a Portfolio may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Portfolios consider observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 5 for further information about the fair value measurement of the Portfolio's financial instruments.

### **Use of Judgments**

#### *Classification and Measurement of Investments and Application of the Fair Value Option*

In classifying and measuring financial instruments held by the Portfolios, the Manager is required to make significant judgments about whether or not the business of the Portfolios is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, *Financial Instruments - Recognition and Measurement* (IAS 39). The most significant judgments made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those which are not.

#### *Determination if Underlying Funds Meet the Structured Entity Definition*

The Portfolios have concluded that their investments in the Underlying Funds are investments in unconsolidated structured entities. This represents a significant judgment by the Portfolios that is based generally on the fact that the decision making about the Underlying Funds investing activities is not governed by voting rights held by the Portfolios and other investors.

## **4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT**

In the normal course of business, each Portfolio is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). Please refer to Discussion of Financial Instruments – Risk Management for each Portfolio's specific risk disclosure.

### **Credit Risk**

The Portfolios may be exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Where a Portfolio invests in debt instruments and derivatives, this represents the main concentration of credit risk.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The credit risk related to the associated receivables is considered limited, 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. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing a Portfolio's rights to its assets in the case of an insolvency of any such party. The Portfolios are also exposed to counterparty credit risk on cash, margin deposits and other receivable balances.

### **Liquidity Risk**

Liquidity risk is the risk that a Portfolio will encounter difficulty in meeting obligations associated with financial liabilities. Each Portfolio is exposed to daily cash redemptions and as such, retains sufficient cash to fund anticipated redemptions. The Portfolios aim to retain sufficient cash to maintain adequate liquidity including coverage of obligations related to short sales and all current liabilities. In addition, each Portfolio generally invests in securities that are highly liquid and where there is an observable market price that is quoted by multiple dealers.

### **Market Risk**

The Portfolios' investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

**a) Currency Risk**

The Portfolios invest in financial instruments and enter into transactions that are denominated in currencies other than the Canadian dollar. Consequently, the Portfolios are exposed to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Portfolios may enter into foreign exchange currency contracts to reduce their foreign currency exposure.

**b) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A Portfolio may hold securities with fixed interest rates that expose that Portfolio to fair value interest rate risk.

**c) Price Risk**

The Portfolios are exposed to price risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Portfolios' investments are subject to the risk of changes in the prices of equity securities, bonds and derivatives.

**Concentration Risk**

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type.

**Capital Risk Management**

Shares issued and outstanding are considered to be the capital of the Portfolios. The Portfolios do not have any specific capital requirements on the subscription and redemption of shares, other than certain minimum subscription requirements. Shareholders are entitled to require payment of the net asset value per share of a Portfolio for all or any of the shares of such shareholder by giving written notice to the Manager. The written notice is irrevocable and must be received no later than 4:00 p.m., EST, on the valuation day upon which the shares are to be redeemed (a "Redemption Date"). The redeeming shareholder will receive payment in respect of any shares surrendered for redemption on or before the 3rd business day immediately following a Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances.

**5. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT**

Each Portfolio classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Please refer to Discussion of Financial Instruments – Fair Value Measurement for each Portfolio's specific risk disclosure. The three levels of the fair value hierarchy are:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that a Portfolio can access at the measurement date,

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and

**Level 3:** Inputs that are unobservable for the asset or liability.

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

**6. OFFSETTING OF FINANCIAL INSTRUMENTS**

In the normal course of business, the Diversified Portfolio enters into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the Statement of Financial Position, but still allow for the related amounts to set off in certain circumstances, such as bankruptcy or termination of the contracts. The following table shows financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2014, December 31, 2013, and January 1, 2013. The "Net" column displays what the net impact would be on the Portfolio's Statement of Financial Position if all amounts were set off.

