

Financial Statements of

# **EHP GUARDIAN FUND**

Year ended December 31, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of EHP Guardian Fund

We have audited the accompanying financial statements of EHP Guardian Fund, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of EHP Guardian Fund as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

March 31, 2017  
Toronto, Canada

# EHP GUARDIAN FUND

## Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 50,192,867	\$ 3,243,092
Financial assets at fair value through profit or loss (cost - \$62,371,488; 2015 - \$3,908,969) (note 5)	65,336,076	3,909,572
Receivable for investments sold	11,931,775	-
Dividends receivable	212,148	7,428
Interest receivable	5,022	882
Subscription receivable	432	465,000
	127,678,320	7,625,974
<b>Liabilities</b>		
Financial liabilities at fair value through profit and loss (proceeds - \$38,395,907; 2015 - \$2,220,723) (note 5)	39,347,993	2,257,416
Payable for investments purchased (note 2)	2,771,812	3,954
Accounts payable and accrued liabilities	65,090	7,067
Management fees payable (note 7)	88,695	8,571
Dividends payable	6,322	523
Performance fees payable (note 7)	277,223	7,721
Distribution payable	1,916	-
Interest payable	-	221
Redemptions payable	4,500	-
	42,563,551	2,285,473
Net assets attributable to holders of redeemable units (note 6)	\$ 85,114,769	\$ 5,340,501
Net assets attributable to holders of redeemable units per class and series:		
Class A - Initial Series	\$ 5,486,221	\$ 1,071
Class A - 2015 Series 11	-	490,340
Class A - 2015 Series 12	-	14,986
Class A - 2016 Series 10	1,010,477	-
Class A - 2016 Series 11	2,483,608	-
Class A - 2016 Series 12	1,443,867	-
Class E - Initial Series	3,458,435	2,408,129
Class F - Initial Series	31,315,561	208,141
Class F - 2015 Series 10	-	105,736
Class F - 2015 Series 11	-	233,846
Class F - 2015 Series 12	-	40,247
Class F - 2016 Series 10	4,935,370	-
Class F - 2016 Series 11	6,348,571	-
Class F - 2016 Series 12	5,895,086	-
Class UA - 2016 Series 9	33,382	-
Class UA - 2016 Series 11	202,373	-
Class UA - 2016 Series 12	269,150	-
Class UF - Initial Series	779,722	-
Class UF - 2016 Series 10	1,869,693	-
Class UF - 2016 Series 11	724,702	-
Class UF - 2016 Series 12	257,977	-
Class UJ - 2016 Series 10	13,590,244	-
Founder Class - Initial Series	5,010,330	246,444
Founder Class - 2015 Series 10	-	387,375
Founder Class - 2015 Series 11	-	754,567
Founder Class - 2015 Series 12	-	449,619
	\$ 85,114,769	\$ 5,340,501

# EHP GUARDIAN FUND


Statement of Financial Position (continued)

December 31, 2016, with comparative information for 2015

	2016	2015
Net assets attributable to holders of redeemable units per units:		
Class A - Initial Series	\$ 10.79	\$ 10.40
Class A - 2015 Series 11	—	9.97
Class A - 2015 Series 12	—	9.99
Class A - 2016 Series 10	9.99	—
Class A - 2016 Series 11	10.15	—
Class A - 2016 Series 12	10.11	—
Class E - Initial Series	11.73	10.79
Class F - Initial Series	10.97	10.47
Class F - 2015 Series 10	—	10.13
Class F - 2015 Series 11	—	9.99
Class F - 2015 Series 12	—	10.07
Class F - 2016 Series 10	10.01	—
Class F - 2016 Series 11	10.17	—
Class F - 2016 Series 12	10.12	—
Class UA - 2016 Series 9	13.42	—
Class UA - 2016 Series 11	13.70	—
Class UA - 2016 Series 12	13.60	—
Class UF - Initial Series	13.46	—
Class UF - 2016 Series 10	13.46	—
Class UF - 2016 Series 11	13.67	—
Class UF - 2016 Series 12	13.61	—
Class UJ - 2016 Series 10	13.47	—
Founder Class - Initial Series	11.28	10.68
Founder Class - 2015 Series 10	—	10.15
Founder Class - 2015 Series 11	—	10.02
Founder Class - 2015 Series 12	—	9.99

See accompanying notes to financial statements.

Approved by Edgehill Partners, Investment Manager,  
on behalf of the Fund:



Chief Financial Officer

# EHP GUARDIAN FUND

## Statement of Comprehensive Income

Year ended December 31, 2016, with comparative information for the period from April 1, 2015 (commencement of operations) to December 31, 2015

	2016	2015
Income:		
Dividend	\$ 1,307,347	\$ 66,519
Interest for distribution purposes	62,110	4,555
Net foreign currency gains	413,125	70,420
Net gains (losses) on financial assets and liabilities at fair value through profit or loss:		
Net realized gains (note 3)	967,498	228,973
Net change in unrealized appreciation (depreciation) (note 3)	2,048,592	(36,090)
	<u>4,798,672</u>	<u>334,377</u>
Operating expenses:		
Performance fees (note 7)	588,049	7,721
Management fees (note 7)	455,699	8,571
Commissions and other portfolio transaction	238,719	43,964
Dividend expense on investments sold short	204,351	15,841
Interest and stock loan fees	163,153	15,089
Withholding taxes	100,573	2,976
Administration fees	77,487	33,335
Other fees	18,052	—
Audit fees	31,446	—
Legal fees	10,503	6,631
Trustee fees	3,390	2,846
	<u>1,891,422</u>	<u>136,974</u>
Expenses absorbed by the Investment Manager (note 7)	(16,419)	(9,477)
Increase in net assets attributable to holders of redeemable units (note 6)	<u>\$ 2,923,669</u>	<u>\$ 206,880</u>

See accompanying notes to financial statements.

# EHP GUARDIAN FUND

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

Year ended December 31, 2016, with comparative information for the period from April 1, 2015 (commencement of operations) to December 31, 2015

	Net assets attributable to holders of redeemable units, beginning of year	Increase (decrease) in net assets attributable to holders of redeemable units	Unit transactions				Distribution of redeemable shares		Net assets attributable to holders of redeemable units, end of year
			Reinvestment of Proceeds from redeemable units issued	distributions to holders of redeemable shares	Redemption of redeemable units	Redesignation of redeemable units	Net investment income	Capital gains	
2016									
Class A - Initial Series	\$ 1,071	\$ 120,039	\$ -	\$ 65,796	\$ (45,464)	\$ 5,444,101	\$ (99,322)	\$ -	\$ 5,486,221
Class A - 2015 Series 11	490,340	-	-	370	-	(490,340)	(370)	-	-
Class A - 2015 Series 12	14,986	-	-	162	-	(14,986)	(162)	-	-
Class A - 2016 Series 1	-	3,586	98,564	912	-	(102,150)	(912)	-	-
Class A - 2016 Series 2	-	2,992	160,972	747	-	(163,964)	(747)	-	-
Class A - 2016 Series 3	-	7,803	685,000	1,591	-	(692,803)	(1,591)	-	-
Class A - 2016 Series 4	-	5,381	300,500	2,281	-	(305,881)	(2,281)	-	-
Class A - 2016 Series 5	-	16,286	1,131,100	2,031	-	(1,143,584)	(5,833)	-	-
Class A - 2016 Series 6	-	17,390	1,204,168	1,018	-	(1,220,167)	(2,409)	-	-
Class A - 2016 Series 7	-	3,542	668,900	1,928	-	(668,309)	(6,061)	-	-
Class A - 2016 Series 8	-	2,492	954,661	4,480	-	(957,153)	(4,480)	-	-
Class A - 2016 Series 9	-	68	741,680	989	-	(741,375)	(1,362)	-	-
Class A - 2016 Series 10	-	11,126	1,000,099	7,575	-	-	(8,323)	-	1,010,477
Class A - 2016 Series 11	-	50,471	2,440,155	3,300	-	-	(10,318)	-	2,483,608
Class A - 2016 Series 12	-	8,025	1,437,271	64	-	-	(1,493)	-	1,443,867
Class E - Initial Series	2,408,129	375,306	750,000	113,456	(75,000)	-	(113,456)	-	3,458,435
Class F - Initial Series	208,141	781,029	-	371,137	(5,211,412)	35,697,489	(530,823)	-	31,315,561
Class F - 2015 Series 10	105,736	-	-	79	-	(105,736)	(79)	-	-
Class F - 2015 Series 11	233,846	-	-	176	-	(233,846)	(176)	-	-
Class F - 2015 Series 12	40,247	-	-	30	-	(40,247)	(30)	-	-
Class F - 2016 Series 1	-	43,159	1,030,339	9,322	-	(1,073,498)	(9,322)	-	-
Class F - 2016 Series 2	-	87,083	4,494,387	20,483	-	(4,581,470)	(20,483)	-	-
Class F - 2016 Series 3	-	27,950	2,895,239	6,174	-	(2,923,189)	(6,174)	-	-
Class F - 2016 Series 4	-	83,871	3,546,710	16,922	(3,983)	(3,612,417)	(31,103)	-	-
Class F - 2016 Series 5	-	62,237	3,757,289	12,326	(59,083)	(3,752,730)	(20,039)	-	-
Class F - 2016 Series 6	-	28,458	2,059,350	3,541	-	(2,086,379)	(4,970)	-	-
Class F - 2016 Series 7	-	24,837	3,881,732	19,725	(100,190)	(3,792,621)	(33,483)	-	-