**Exemplar Diversified Portfolio – December 31, 2014**

	Gross amounts (\$)	Financial instruments eligible for offset (\$)	Net amounts presented in the statement of financial position (\$)	Related amounts not offset in the statement of financial position		Net amount (\$)
				Financial instruments (\$)	Cash collateral (\$)	
<b>Financial assets</b>						
Counterparty 1	702,164	-	702,164	(233,476)	-	468,688
<b>Financial liabilities</b>						
Counterparty 1	(233,476)	-	(233,476)	233,476	-	-

**Exemplar Diversified Portfolio – December 31, 2013**

	Gross amounts (\$)	Financial instruments eligible for offset (\$)	Net amounts presented in the statement of financial position (\$)	Related amounts not offset in the statement of financial position		Net amount (\$)
				Financial instruments (\$)	Cash collateral (\$)	
<b>Financial assets</b>						
Counterparty 1	1,022,218	-	1,022,218	(221,036)	-	801,182
<b>Financial liabilities</b>						
Counterparty 1	(221,036)	-	(221,036)	221,036	-	-

**Exemplar Diversified Portfolio – January 1, 2013**

	Gross amounts (\$)	Financial instruments eligible for offset (\$)	Net amounts presented in the statement of financial position (\$)	Related amounts not offset in the statement of financial position		Net amount (\$)
				Financial instruments (\$)	Cash collateral (\$)	
<b>Financial assets</b>						
Counterparty 1	343,693	-	343,693	(248,246)	-	95,448
<b>Financial liabilities</b>						
Counterparty 1	(248,246)	-	(248,246)	248,246	-	-

**7. INVESTMENT IN UNDERLYING FUNDS**

Information related to investments in Underlying Funds is as follows:

**Exemplar Canadian Focus Portfolio - December 31, 2014**

Fund	Fair Value of Portfolio's Investment in Underlying Fund \$	Net Assets Attributable to Holders of Redeemable Shares %	Ownership of Underlying Fund %
Boyd Group Income Fund	5,778,640	7.2	0.9
SPDR Gold Trust	52,706	0.1	0.0
Health Care Select Sector SPDR Fund	158,655	0.2	0.0

**Exemplar Canadian Focus Portfolio - December 31, 2013**

Fund	Fair Value of Portfolio's Investment in Underlying Fund \$	Net Assets Attributable to Holders of Redeemable Shares %	Ownership of Underlying Fund %
Boyd Group Income Fund	3,896,824	5.4	0.7
Allied Properties Real Estate Investment Trust	814,977	1.1	0.0
American Hotel Income Properties REIT Limited Partnership	336,545	0.5	0.1
iShares US Fundamental Index Fund	204,201	0.3	0.1
Brookfield Infrastructure Partners Limited Partnership	750,686	1.1	0.0

**Exemplar Canadian Focus Portfolio - January 1, 2013**

Fund	Fair Value of Portfolio's Investment in Underlying Fund \$	Net Assets Attributable to Holders of Redeemable Shares %	Ownership of Underlying Fund %
Boyd Group Income Fund	1,898,456	3.0	0.7
Dundee Industrial Real Estate Investment Trust	433,735	0.7	0.1
Partners Real Estate Investment	510,180	0.8	0.2
iShares S&P/TSX 60 Index Fund	60,928	0.1	0.0
SPDR Gold Trust	789,884	1.2	0.0
SPDR Consumer Staples Select Sector	117,997	1.9	0.0

**8. REDEEMABLE SHARES**

During the years ended December 31, 2014 and 2013, the number of shares issued, redeemed and outstanding was as follows:

**Canadian Focus Portfolio – for the year ended December 31, 2014**

	Redeemable shares outstanding at beginning of the year	Redeemable shares issued	Redeemable shares issued on reinvestment of distributions	Redeemable shares redeemed	Redeemable shares issued and outstanding at end of the year
Series A	2,946,850	344,605	24,777	(1,013,294)	2,302,938
Series F	937,084	742,137	15,346	(163,050)	1,531,517
Series L	333,295	113,160	4,010	(31,070)	419,395

**Canadian Focus Portfolio – for the year ended December 31, 2013**

	Redeemable shares outstanding at beginning of the year	Redeemable shares issued	Redeemable shares issued on reinvestment of distributions	Redeemable Shares issued upon Share Exchange	Redeemable Shares redeemed upon Share Exchange	Redeemable shares redeemed	Redeemable shares issued and outstanding at end of the year
Series A	3,191,673	264,448	41,395	259,196	-	(809,862)	2,946,850
Series F	837,836	312,592	11,933	-	-	(225,277)	937,084
Series L	209,212	131,122	4,331	-	-	(11,370)	333,295
Series R	367,742	-	-	-	(309,738)	(58,004)	-

**Diversified Portfolio – for the year ended December 31, 2014**

	Redeemable shares outstanding at beginning of the year	Redeemable shares issued	Redeemable shares redeemed	Redeemable shares issued and outstanding at end of the year
Series A	1,196,227	46,144	(671,667)	570,704
Series F	1,362,244	1,242,376	(613,804)	1,990,816
Series I	498,211	187,615	(28,161)	657,665
Series L	138,538	30,025	(6,918)	161,645

**Diversified Portfolio – for the year ended December 31, 2013**

	Redeemable shares outstanding at beginning of the year	Redeemable shares issued	Redeemable shares redeemed	Redeemable shares issued and outstanding at end of the year
<b>Series A</b>	2,084,878	308,711	(1,197,362)	1,196,227
<b>Series F</b>	1,522,164	665,960	(825,880)	1,362,244
<b>Series I</b>	406,869	110,637	(19,295)	498,211
<b>Series L</b>	140,658	15,530	(17,650)	138,538

**9. RELATED PARTY TRANSACTIONS**

The Manager is responsible for making decisions relating to the investment of the Portfolios' assets and providing key management personnel.

The Arrow Diversified Fund owns 52,306 Series F Shares of the Diversified Portfolio, with a fair value of \$698,285. This represents 1.6% of net assets of the Diversified Portfolio (2013 - nil).

As of December 31, 2014, the number of shares owned by Arrow for each Portfolio is summarized as follows:

Portfolio	Number of Shares	Amount (\$)	% of Net assets attributable to holders of redeemable shares
Canadian Focus Portfolio – Series A	535	10,170	0.02%
Canadian Focus Portfolio – Series F	4,821	97,240	0.22%
Diversified Portfolio – Series A	500	6,345	0.01%
Diversified Portfolio – Series F	4,500	60,075	0.07%

As of December 31, 2013, the number of shares owned by Arrow for each Portfolio is summarized as follows:

Portfolio	Number of Shares	Amount (\$)	% of Net assets attributable to holders of redeemable shares
Canadian Focus Portfolio – Series A	529	9,223	0.01%
Canadian Focus Portfolio – Series F	4,768	87,229	0.12%
Diversified Portfolio – Series A	500	5,358	0.01%
Diversified Portfolio – Series F	4,500	50,700	0.14%

As of January 1, 2013, the number of shares owned by Arrow for each Portfolio is summarized as follows:

Portfolio	Number of Shares	Amount (\$)	% of Net assets attributable to holders of redeemable shares
Canadian Focus Portfolio – Series A	522	7,371	0.01%
Canadian Focus Portfolio – Series F	4,699	69,169	0.11%
Diversified Portfolio – Series A	500	5,010	0.01%
Diversified Portfolio – Series F	4,500	46,890	0.11%

In September 2014, the Manager identified that certain commission expenses on futures transactions, and foreign exchange gains and losses on related broker trust accounts, had not been accurately recorded in the accounting records of the Diversified Portfolio, such that net expenses of the Diversified Portfolio were understated. The Manager quantified the cumulative amount of the differences as well as their impact on previously paid Management Fees and Performance Fees. In November 2014, the Manager calculated the resulting shortfall in the underlying trust accounts, and settled the difference by contributing \$1,333,612 to the Diversified Portfolio. Such settlement did not impact the Net Asset Value Per Share of the Diversified Portfolio and the Diversified Portfolio did not bear any of the costs of the investigation or its resolution. The Manager did not benefit from the discrepancies and has reviewed the adjustment with the Independent Review Committee. Commissions and foreign exchange amounts have subsequently been appropriately recorded in the accounting records of the Diversified Portfolio.