# EHP GUARDIAN FUND

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

Year ended December 31, 2016, with comparative information for the period from April 1, 2015 (commencement of operations) to December 31, 2015

	Net assets attributable to holders of redeemable units, beginning of year	Increase (decrease) in net assets attributable to holders of redeemable units	Unit transactions				Distribution of redeemable shares		Net assets attributable to holders of redeemable units, end of year
			Reinvestment of Proceeds from redeemable units issued	distributions to holders of redeemable shares	Redemption of redeemable units	Redesignation of redeemable units	Net investment income	Capital gains	
2016									
Class F - 2016 Series 8	–	36,739	7,521,335	25,005	(6,991)	(7,528,507)	(47,581)	–	–
Class F - 2016 Series 9	–	5,487	5,292,173	5,266	–	(5,294,988)	(7,938)	–	–
Class F - 2016 Series 10	–	62,713	4,945,011	31,314	(65,180)	–	(38,488)	–	4,935,370
Class F - 2016 Series 11	–	127,896	6,002,261	18,804	(20,101)	246,727	(27,016)	–	6,348,571
Class F - 2016 Series 12	–	42,767	5,830,980	5,816	(15,162)	38,022	(7,337)	–	5,895,086
Class UA - 2016 Series 9	–	946	32,766	–	–	–	(330)	–	33,382
Class UA - 2016 Series 11	–	3,277	199,096	906	–	–	(906)	–	202,373
Class UA - 2016 Series 12	–	2,553	266,696	151	–	–	(250)	–	269,150
Class UF - Initial Series	–	26,630	–	4,618	–	755,537	(7,063)	–	779,722
Class UF - 2016 Series 8	–	1,342	97,725	655	–	(99,067)	(655)	–	–
Class UF - 2016 Series 9	–	(1,232)	657,905	513	–	(656,469)	(717)	–	–
Class UF - 2016 Series 10	–	55,233	1,814,834	14,691	–	–	(15,065)	–	1,869,693
Class UF - 2016 Series 11	–	9,992	715,012	2,477	–	–	(2,779)	–	724,702
Class UF - 2016 Series 12	–	6,148	252,206	106	–	–	(483)	–	257,977
Class UJ - 2016 Series 10	–	463,244	13,127,000	122,844	–	–	(122,844)	–	13,590,244
Founder Class - Initial Series	246,444	258,050	–	99,842	(810,887)	5,333,256	(116,375)	–	5,010,330
Founder Class - 2015 Series 10	387,375	–	–	287	–	(387,375)	(287)	–	–
Founder Class - 2015 Series 11	754,567	–	–	566	–	(754,567)	(566)	–	–
Founder Class - 2015 Series 12	449,619	–	–	4,862	–	(449,619)	(4,862)	–	–
Founder Class - 2016 Series 1	–	11,670	300,000	2,298	–	(311,670)	(2,298)	–	–
Founder Class - 2016 Series 2	–	11,570	480,000	2,340	–	(491,570)	(2,340)	–	–
Founder Class - 2016 Series 3	–	836	300,000	226	–	(300,836)	(226)	–	–
Founder Class - 2016 Series 4	–	17,718	650,000	4,112	–	(666,235)	(5,595)	–	–
Founder Class - 2016 Series 5	–	9,004	500,000	–	–	(506,800)	(2,204)	–	–
Founder Class - 2016 Series 7	–	2,532	544,000	4,194	–	(546,532)	(4,194)	–	–
Founder Class - 2016 Series 8	–	5,423	812,629	5,433	–	(818,052)	(5,433)	–	–
	\$ 5,340,501	\$ 2,923,669	\$ 83,579,745	\$ 1,023,941	\$ (6,413,453)	\$ –	\$ (1,339,634)	\$ –	\$ 85,114,769



# EHP GUARDIAN FUND

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

Year ended December 31, 2016, with comparative information for the period from April 1, 2015 (commencement of operations) to December 31, 2015

	Net assets attributable to holders of redeemable units, beginning of period	Increase (decrease) in net assets attributable to holders of redeemable units	Unit transactions				Distribution of redeemable shares		Net assets attributable to holders of redeemable units, end of period
			Proceeds from redeemable units issued	Reinvestment of distributions to holders of redeemable shares	Redemption of redeemable units	Redesignation of redeemable units	Net investment income	Capital gains	
2015									
Class A - Initial Series	\$ -	\$ 71	\$ 1,000	\$ 98	\$ -	\$ -	\$ (7)	\$ (91)	\$ 1,071
Class A - 2015 Series 11	-	1,838	488,502	2,552	-	-	(171)	(2,381)	490,340
Class A - 2015 Series 12	-	(14)	15,000	-	-	-	-	-	14,986
Class E - Initial Series	-	162,007	2,285,000	224,891	(38,878)	-	(15,039)	(209,852)	2,408,129
Class F - Initial Series	-	4,773	1,014	6,625	-	202,354	(443)	(6,182)	208,141
Class F - 2015 Series 8	-	2,368	199,986	3,287	-	(202,354)	(220)	(3,067)	-
Class F - 2015 Series 10	-	1,236	104,500	1,716	-	-	(115)	(1,601)	105,736
Class F - 2015 Series 11	-	1,346	232,500	1,868	-	-	(125)	(1,743)	233,846
Class F - 2015 Series 12	-	247	40,000	344	-	-	(23)	(321)	40,247
Founder Class - Initial Series	-	21,444	225,000	29,768	-	-	(1,991)	(27,777)	246,444
Founder Class - 2015 Series 10	-	7,375	380,000	10,239	-	-	(685)	(9,554)	387,375
Founder Class - 2015 Series 11	-	4,570	749,997	6,340	-	-	(424)	(5,916)	754,567
Founder Class - 2015 Series 12	-	(381)	450,000	-	-	-	-	-	449,619
	\$ -	\$ 206,880	\$ 5,172,499	\$ 287,728	\$ (38,878)	\$ -	\$ (19,243)	\$ (268,485)	\$ 5,340,501

See accompanying notes to financial statements.

# EHP GUARDIAN FUND

## Statement of Cash Flows

Year ended December 31, 2016, with comparative information for the period from April 1, 2015 (commencement of operations) to December 31, 2015

	2016	2015
Cash flows from operating activities:		
Increase in net assets attributable to holders of redeemable units	\$ 2,923,669	\$ 206,880
Adjustments for:		
Net realized gains on financial assets and liabilities at fair value through profit or loss (note 3)	(967,498)	(228,973)
Net change in unrealized depreciation (appreciation) on financial assets and liabilities at fair value through profit or loss (note 3)	(2,048,592)	36,090
	(92,421)	13,997
Change in non-cash balances:		
Purchases of investments	(192,147,302)	(27,569,316)
Cost of investments purchased to cover short positions	(122,926,258)	(15,073,405)
Proceeds from sale of investments	126,603,895	23,640,667
Proceeds from investments sold short	157,985,911	17,546,735
Increase in dividends receivable	(204,720)	(7,428)
Increase in interest receivable	(4,140)	(882)
Increase in accounts payable and accrued liabilities	58,023	7,067
Increase in management fees payable (note 7)	80,124	8,571
Increase in dividends payable	5,799	523
Increase in performance fees payable (note 7)	269,502	7,721
Increase in distribution payable	1,916	-
Increase (decrease) in interest payable	(221)	221
Net cash used in operating activities	(30,369,892)	(1,425,529)
Cash flows from financing activities:		
Proceeds from issuance of redeemable units (note 6)	84,044,313	4,707,499
Payment on redemption of redeemable units (note 6)	(6,408,953)	(38,878)
Distributions to holders of redeemable units	(315,693)	-
Net cash provided by financing activities	77,319,667	4,668,621
Increase in cash and cash equivalents	46,949,775	3,243,092
Cash and cash equivalents, beginning of period	3,243,092	-
Cash and cash equivalents, end of period	\$ 50,192,867	\$ 3,243,092
Supplemental cash flow information:		
Interest paid	\$ 17,749	\$ 1
Interest received	57,970	3,673
Dividends received, net of withholding taxes	1,002,054	56,115
Dividends paid	198,552	15,318

See accompanying notes to financial statements.

# EHP GUARDIAN FUND

## Schedule of Investments

December 31, 2016

Number of shares/ par value	Description	Cost	Fair value	% of net assets
<b>Investments - long</b>				
Canadian equities:				
129,100	Alignvest Acquisition Corp., Class A	\$ 1,307,982	\$ 1,316,820	1.55
8,890	Bank of Nova Scotia	642,525	664,616	0.78
30,830	Boston Pizza Royalties Income Fund	674,946	703,849	0.83
31,820	Capital Power Corp.	665,443	739,179	0.87
45,990	Chartwell Retirement Residences REIT	673,719	673,754	0.79
39,350	Chemtrade Logistics Income Fund	704,643	745,289	0.88
47,540	Choice Properties REIT	631,777	640,364	0.75
220,450	Diversified Royalty Corp.	518,910	566,557	0.67
59,370	Dream Global REIT	528,726	561,047	0.66
541,120	ECN Capital Corp.	1,794,846	1,785,696	2.10
38,380	EnerCare Inc.	670,696	684,699	0.80
93,010	Ensign Energy Services Inc.	701,199	872,434	1.03
17,440	Exchange Income Corp.	680,316	728,120	0.86
68,230	Extendicare Inc.	621,831	674,112	0.79
12,600	Industrial Alliance Insurance and Financial Service	613,664	672,714	0.79
19,100	Inter Pipeline Ltd.	524,869	566,124	0.67
31,080	Intertape Polymer Group Inc.	650,853	782,594	0.92
36,100	Labrador Iron Ore Royalty Corp.	645,785	672,182	0.79
33,430	Medical Facilities Corp.	634,217	587,365	0.69
137,920	Nevsun Resources Ltd.	572,954	572,368	0.67
121,760	Northern Blizzard Resources Inc.	480,994	472,429	0.56
59,510	Northwest Healthcare Properties REIT	592,007	607,002	0.71
17,320	Pembina Pipeline Corp.	679,490	726,747	0.85
38,940	Polaris Infrastructure Inc.	646,838	595,393	0.70
20,210	Power Financial Corp.	646,501	678,248	0.80
119,270	Pure Industrial REIT, Class A	617,490	666,719	0.78
80,660	Pure Multi-Family REIT LP, Class A	625,244	669,478	0.79
26,500	Quantum International Income Corp. Subscription Receipts	—	—	—
111,510	Rogers Sugar Inc.	671,528	759,383	0.89
20,350	Shaw Communications Inc.	523,276	548,229	0.64
77,030	Slate Office REIT	636,868	608,537	0.71
86,940	Student Transportation of America Inc.	627,306	652,919	0.77
60,820	Superior Plus Corp.	698,139	775,455	0.91
180,350	Surge Energy Inc.	463,998	596,959	0.70
19,830	The North West Company Inc.	554,163	545,722	0.64
45,930	Transalta Renewables Corp.	618,191	658,636	0.77
10,360	TransCanada Corp.	594,270	627,194	0.74
288,780	Western Forest Products Inc.	606,102	545,794	0.64
	Total Canadian equities	24,742,306	25,944,727	30.49
Canadian warrants:				
11,500	Quantum International Income Corp., Warrants	—	—	—

# EHP GUARDIAN FUND

Schedule of Investments (continued)

December 31, 2016

Number of shares/ par value	Description	Cost	Fair value	% of net assets
United States equities:				
4,430	AFLAC Inc.	410,401	414,424	0.49
5,230	Altria Group Inc.	439,459	475,344	0.56
4,020	American Financial Group Inc.	405,524	476,137	0.56
8,830	AT&T Inc.	442,491	504,763	0.59
3,540	Automatic Data Processing Inc.	421,599	489,039	0.57
10,050	CA Inc.	437,728	429,156	0.50
2,940	Chevron Corp.	396,550	465,110	0.55
4,510	Cincinnati Financial Corp.	428,033	459,188	0.54
10,270	Cisco Systems Inc.	411,571	417,154	0.49
2,770	Clorox Co.	443,052	446,853	0.53
4,580	Consolidated Edison Inc.	442,031	453,572	0.53
11,400	Corporate Office Properties Trust	422,506	478,376	0.56
2,030	Cracker Barrel Old Country Store Inc.	387,251	455,609	0.54
1,460	Everest Re Group Ltd.	383,888	424,660	0.50
3,760	Exxon Mobil Corp.	428,785	456,157	0.54
26,250	Ford Motor Co.	433,916	427,978	0.50
9,520	General Motors Co.	413,714	445,807	0.52
2,670	Honeywell International Inc.	395,340	415,756	0.49
2,510	Illinois Tool Works Inc.	392,669	413,142	0.49
9,310	Intel Corp.	425,623	453,867	0.53
1,860	International Business Machines Corp.	380,093	414,979	0.49
72,980	iShares iBoxx High Yield Corp Bond ETF (note 9)	8,322,502	8,489,900	9.97
2,660	Johnson & Johnson	406,824	411,911	0.48
910	Kaiser Aluminum Corp., Rights	—	—	—
2,770	Kimberly Clark Corp.	442,904	424,887	0.50
4,270	KLA-Tencor Corp.	416,284	451,569	0.53
5,430	Lamar Advertising Co., Class A	451,055	490,749	0.58
1,150	Lockheed Martin Corp.	373,198	386,336	0.45
6,950	Marathon Petroleum Corp.	395,097	470,344	0.55
2,750	McDonald's Corp.	428,139	449,911	0.53
4,950	Occidental Pete Corp.	464,063	473,914	0.56
18,440	Old Republic International Corp.	442,016	470,919	0.55
3,960	Omnicom Group Inc.	433,196	453,010	0.53
9,860	Owens & Minor Inc.	444,610	467,692	0.55
5,680	Paychex Inc.	426,025	464,788	0.55
9,900	Pfizer Inc.	428,490	432,198	0.51
3,940	Phillips 66 Co.	430,217	457,606	0.54
2,670	Praxair Inc.	413,948	420,565	0.49
9,710	Progressive Corp.	420,801	463,318	0.54
2,020	Raytheon Co.	371,553	385,542	0.45
5,880	Republic Services Inc.	399,718	450,884	0.53
6,240	Sonoco Products Co.	417,769	442,005	0.52
6,760	Southern Co.	444,463	446,946	0.53
173,070	SPDR Bloomberg Barclays High Yield Bond ETF (note 9)	8,317,458	8,479,122	9.96
4,530	Target Corp.	432,511	439,792	0.52
14,600	The Interpublic Group of Companies Inc.	440,659	459,395	0.54
2,840	Travelers Companies Inc.	422,955	467,307	0.55
2,750	United Parcel Service Inc., Class B	398,032	423,741	0.50
5,170	Valero Energy Corp.	407,737	474,755	0.56

# EHP GUARDIAN FUND

Schedule of Investments (continued)

December 31, 2016

Number of shares/ par value	Description	Cost	Fair value	% of net assets
6,900	Verizon Communications Inc.	454,320	495,062	0.58
4,530	Wal-Mart Stores Inc.	417,773	420,856	0.49
4,780	Waste Management Inc.	404,823	455,582	0.54
15,540	Western Union Co.	417,818	453,672	0.53
	Total United States equities	37,629,182	39,391,349	46.28
	Total investments - long	\$ 62,371,488	\$ 65,336,076	76.77

## Investments - short

Canadian equities:

(4,440)	AGT Food and Ingredients Inc.	\$ (160,907)	\$ (162,682)	(0.19)
(13,650)	Air Canada Inc.	(133,808)	(186,596)	(0.22)
(16,000)	ATS Automation Tooling System Inc.	(173,037)	(200,320)	(0.24)
(30,230)	Baytex Energy Corp.	(175,315)	(198,309)	(0.23)
(15,730)	Blackberry Ltd.	(158,031)	(145,345)	(0.17)
(3,670)	Boardwalk REIT	(166,442)	(178,546)	(0.21)
(3,610)	Brookfield Asset Management Inc., Class A	(161,620)	(159,923)	(0.19)
(4,990)	Brookfield Property Partners LP	(143,992)	(146,357)	(0.17)
(620)	Canadian Pacific Railway Ltd.	(112,471)	(118,767)	(0.14)
(17,100)	Canam Group Inc.	(174,691)	(154,242)	(0.18)
(12,480)	Clearwater Seafoods Inc.	(172,933)	(145,392)	(0.17)
(3,450)	Colliers International Group Inc.	(164,411)	(170,741)	(0.20)
(7,610)	Cott Corp.	(135,952)	(115,672)	(0.14)
(23,350)	DHX Media Ltd.	(165,196)	(164,618)	(0.19)
(10,750)	Element Fleet Management Corp.	(131,817)	(133,945)	(0.16)
(6,300)	Empire Company Ltd., Class A	(132,074)	(99,036)	(0.12)
(10,570)	Encana Corp.	(112,829)	(166,583)	(0.20)
(3,010)	Equitable Group Inc.	(169,449)	(181,985)	(0.21)
(170)	Fairfax Financial Holdings Ltd.	(123,581)	(110,245)	(0.13)
(4,400)	Gildan Activewear Inc.	(151,283)	(149,996)	(0.18)
(17,960)	HudBay Minerals Inc.	(141,648)	(137,933)	(0.16)
(9,760)	Hudson's Bay Co.	(164,280)	(128,734)	(0.15)
(11,710)	Husky Energy Inc.	(182,754)	(190,756)	(0.22)
(245,300)	iShares S&P TSX 60 Index ETF (note 9)	(5,587,082)	(5,553,593)	(6.52)
(16,440)	Martinrea International Inc.	(141,956)	(141,220)	(0.17)
(23,750)	MEG Energy Corp.	(147,553)	(219,213)	(0.26)
(19,820)	Mitel Networks Corp.	(182,607)	(180,758)	(0.21)
(9,820)	Paramount Resources Ltd., Class A	(126,097)	(177,447)	(0.21)
(3,260)	Restaurant Brands International Ltd.	(182,975)	(208,477)	(0.24)
(3,780)	Ritchie Bros Auctioneers Inc.	(175,285)	(172,179)	(0.20)
(8,950)	Sierra Wireless Inc.	(180,308)	(188,129)	(0.22)
(2,740)	SNC-Lavalin Group Inc.	(149,147)	(158,345)	(0.19)
(1,180)	Transalta Corp.	(8,719)	(8,767)	(0.01)
(24,970)	Trilogy Energy Corp.	(174,800)	(188,524)	(0.22)
(5,670)	Uni-Select Inc.	(177,553)	(167,208)	(0.20)
(6,500)	Valeant Pharmaceuticals International Inc.	(158,604)	(126,555)	(0.15)
	Total Canadian equities	(10,901,207)	(11,037,138)	(12.97)

# EHP GUARDIAN FUND

Schedule of Investments (continued)

December 31, 2016

Number of shares/ par value	Description	Cost	Carrying value	% of net assets
United States equities:				
(5,480)	3D Systems Corp.	(104,238)	(97,890)	(0.12)
(3,160)	Actuant Corp., Class A	(95,941)	(110,219)	(0.13)
(9,030)	Advanced Micro Devices Inc.	(102,833)	(137,636)	(0.16)
(3,610)	Akorn Inc.	(121,609)	(105,924)	(0.12)
(2,620)	AMAG Pharmaceuticals Inc.	(90,433)	(122,550)	(0.14)
(1,790)	American Airlines Group Inc.	(92,672)	(112,333)	(0.13)
(5,600)	Arconic Inc.	(146,827)	(139,550)	(0.16)
(1,420)	Asbury Automotive Group Inc.	(100,480)	(117,762)	(0.14)
(13,260)	Ascena Retail Group Inc.	(107,017)	(110,323)	(0.13)
(2,070)	Avis Budget Group Inc.	(89,536)	(102,054)	(0.12)
(14,790)	Avon Products Inc.	(124,363)	(100,191)	(0.12)
(1,620)	Bank of the Ozarks Inc.	(106,922)	(114,512)	(0.13)
(1,880)	Cal-Maine Foods Inc.	(94,542)	(111,626)	(0.13)
(2,910)	CBRE Group Inc., Class A	(106,823)	(123,168)	(0.14)
(8,410)	Century Aluminum Co.	(84,513)	(96,761)	(0.11)
(2,190)	Charles Schwab Corp.	(93,176)	(116,183)	(0.14)
(14,760)	Chesapeake Energy Corp.	(121,392)	(139,269)	(0.16)
(1,220)	Computer Sciences Corp.	(85,927)	(97,437)	(0.11)
(5,940)	Darling International Inc.	(105,249)	(103,073)	(0.12)
(3,340)	Diebold Inc.	(100,697)	(112,906)	(0.13)
(910)	Edgewell Personal Care Inc.	(92,789)	(89,276)	(0.10)
(870)	Esterline Technologies Corp.	(82,667)	(104,308)	(0.12)
(2,510)	First Solar Inc.	(130,252)	(108,262)	(0.13)
(5,760)	Freeport-McMoRan Inc.	(84,098)	(102,117)	(0.12)
(2,590)	G-III Apparel Group Ltd.	(92,473)	(102,905)	(0.12)
(3,480)	Integrated Device Technology, Inc.	(110,540)	(110,201)	(0.13)
(126,760)	iShares Barclays 1-3 Year Treasury ETF (note 9)	(14,297,345)	(14,388,432)	(16.90)
(59,550)	iShares Barclays 7-10 Year Bond ETF (note 9)	(8,297,380)	(8,389,914)	(9.86)
(8,780)	J C Penney Company Inc.	(98,708)	(98,068)	(0.12)
(780)	Jones Lang LaSalle Inc.	(105,819)	(105,930)	(0.12)
(4,830)	Kate Spade & Co.	(109,101)	(121,206)	(0.14)
(3,440)	Lannett Company Inc.	(102,563)	(101,953)	(0.12)
(3,900)	Leucadia National Corp.	(97,503)	(121,876)	(0.14)
(690)	Ligand Pharmaceuticals Inc.	(88,349)	(94,236)	(0.11)
(4,550)	Micron Technology Inc.	(102,543)	(134,055)	(0.16)
(1,830)	Monster Beverage Corp.	(116,527)	(109,063)	(0.13)
(7,270)	NRG Energy Inc.	(107,862)	(119,800)	(0.14)
(830)	Perrigo Co.	(100,564)	(92,852)	(0.11)
(2,600)	PRA Group Inc.	(107,589)	(136,641)	(0.16)
(8,940)	SLM Corp.	(87,456)	(132,419)	(0.16)
(2,110)	Snyders-Lance Inc.	(101,077)	(108,734)	(0.13)
(2,160)	Sotheby's	(101,233)	(115,724)	(0.14)
(1,680)	Stifel Financial Inc.	(86,776)	(112,792)	(0.13)
(510)	SVB Financial Group	(79,205)	(117,671)	(0.14)
(1,210)	Tempur-Sealy International Inc.	(88,398)	(111,048)	(0.13)
(3,910)	The Chemours Co.	(87,458)	(116,092)	(0.14)
(2,770)	Triumph Group Inc.	(92,956)	(98,664)	(0.12)

# EHP GUARDIAN FUND

Schedule of Investments (continued)

December 31, 2016

Number of shares/ par value	Description	Cost	Carrying value	% of net assets
(1,700)	United Natural Foods Inc.	(93,305)	(109,039)	(0.13)
(3,120)	United States Steel Corp.	(81,524)	(138,430)	(0.16)
(1,180)	WGL Holdings Inc.	(99,733)	(120,983)	(0.14)
(1,100)	Zebra Technologies Corp., Class A	(95,717)	(126,797)	(0.15)
	Total United States equities	(27,494,700)	(28,310,855)	(33.24)
Total investments - short		\$ (38,395,907)	\$ (39,347,993)	(46.21)
Total investments - long		\$ 62,371,488	\$ 65,336,076	76.77
Total investments - short		(38,395,907)	(39,347,993)	(46.21)
Total investments owned		<u>\$ 23,975,581</u>	25,988,083	30.56
Other assets, net			59,126,686	69.44
Net assets			\$ 85,114,769	100.00

See accompanying notes to financial statements.

# EHP GUARDIAN FUND

Notes to Financial Statements

Year ended December 31, 2016

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## 1. General information:

The EHP Guardian Fund (the "Fund") is an open-ended investment trust established under the laws of the Province of Ontario pursuant to a trust agreement made as of March 19, 2015 and amended and restated as of June 25, 2015 between Caledon Trust Company as Trustee (the "Trustee") and EdgeHill Partners. The registered office of the Fund is 45 Hazelton Ave., Suite B, Toronto, Ontario, Canada M5R 2E3.