## Management Fee and Performance Bonus

The management fee paid to the Manager by the Canadian Focus Portfolio is 1.65% per annum on Series A, 0.65% per annum on Series F Shares and 1.95% on Series L Shares. The management fee paid to the Manager by the Diversified Portfolio is 2.00% per annum on Series A Shares, 1.00% per annum on Series F Shares and 2.30% on Series L Shares.

No portion of the management fee charged to a Portfolio is borne by Series I Shares of the Portfolios. A holder of Series I Shares of a Portfolio pays a negotiated management fee directly to the Manager.

Each Portfolio will pay to the Manager in respect of each fiscal year of the Portfolio ended December 31 a performance bonus per Share (the "Performance Bonus") equal to 20% of the amount by which the Adjusted Net Asset Value per Share at the end of the fiscal year exceeds the highest year end Adjusted Net Asset Value per Share previously achieved. For these purposes, "Adjusted Net Asset Value per Share" of any series of shares of a Portfolio means the Net Asset Value per share of that series at the end of a fiscal year without giving effect to the accrual of any Performance Bonus, plus the aggregate amount of all distributions previously declared on a per Share basis in respect of such series of Shares. The Performance Bonus for a Portfolio is calculated and accrued each day the Net Asset Value of the Portfolio is calculated, but is only payable at the end of the fiscal year of the Portfolio based on the actual annual performance of the Portfolio.

Notwithstanding the foregoing, no Performance Bonus is payable with respect to any fiscal year of a Portfolio unless the Adjusted Net Asset Value per Share at the end of such fiscal year exceeds the Net Asset Value per share at the end of the preceding year (or on the date the Shares are first issued), plus the aggregate amount of all distributions previously declared on a per share basis, by a minimum of 6%.

The Performance Bonus is estimated and accrued each Valuation Date, calculated as at the end of each fiscal year-end of the Portfolios and paid within 15 business days thereafter.

Each Portfolio is responsible for all operating expenses incurred by or on behalf of that Portfolio.

The Portfolio Advisor and Portfolio Sub-Advisor will be remunerated by the Manager out of the Management Fee and the Performance Bonus.

Accrued management fees and performance fees (excluding HST) included in other liabilities on the statement of financial position are as follows:

	December 31, 2014		December 31, 2013		January 1, 2013	
	Management Fees	Performance Fees	Management Fees	Performance Fees	Management Fees	Performance Fees
Canadian Focus Portfolio	\$93,776	-	\$88,988	\$3,102,744	\$78,357	\$23,966
Diversified Portfolio	\$41,866	\$1,382	\$38,919	-	\$51,486	-

## Brokerage Commissions

Total commissions paid to dealers for the years ended December 31, 2014 and 2013 in connection with portfolio transactions are as follows:

	December 31, 2014	December 31, 2013
Canadian Focus Portfolio	\$85,909	\$57,997
Diversified Portfolio	\$384,988	\$38,986

For the year ended December 31, 2014, \$26,852 was used for market data services by the Canadian Focus Portfolio [December 31, 2013 - \$nil].

## 10. TAXATION

Each Portfolio is a class of shares of the Corporation. Income, expenses and capital gains and losses of each Portfolio are consolidated, as a single entity, in determining the Corporation's taxable income and amount of taxes payable as a whole. Any taxes payable or recoverable by the Corporation are allocated to the Portfolios and their various series'.

The Corporation qualifies as a mutual fund corporation under the Income Tax Act (Canada) (the "Tax Act"). The general income tax rules associated with a public corporation apply to a mutual fund corporation with the exception that taxes payable on net realized capital gains are refundable when its shares are redeemed or when it pays capital gains dividends out of its capital gains dividend

account to its shareholders, such that in substance the Corporation is not taxable on capital gains. Similarly, the Corporation is subject to Part IV tax on dividends received from Canadian corporations, however, they are refundable once paid to shareholders. As a result, the Corporation does not record income taxes related to capital gains and dividends from Canadian corporations.