EdgeHill Partners, a general partnership formed under the laws of the Province of Ontario, is the manager and investment advisor of the Fund (the "Investment Manager"). The Investment Manager performs management functions for the Fund, including investment management of the Fund's portfolio.

The Fund's investment objective is to generate superior risk-adjusted investment returns over the long-term, consisting of interest and dividend income and capital gain appreciation and to provide unitholders with monthly distributions. The Investment Manager plans to generate these returns by utilizing predominantly a long/short equity strategy, consisting of diversified qualitative, quantitative and systematic investment strategies. The Fund will also seek to preserve capital and mitigate risk through the application of both portfolio and risk management tools. In order to achieve the above-stated objectives, the Fund will invest by employing diversified strategies.

## 2. Significant accounting policies:

The principal accounting policies applied in the preparation of these financial statements are set out below:

### (a) Basis of presentation:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"). In the preparation of these financial statements, the Fund has consistently applied these standards.

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), which are presented at fair value.



# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 2. Significant accounting policies (continued):

### (b) Approval of the financial statements:

The financial statements were approved by the Investment Manager and authorized for issue on March 31, 2017.

### (c) Functional currency and foreign currency translation:

The measurement and functional currency of the Fund is the Canadian dollar ("CAD") and the financial statements are presented in CAD. Investment transactions and income and expenses in foreign currencies have been translated to CAD at the rate of exchange prevailing at the time of the transaction.

Foreign currency assets and liabilities have been translated into the functional currency, using the rate of exchange prevailing at the statement of financial position date.

Foreign exchange gains and losses relating to cash are presented in the statement of comprehensive income within net foreign currency gains (losses).

Foreign exchange gains and losses relating to the financial assets and liabilities carried at FVTPL are presented in the statement of comprehensive income within net gains (losses) in fair value on financial assets and liabilities at FVTPL.

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

#### (i) Classification:

The Fund classifies its investments in debt and equity securities, and derivatives, as financial assets or financial liabilities at FVTPL.

This category has two sub-categories: financial assets and financial liabilities held-for-trading, and those designated at FVTPL at inception.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 2. Significant accounting policies (continued):

### (a) Financial assets and liabilities held-for-trading:

A financial asset or financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Investments in securities sold short and derivatives have been categorized as held-for-trading.

### (b) Financial assets and liabilities designated at FVTPL at inception:

Financial assets and financial liabilities designated at FVTPL at inception are financial instruments that are not classified as held-for-trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. Investments in long-listed equities and exchange-traded funds ("ETFs") have been categorized as designated at FVTPL.

All other financial assets and liabilities are classified as loans and receivables and other financial liabilities. Loans and receivables and other financial liabilities are measured at amortized cost.

### (ii) Recognition, derecognition and measurement:

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

Financial assets and financial liabilities at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of comprehensive income. Financial assets or financial liabilities not at FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 2. Significant accounting policies (continued):

When the Fund purchases an option or warrant, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. When options and warrants 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 realized gains or loss and is presented in the statement of comprehensive income within net realized gains on financial assets at FVTPL.

Subsequent to initial recognition, all financial assets and financial liabilities at FVTPL are measured at fair value. Net realized and changes in unrealized gains and losses arising from changes in the fair value of the financial assets or financial liabilities at FVTPL category are presented in the statement of comprehensive income within net realized gains on financial assets and liabilities at FVTPL and net change in unrealized depreciation on financial assets and liabilities at FVTPL in the year in which they arise.

Dividend income from financial assets at FVTPL is recognized in the statement of comprehensive income within dividend income, gross of withholding taxes, when the Fund's right to receive payments is established. Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date. Amounts not yet received or paid are included in the statement of financial position in dividends receivable and dividends payable on securities sold short, respectively. Interest for distribution purposes earned on debt securities at FVTPL is recognized in the statement of comprehensive income on an accrual basis.

### (iii) Fair value measurement:

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

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 2. Significant accounting policies (continued):

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at last sale or close price, where the close price falls within the day's bid-ask spread. In circumstances where the close price is not within the day's bid-ask spread, management determines the point within bid-ask spread that is most representative of fair value based on specific facts and circumstances.

The fair value used for financial reporting is consistent with the fair value used for unitholder and related transactions.

### (e) Cost of investments:

The cost of investments represents the amount paid for each security and is determined on an average cost basis, excluding commissions and other transaction costs. Realized gains and losses on disposition are determined based on the average cost of investments. Gains and losses arising from changes in the fair value of the investments are included in the statement of comprehensive income for the period in which they arise.

### (f) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Fund currently has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realized the asset and settle the liability simultaneously. Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL.

### (g) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term deposits with terms to maturity of less than three months at acquisition.

### (h) Payable for investments purchased/receivable for investments sold:

Amounts receivable for investments sold and amounts payable for investments purchased that have been contracted are recorded on the statement of financial position at the amount to be received or delivered.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 2. Significant accounting policies (continued):

(i) Redeemable units and net assets attributable to holders of redeemable units:

The Fund issues multiple classes of redeemable units, which are redeemable at the holder's option and do not have identical features and, therefore, are classified as financial liabilities. For each Fund unit sold, the Fund receives an amount equal to the net asset value per unit at the date of sale, which amount is included in net assets attributable to holders of redeemable units. For each unit redeemed, net assets attributable to holders of redeemable units is reduced by the net asset value of the unit at the date of redemption. The redeemable shares are measured at the current value of the Fund's net assets and are considered a residual amount of the net assets attributable to holders of redeemable units. There is no difference in the method net asset value and net assets attributable to holders of redeemable units is computed.

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the period for each class/series, respectively. Refer to note 6 for further detail.

(j) Income allocation:

Income, expenses other than management fees, performance fees and realized and unrealized capital gains (losses) are distributed among the different classes of units in proportion to the amount invested in them. For management fees and performance fees, please refer to note 7.

(k) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total numbers of units of that particular class or series outstanding at the end of the period.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 2. Significant accounting policies (continued):

### (l) Commissions and other portfolio transaction costs:

Commissions and other portfolio transaction costs are costs incurred to acquire financial assets or liabilities at FVTPL. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in the statement of comprehensive income as an expense. Refer to note 8 for further detail on soft dollar arrangements.

### (m) Taxation:

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is not subject to tax on its net taxable income for the tax year which ends in December, including net realized capital gains, which is paid or payable to its unitholders as at the end of the tax year. However, such part of the Fund's net income and net realized capital gains that is not so paid or payable, is subject to income tax. Income tax on net realized capital gains not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur. It is the intention of the Fund to distribute all of its income and sufficient net realized capital gains so that the Fund will not be subject to income tax. Refer to note 7 for further details.

The Fund is subject to withholding taxes on foreign income. In general, the Fund treats withholding tax as a charge against income for tax purposes.

As at December 31, the Fund had non-capital loss carryforwards of \$339,829 (2015 - nil).

### (n) Critical accounting estimates and assumptions:

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. Actual results may differ from these estimates.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 2. Significant accounting policies (continued):

(o) Future accounting standard:

IFRS 9, Financial Instruments ("IFRS 9"):

IFRS 9 was issued by the IASB in November 2009 and will replace International Accounting Standard 39, Financial Instruments - Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. In July 2014, the IASB issued the final version of IFRS 9. The revised standard adds guidance on the classification and measurement of financial liabilities.

IFRS 9 is effective for fiscal years beginning on or after January 1, 2018. The Fund continues to evaluate the impact of IFRS 9 on its financial statements, particularly with regard to the recording of its investments.

## 3. Net gains (losses) on financial assets and financial liabilities at FVTPL:

The Fund's classification of financial assets and liabilities at FVTPL is described in note 2. The following tables present the net gains (losses) on financial assets and liabilities at FVTPL for the ended December 31, 2016 and period from April 1, 2015 (commencement of operations) to December 31, 2015:

2016	Held-for-trading	Designated at FVTPL	Total
Financial assets at FVTPL:			
Net realized gains (losses)	\$ (12,033)	\$ 2,095,056	\$ 2,083,023
Net change in unrealized gains	–	2,964,702	2,964,702
	(12,033)	5,059,758	5,047,725
Financial liabilities at FVTPL:			
Net realized losses	(1,115,525)	–	(1,115,525)
Net change in unrealized losses	(916,110)	–	(916,110)
	(2,031,635)	–	(2,031,635)
Total	\$ (2,043,668)	\$ 5,059,758	\$ 3,016,090

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

### 3. Financial assets and financial liabilities at FVTPL (continued):

2015	Held-for-trading	Designated at FVTPL	Total
Financial assets at FVTPL:			
Net realized gains (losses)	\$ 3,832	\$ (27,464)	\$ (23,632)
Net change in unrealized gains	–	603	603
	3,832	(26,861)	(23,029)
Financial liabilities at FVTPL:			
Net realized gains	252,605	–	252,605
Net change in unrealized losses	(36,693)	–	(36,693)
	215,912	–	215,912
<b>Total</b>	<b>\$ 219,744</b>	<b>\$ (26,861)</b>	<b>\$ 192,883</b>

### 4. Derivative financial instruments:

The Fund holds the following derivative instruments:

Warrants:

A warrant is a contractual arrangement under which the issuer grants the holder the right, but not the obligation, either to buy at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price directly from the issuer of the underlying securities. The Fund is exposed to credit risk on purchased warrants only to the extent of their carrying amount, which is their fair value.

The following tables detail the Fund's investments in warrants:

2016:

Description	Maturity date	Strike price	Notional amount
Warrants:			
Quantum International Income Corp.	July 28, 2017	\$ 0.65	\$ 7,475



# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 4. Derivative financial instruments (continued):

2015:

Description	Maturity date	Strike price	Notional amount
Warrants:			
Quantum International Income Corp.	July 28, 2017	\$ 0.65	\$ 7,475
Western Lithium USA Corp.	June 10, 2017	0.90	67,500

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not, therefore, indicate the Fund's exposure to credit or market price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

## 5. Financial risk management:

(a) Financial risk factors:

The Fund's investment activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including price risk, foreign exchange risk and interest rate risk).

The Fund is also exposed to operational risks, such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that reduces the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Fund to transfer securities might be temporarily impaired.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 5. Financial risk management (continued):

The value of investments within the Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, the market and company news related to specific securities within the Fund. The level of risk depends on the Fund's investment objective and the types of securities it invests in. The Investment Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisors, by daily monitoring of the Fund's positions and market events, and may use derivatives to hedge certain risk exposures. To assist in managing risks, the Investment Manager maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategies, internal guidelines and securities regulations.

The Fund's investment policy allows it to invest in a variety of financial instruments and utilize various investment strategies in order to meet its objectives. As part of the Fund's risk management practices, investment activities of the Fund are subject to the following investment restrictions, as prescribed in the Offering Memorandum:

Purchasing securities:

The Fund will typically purchase securities through normal market facilities. Purchases of securities under other circumstances will only be permitted where the purchase price for such securities approximates the prevailing market price or is negotiated or established on an arm's-length basis.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below:

(i) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The carrying amount of the Fund's assets represents the maximum credit risk exposure.

The Fund's investments in debt instruments and related derivatives represent the main concentration of credit risk. The fair value of these financial instruments includes consideration of the creditworthiness of the issuer. As at December 31, 2016 and 2015, the Fund had no significant investments in debt instruments and/or derivatives.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 5. Financial risk management (continued):

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

The majority of the cash and cash equivalents and investments of the Fund are held by the Bank of Nova Scotia (the "Prime Broker"). Bankruptcy or insolvency of the Prime Broker may cause the Fund's rights with respect to cash and cash equivalents held by the Prime Broker to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and financial position of the Prime Broker. At the date of the approval of the financial statements, the credit rating for the Prime Broker was A+.

The Fund has provided the Prime Broker with a general lien over the financial assets held in custody as security for the Prime Brokers' exposures relating to provision of custody services to the Fund. The terms under which the general lien is provided are usual and customary services to the Fund. The terms under which the general lien is provided are usual and customary for Prime Broker agreements. As at December 31, 2016, the fair value of financial assets subject to the general lien is \$127,678,320 (2015 - \$7,625,974). The Fund's cash investments are held by highly creditworthy financial institutions.

### (ii) Liquidity risk:

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

The Fund could be exposed to weekly cash redemptions of redeemable units. The Fund manages its liquidity risk by primarily investing in marketable securities and other financial instruments which are traded in active markets and can be readily disposed of under normal market conditions. In addition, the Fund generally retains sufficient cash and cash equivalent positions to maintain liquidity.

Under extraordinary circumstances, the Fund also has the ability to suspend redemptions if this is deemed to be in the best interest of all unitholders. The Fund did not withhold any redemptions or implement any suspension during 2016 or 2015.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 5. Financial risk management (continued):

It is the Fund's policy that the Investment Manager monitors the Fund's liquidity position on a daily basis.

The Fund's liabilities are generally expected to be due and paid within 90 days, with the exception of net assets attributable to holders of redeemable units. Redeemable units are redeemable on demand at the holder's option; however, it does not represent significant liquidity risk as holders of these instruments typically retain them for the medium to long term.

### (iii) Market risk:

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates and market prices. The following sensitivity analysis shows how the net assets attributable to holders of redeemable units 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) Price risk:

Price risk 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 Fund is primarily exposed to price risk from its investments in equity securities.

All investments represent a risk of loss of capital. The Investment Manager aims to moderate this risk through careful selection and diversification of securities and other financial instruments in accordance with the Fund's investment objectives and strategy. Except for securities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from securities sold short can be unlimited. The Fund's overall market positions are monitored on a regular basis by the Investment Manager.

The Fund is primarily exposed to price risk from its investments in equity securities and related derivatives. As at December 31, 2016, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately \$2,598,808 (2015 - \$165,216).

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 5. Financial risk management (continued):

The Fund is also exposed to price risk through the concentration of its investment portfolio, and manages this risk through daily monitoring of the portfolio to comply with the investment strategies outlined in the Fund's Offering Memorandum.

### (b) Foreign exchange risk:

The Fund holds both monetary and non-monetary assets denominated or traded in currencies other than the CAD, the Fund's functional currency. Foreign currency risk arises as the value of future transactions, assets and liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates.

The tables below summarize the foreign currencies to which the Fund had significant exposure at December 31, 2016 and 2015 in CAD terms. The tables also illustrate the potential impact on the net assets attributable to holders of redeemable units if CAD had strengthened or weakened by 5% in relation to the listed currencies, with all other variables held constant.

2016:

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United States dollar	Exposure	Impact on net assets attributable to holders of redeemable units
Cash and other receivables	\$ 7,628,336	\$ 381,417
Investments at FVTPL	11,080,494	554,025
<b>Total</b>	<b>\$ 18,708,830</b>	<b>\$ 935,442</b>
% of net assets attributable to holders of redeemable units	22.0	1.1

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# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 5. Financial risk management (continued):

2015:

United States dollar	Exposure	Impact on net assets attributable to holders of redeemable units
Cash and other receivables	\$ (931,828)	\$ (46,591)
Investments at FVTPL	995,365	49,768
<b>Total</b>	<b>\$ 63,537</b>	<b>\$ 3,177</b>
% of net assets attributable to holders of redeemable units	1.2	0.1

The analysis above is based on the assumptions that the relevant foreign exchange rate increased/decreased by 5%, with all other variables held constant. This represents management's best estimate of a reasonably possible shift in the foreign exchange rates.

### (c) 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 prevailing market interest rates.

The majority of the Fund's investments are non-interest bearing and, as such, are not subject to a significant amount of risk arising from fluctuations in interest rates.

### (b) Capital risk management:

The capital of the Fund is represented by the net assets attributable to holders of redeemable units. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's net asset value per unit upon redemption. The relevant movements are shown on the statement of changes in net assets attributable to holders of redeemable units. There is no external regulatory requirement to maintain a minimum capital amount.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 5. Financial risk management (continued):

### (c) Fair value measurement:

The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the period-end date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If a significant movement in fair value occurs subsequent to the close of trading up to midnight on the period-end date, valuation techniques will be applied to determine the fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each period-end date. Valuation techniques used for non-standardized financial instruments include the use of comparable recent arm's-length transactions, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

The fair value hierarchy has the following levels:

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs are 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 are unobservable inputs for the asset or liability.

The determination of what constitutes "observable" requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

If an asset or liability classified as Level 1 subsequently ceases to be actively traded, it is transferred into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs; in which case, it is reclassified to Level 3. All transfers are recorded at fair value at the beginning of the period of the transfer.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 5. Financial risk management (continued):

All investments held by the Fund are classified as Level 1.

There were no transfers among Level 1, Level 2 and Level 3 in the periods presented.

## 6. Net assets attributable to redeemable units:

Redeemable units:

The Fund is authorized to issue an unlimited number of classes and series of units and an unlimited number of units in each such class or series. Each unit of a class or a series represents an undivided ownership interest in the net asset value of the Fund attributable to that class or series of units. Each unit of a particular series of a class has equal rights to each other unit of the same series with respect to all matters, including voting, receipt of distributions from the Fund, liquidation and other events in connection with the Fund.