Interest and foreign income are taxed at normal corporate rates applicable to mutual fund corporations and can be reduced by permitted deductions for tax purposes. All of the Corporation's expenses including management fees and operating expenses will be taken into account in determining its overall tax liability, if any.

As of December 31, 2014, the Corporation has accumulated the following non-capital losses available for utilization against net income for tax purposes in future years and capital losses available for utilization against capital gains. The tax benefit of the non-capital losses has not been reflected in the financial statements.

Non-Capital Loss*	Capital Loss**
\$7,029,724	\$nil

\* Non-capital losses can be offset against income in future years for up to 20 years.

\*\* Net Capital losses can be carried forward indefinitely for offset against gains in future periods.

## 11. INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES PER SHARE

The increase (decrease) in net assets attributable to holders of redeemable shares per share for the years ended December 31, 2014 and 2013 is calculated as follows:

### December 31, 2014

	Increase (decrease) in net assets attributable to holders of redeemable shares (\$)	Weighted average redeemable shares outstanding during the year (\$)	Increase (decrease) in net assets attributable to holders of redeemable shares per share (\$)
Canadian Focus Portfolio – Series A	5,175,655	2,581,181	2.01
Canadian Focus Portfolio – Series F	2,766,705	1,256,144	2.20
Canadian Focus Portfolio – Series L	507,621	374,668	1.35
Diversified Portfolio – Series A	807,434	828,197	0.97
Diversified Portfolio – Series F	3,785,442	1,757,680	2.15
Diversified Portfolio – Series I	1,145,652	626,021	1.83
Diversified Portfolio – Series L	225,724	147,235	1.53

### December 31, 2013

	Increase (decrease) in net assets attributable to holders of redeemable shares (\$)	Weighted average redeemable shares outstanding during the year (\$)	Increase (decrease) in net assets attributable to holders of redeemable shares per share (\$)
Canadian Focus Portfolio – Series A	10,316,167	3,030,422	3.40
Canadian Focus Portfolio – Series F	3,133,653	844,941	3.71
Canadian Focus Portfolio – Series L	655,598	271,991	2.41
Canadian Focus Portfolio – Series R	310,953	335,241	0.93
Diversified Portfolio – Series A	1,332,682	1,638,329	0.81
Diversified Portfolio – Series F	1,442,721	1,495,612	0.96
Diversified Portfolio – Series I	469,304	439,950	1.07
Diversified Portfolio – Series L	97,701	139,205	0.70

## 12. TRANSITION TO IFRS

The effect of the Portfolios' transition to IFRS is summarized in this note as follows:

### Transition Elections

The only voluntary exemption adopted by the Portfolios upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss upon transition to IFRS. All financial assets designated at FVTPL upon transition (see Note 2) were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*.



## Revaluation of Investments at FVTPL

Under Canadian GAAP, the Portfolios measured the fair values of their investments in accordance with Section 3855, Financial Instruments - Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Portfolios measure the fair values of their investments using the guidance in IFRS 13, Fair Value Measurement (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

As a result, upon adoption of IFRS an adjustment was recognized in the change in carrying amount of the Portfolios' investments. The impact of this adjustment was an increase (decrease) in each Portfolios' net assets attributable to holders of redeemable shares as shown below.

## Reconciliation of Equity and Comprehensive Income as Previously Reported Under Canadian GAAP to IFRS

### Canadian Focus Portfolio

Equity	December 31, 2013	January 1, 2013
Equity as reported under Canadian GAAP	\$71,771,247	\$63,678,256
Revaluation of investments at FVTPL	151,584	164,028
Net assets attributable to holders of redeemable shares	\$71,922,831	\$63,842,284

Comprehensive income	For the year ended December 31, 2013
Comprehensive income as reported under Canadian GAAP	\$14,428,815
Revaluation of investments at FVTPL	(12,444)
Increase (decrease) in net assets attributable to holders of redeemable shares	\$14,416,371

### Diversified Portfolio

Equity	December 31, 2013	January 1, 2013
Equity as reported under Canadian GAAP	\$34,988,549	\$41,935,339
Revaluation of investments at FVTPL	(21,059)	(169,459)
Net assets attributable to holders of redeemable shares	\$34,967,490	\$41,765,880

Comprehensive income	For the year ended December 31, 2013
Comprehensive income as reported under Canadian GAAP	\$3,194,008
Revaluation of investments at FVTPL	148,400
Increase (decrease) in net assets attributable to holders of redeemable shares	\$3,342,408

## Classification of redeemable shares issued by the Portfolios

Under Canadian GAAP, the Portfolios accounted for their redeemable shares as equity. The features of each series of the Portfolio's redeemable shares are not identical and consequently the shares, do not meet the conditions to be classified as equity. As a result, the Portfolios obligations for net assets attributable to holders of redeemable shares are financial liabilities under IFRS, presented at the redemption amounts.

## Statement of cash flows

Under Canadian GAAP, the Portfolios were exempt from providing a Statement of Cash Flows. IAS 1 requires that a Statement of Cash Flows be presented as part of a complete set of financial statements. As such, the Portfolios have presented a Statement of Cash Flows in the financial statements for the years ended December 31, 2014 and 2013.

## **13. FUTURE ACCOUNTING CHANGES**

### **IFRS 9, Financial Instruments**

The final version of IFRS 9, Financial Instruments, was issued by the International Accounting Standards Board ("IASB") in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Portfolios are in the process of assessing the impact of IFRS 9 and have not yet determined when they will adopt the new standard.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

March 31, 2015

### TO THE SHAREHOLDERS OF EXEMPLAR CANADIAN FOCUS PORTFOLIO AND EXEMPLAR DIVERSIFIED PORTFOLIO (COLLECTIVELY THE "PORTFOLIOS")

The accompanying financial statements have been prepared by Arrow Capital Management Inc. ("Arrow" or the "Manager" of the Portfolios), and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements.

The Manager maintains appropriate processes to ensure that reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Portfolios are described in Note 2 to the financial statements.

Prior to December 2, 2013, the manager of the Portfolios was BluMont Capital Corporation ("BluMont"). On December 2, 2013, Arrow acquired all the outstanding shares of BluMont, resulting in a change of control of BluMont. On April 1, 2014, Arrow and BluMont amalgamated, continuing under the name "Arrow Capital Management Inc.". At a special meeting of shareholders on November 27, 2013, the shareholders of the Portfolios approved a change of manager from BluMont to Arrow.

PricewaterhouseCoopers LLP is the external auditor of the Portfolios, appointed by the shareholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out on the following page.

"James L. McGovern"

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JAMES L. MCGOVERN  
Managing Director & CEO

"Robert W. Maxwell"

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ROBERT W. MAXWELL  
Managing Director & CFO

## **Independent Auditor's Report**

### **To the Shareholders of Exemplar Canadian Focus Portfolio and Exemplar Diversified Portfolio, classes of Exemplar Portfolios Ltd. (collectively the "Portfolios")**

We have audited the accompanying financial statements of each of the Portfolios, which comprise, the statements of financial position as at December 31, 2014, December 31, 2013, and January 1, 2013 and the statements of comprehensive income, cash flows, and changes in net assets attributable to holders of redeemable shares for the years ended December 31, 2014 and 2013, and the related notes, which comprise 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 the financial statements of each of the Portfolios in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements of each of the Portfolios 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 an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 each of 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 each of the Portfolios as at December 31, 2014, December 31, 2013, and January 1, 2013 and the financial performance and cash flows of each of the Portfolios for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 31, 2015

## **PORTFOLIO INFORMATION**

### **MANAGER AND PRINCIPAL DISTRIBUTOR**

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