Subscriptions are accepted on a weekly basis, subject to applicable law and the Investment Manager's discretion to refuse a subscription in whole or in part. If a fully completed subscription agreement and subscription proceeds in cleared funds are delivered by the last business day of a week, a valuation date, and such subscription is accepted, the units subscribed for will be issued on the first business day of the next week. Units will be issued in series each month at an opening pricing net asset value for each new series of CAD \$10 for Class A, Class F and Founders units or USD \$10 for Class UA, Class UF and Class UJ units.

Units may be redeemed as of the last business day of each week (a "Redemption Date"), except in extraordinary circumstances. A request in writing (including, for greater certainty, requests sent by email) with the unitholder's signature, to the satisfaction of the Investment Manager and the Trustee, must be received by the Investment Manager at least one business day prior to the Redemption Date or such other period as permitted by the Investment Manager and the Trustee in their sole discretion. The amount payable to a unitholder for each unit redeemed will be an amount equal to the class net asset value per unit of the relevant series on the Redemption Date, together with the proportionate share attributable to such units of any distribution which has been declared and not paid, less (a) any redemption charges payable, and (b) any withholding or other taxes required to be deducted. The redemption proceeds will typically be paid to the unitholder on or before the fourth business day following the Redemption Date.



# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 6. Net assets attributable to redeemable units (continued):

During the year ended December 31, 2016 and period from April 1, 2015 (commencement of operations) to December 31, 2015, the number of units issued, redeemed and outstanding was as follows:

2016	Units, beginning of year	Issuance of units	Redemption of units	Distribution reinvestment	Redesignation of units	Units, end of year
Class A - Initial Series	103	—	(4,216)	6,142	506,208	508,237
Class A - 2015 Series 11	49,178	—	—	37	(49,215)	—
Class A - 2015 Series 12	1,500	—	—	16	(1,516)	—
Class A - 2016 Series 1	—	9,863	—	90	(9,953)	—
Class A - 2016 Series 2	—	16,084	—	74	(16,158)	—
Class A - 2016 Series 3	—	68,315	—	158	(68,473)	—
Class A - 2016 Series 4	—	30,016	—	228	(30,244)	—
Class A - 2016 Series 5	—	113,056	—	203	(113,259)	—
Class A - 2016 Series 6	—	120,473	—	102	(120,575)	—
Class A - 2016 Series 7	—	66,821	—	193	(67,014)	—
Class A - 2016 Series 8	—	95,426	—	449	(95,875)	—
Class A - 2016 Series 9	—	74,331	—	99	(74,430)	—
Class A - 2016 Series 10	—	100,372	—	765	—	101,137
Class A - 2016 Series 11	—	244,329	—	327	—	244,656
Class A - 2016 Series 12	—	142,752	—	7	—	142,759
Class E - Initial Series	223,087	68,238	(6,473)	9,982	—	294,834
Class F - Initial Series	19,875	—	(476,868)	34,174	3,278,205	2,855,386
Class F - 2015 Series 10	10,440	—	—	8	(10,448)	—
Class F - 2015 Series 11	23,411	—	—	18	(23,429)	—
Class F - 2015 Series 12	3,996	—	—	3	(3,999)	—
Class F - 2016 Series 1	—	102,982	—	915	(103,897)	—
Class F - 2016 Series 2	—	446,510	—	2,018	(448,528)	—
Class F - 2016 Series 3	—	288,112	—	611	(288,723)	—
Class F - 2016 Series 4	—	354,746	(397)	1,688	(356,037)	—
Class F - 2016 Series 5	—	375,664	(5,899)	1,233	(370,998)	—
Class F - 2016 Series 6	—	205,629	—	354	(205,983)	—
Class F - 2016 Series 7	—	387,514	(10,023)	1,974	(379,465)	—
Class F - 2016 Series 8	—	751,192	(698)	2,503	(752,997)	—
Class F - 2016 Series 9	—	531,034	—	529	(531,563)	—
Class F - 2016 Series 10	—	496,296	(6,617)	3,159	—	492,838
Class F - 2016 Series 11	—	599,695	(2,000)	1,865	24,673	624,233
Class F - 2016 Series 12	—	579,548	(1,502)	576	3,800	582,422
Class UA - 2016 Series 9	—	2,488	—	—	—	2,488
Class UA - 2016 Series 11	—	14,702	—	67	—	14,769
Class UA - 2016 Series 12	—	19,781	—	11	—	19,792
Class UF - Initial Series	—	—	—	348	57,584	57,932

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 6. Net assets attributable to redeemable units (continued):

	Units, beginning of year	Issuance of units	Redemption of units	Distribution reinvestment	Redesignation of units	Units, end of year
Class UF - 2016 Series 8	–	7,500	–	50	(7,550)	–
Class UF - 2016 Series 9	–	50,144	–	39	(50,183)	–
Class UF - 2016 Series 10	–	137,836	–	1,106	–	138,942
Class UF - 2016 Series 11	–	52,834	–	184	–	53,018
Class UF - 2016 Series 12	–	18,951	–	8	–	18,959
Class UJ - 2016 Series 10	–	1,000,000	–	9,254	–	1,009,254
Founder Class - Initial Series	23,069	–	(72,214)	8,989	484,518	444,362
Founder Class - 2015 Series 10	38,169	–	–	28	(38,197)	–
Founder Class - 2015 Series 11	75,278	–	–	57	(75,335)	–
Founder Class - 2015 Series 12	45,000	–	–	480	(45,480)	–
Founder Class - 2016 Series 1	–	30,000	–	226	(30,226)	–
Founder Class - 2016 Series 2	–	47,864	–	231	(48,095)	–
Founder Class - 2016 Series 3	–	30,000	–	23	(30,023)	–
Founder Class - 2016 Series 4	–	65,101	–	410	(65,511)	–
Founder Class - 2016 Series 5	–	50,000	–	–	(50,000)	–
Founder Class - 2016 Series 7	–	54,262	–	420	(54,682)	–
Founder Class - 2016 Series 8	–	81,263	–	544	(81,807)	–

	Units, beginning of period	Issuance of units	Redemption of units	Distribution reinvestment	Redesignation of units	Units, end of period
2015						
Class A - Initial Series	–	100	–	3	–	103
Class A - 2015 Series 11	–	48,977	–	201	–	49,178
Class A - 2015 Series 12	–	1,500	–	–	–	1,500
Class E - Initial Series	–	222,491	(3,621)	4,217	–	223,087
Class F - Initial Series	–	100	–	177	19,598	19,875
Class F - 2015 Series 8	–	20,000	–	104	(20,104)	–
Class F - 2015 Series 10	–	10,365	–	75	–	10,440
Class F - 2015 Series 11	–	23,317	–	94	–	23,411
Class F - 2015 Series 12	–	3,992	–	4	–	3,996
Founder Class - Initial Series	–	22,500	–	569	–	23,069
Founder Class - 2015 Series 10	–	37,871	–	298	–	38,169
Founder Class - 2015 Series 11	–	75,000	–	278	–	75,278
Founder Class - 2015 Series 12	–	45,000	–	–	–	45,000

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 6. Net assets attributable to redeemable units (continued):

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the year ended December 31 is calculated as follows:

Series	2016			2015		
	Increase (decrease) per series	Weighted average units outstanding	Increase (decrease) per unit	Increase (decrease) per series	Weighted average units outstanding	Increase (decrease) per unit
Class A - Initial Series	\$ 120,039	569,218	0.21	\$ 71	101	0.70
Class A - 2015 Series 11	—	—	—	1,838	34,788	0.05
Class A - 2015 Series 12	—	—	—	(14)	1,500	(0.01)
Class A - 2016 Series 1	3,586	9,753	0.37	—	—	—
Class A - 2016 Series 2	2,992	15,869	0.19	—	—	—
Class A - 2016 Series 3	7,803	67,181	0.12	—	—	—
Class A - 2016 Series 4	5,381	26,208	0.21	—	—	—
Class A - 2016 Series 5	16,286	106,689	0.15	—	—	—
Class A - 2016 Series 6	17,390	115,373	0.15	—	—	—
Class A - 2016 Series 7	3,542	64,007	0.06	—	—	—
Class A - 2016 Series 8	2,492	83,648	0.03	—	—	—
Class A - 2016 Series 9	68	67,491	—	—	—	—
Class A - 2016 Series 10	11,126	91,011	0.12	—	—	—
Class A - 2016 Series 11	50,471	198,795	0.25	—	—	—
Class A - 2016 Series 12	8,025	79,755	0.10	—	—	—
Class E - Initial Series	375,306	285,453	1.31	162,007	150,496	1.08
Class F - Initial Series	781,029	3,206,577	0.24	—	19,695	0.24
Class F - 2015 Series 8	—	—	—	2,368	20,084	0.12
Class F - 2015 Series 10	—	—	—	1,236	8,557	0.14
Class F - 2015 Series 11	—	—	—	1,346	16,412	0.08
Class F - 2015 Series 12	—	—	—	247	3,413	0.07
Class F - 2016 Series 1	43,159	103,449	0.42	—	—	—
Class F - 2016 Series 2	87,083	421,432	0.21	—	—	—
Class F - 2016 Series 3	27,950	281,806	0.10	—	—	—
Class F - 2016 Series 4	83,871	342,467	0.24	—	—	—
Class F - 2016 Series 5	62,237	354,746	0.18	—	—	—
Class F - 2016 Series 6	28,458	200,776	0.14	—	—	—
Class F - 2016 Series 7	24,837	358,312	0.07	—	—	—
Class F - 2016 Series 8	36,739	767,220	0.05	—	—	—
Class F - 2016 Series 9	5,487	475,018	0.01	—	—	—
Class F - 2016 Series 10	62,713	424,476	0.15	—	—	—
Class F - 2016 Series 11	127,896	518,534	0.25	—	—	—
Class F - 2016 Series 12	42,767	370,102	0.12	—	—	—
Class UA - 2016 Series 9	946	2,488	0.38	—	—	—
Class UA - 2016 Series 11	3,277	14,736	0.22	—	—	—
Class UA - 2016 Series 12	2,553	10,096	0.25	—	—	—
Class UF - Initial Series	26,630	57,626	0.46	—	—	—
Class UF - 2016 Series 8	1,342	7,539	0.18	—	—	—
Class UF - 2016 Series 9	(1,232)	42,761	(0.03)	—	—	—
Class UF - 2016 Series 10	55,233	123,791	0.45	—	—	—
Class UF - 2016 Series 11	9,992	40,438	0.25	—	—	—
Class UF - 2016 Series 12	6,148	16,639	0.37	—	—	—
Class UJ - 2016 Series 10	463,244	1,004,613	0.46	—	—	—
Founder Class - Initial Series	258,050	481,363	0.54	21,444	22,780	0.94
Founder Class - 2015 Series 10	—	—	—	7,375	36,673	0.20
Founder Class - 2015 Series 11	—	—	—	4,570	75,134	0.06
Founder Class - 2015 Series 12	—	—	—	(381)	45,000	(0.01)
Founder Class - 2016 Series 1	11,670	30,201	0.39	—	—	—
Founder Class - 2016 Series 2	11,570	56,114	0.21	—	—	—
Founder Class - 2016 Series 3	836	30,022	0.03	—	—	—
Founder Class - 2016 Series 4	17,718	62,591	0.28	—	—	—
Founder Class - 2016 Series 5	9,004	50,000	0.18	—	—	—
Founder Class - 2016 Series 7	2,532	52,504	0.05	—	—	—
Founder Class - 2016 Series 8	5,423	81,682	0.07	—	—	—

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 7. Related party transactions:

### (a) Management fees:

As consideration for the services provided by the Investment Manager, the Fund pays the Investment Manager a management fee, monthly in arrears, calculated weekly as:

- (i) 1/12 of 2.0% of the aggregate of the net asset value of the Class A and Class UA units on the last business day of the preceding month;
- (ii) 1/12 of 1.0% of the aggregate of the net asset value of the Class F, Class UF, Class J and Class UJ units on the last business day of the preceding month; and
- (iii) 1/12 of 1.5% of the aggregate of the net asset value of the Founder, Class I and Class UI units on the last business day of the preceding month.

### (b) Performance fees:

The Investment Manager is entitled to a quarterly performance fee equal to:

- (i) 20% of the amount by which the performance of each Class A, Class UA, Class F, Class UF, Class I, Class UI, Class J and Class UJ series exceeds the previous high water mark; and
- (ii) 10% of the amount by which the performance of each Founder series exceeds the previous high water mark.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 7. Related party transactions (continued):

No performance fee shall be paid in respect of a particular series of the class of units unless the class net asset value per unit of the class of units of that series exceeds the highest net asset value per unit of the class of units of that series in respect of which a performance fee has been previously paid, (the high water mark) and, in such circumstances, a performance fee shall only be paid on that portion of the net profit that exceeds the high water mark. Because the performance fee is calculated on a series-by-series basis, if a new investor purchases units of the class or an existing unitholder purchases additional units of the class, the starting point for the measurement of net profit with respect to that new or additional investment will be the applicable subscription date for such class of units. The previous highest class net asset value per unit of the class of units of any series achieved prior to the purchase of the new units of the class will not be considered in determining whether a performance fee is payable with respect to any such newly issued series of units of the class. As a result, different series of units of the class may have different performance fees payable at the end of the same calculation period, based on the level of net profit relating to each such series during the period during which it was outstanding, and a unitholder may be subject to a performance fee payment with respect to its units of the class in one series even if it incurs a net loss with respect to the aggregate number of units of the class it owns in all series.

### (c) Other expenses:

The Fund is responsible for all of its operating expenses, including legal, audit and all other expenses incurred in the ordinary course of operations. The Investment Manager has elected to absorb certain expenses of the Fund in 2016 and 2015. For the year ended December 31, 2016, the Investment Manager absorbed \$10,287 (2015 - nil) in audit fees and \$6,132 (2015 - nil) in administration fees. No legal fees and trustee fees were absorbed in 2016 (2015 - \$6,631 and \$2,846, respectively).

### (d) Related party shareholdings:

The Investment Manager, its officers and directors invest in units of the Fund from time to time in the normal course of business. All transactions with the Investment Manager are measured at the exchange amounts. As at December 31, 2016, 106.8436 of Class A units and 106.7903 of Class F units were held by the Investment Manager and 294,833.9293 of Class E units and 68,428.0359 of Founder units (2015 - 102.9231, 102.9129, 223,086.9779 and 23,068.9606, respectively) were owned by unitholders related to the Investment Manager.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## **8. Soft dollar commissions:**

In allocating brokerage business, consideration may be given by the Investment Manager of the Fund to dealers to furnish research, statistical and other services to the Investment Manager through soft dollar arrangements (the amount ascertained to have been paid for goods and services other than order execution). The total brokerage commission paid to dealers in connection with investment portfolio transactions and amounts of soft dollar commission for the year ended December 31, 2016 is approximately \$20,338 (2015 - nil).

## **9. Interests in subsidiaries, associates and unconsolidated structured entities:**

The Fund may invest in units of ETFs as part of its investment strategies. The nature and purpose of these ETFs generally, is to manage assets on behalf of third-party investors in accordance with their investment objectives, and are financed through the issue of units to investors.

In determining whether the Fund has control or significant influence over an ETF, the Fund assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. In instances where the Fund has control over an ETF, the Fund qualifies as an investment entity under IFRS 10, Consolidated Financial Statements, and therefore, accounts for investments it controls at FVTPL. The Fund's primary purpose is defined by its investment objectives and uses the investment strategies available to it, as defined in the Fund's Offering Memorandum to meet those objectives. The Fund also measures and evaluates the performance of any ETFs on a fair value basis.

ETFs over which the Fund has control or significant influence are categorized as subsidiaries and associates, respectively. All other ETFs are categorized as unconsolidated structured entities.

# EHP GUARDIAN FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 9. Interests in subsidiaries, associates and unconsolidated structured entities (continued):

Investments in ETFs are susceptible to market price risk arising from uncertainty about future values of those ETFs. The maximum exposure to loss from long position in ETFs is equal to the total fair value of the investment in those respective ETFs at any given point in time. The Fund did not have control or any significant influence on these ETFs and, the following, meet the definition of unconsolidated structures entities:

As at	ETF	Place of business	Fair value amounts	Proportion of interest owned
December 31, 2016	iShares iBoxx High Yield Corp Bond ETF	United States	\$ 8,489,900	0.03%
December 31, 2016	SPDR Bloomberg Barclays High Yield Bond ETF	United States	8,479,122	0.05%
December 31, 2015	iShares Barclays 20+ Year Treasury Bond ETF	United States	1,168,094	0.01%

The Fund may invest in or hold a short position of units of ETFs as part of its investment strategies. The nature and purpose of these ETFs generally, is to manage assets on behalf of third party investors in accordance with their investment objectives, and are financed through the issue of units to investors. The maximum exposure to loss from interests in short positions can be unlimited.

The fair value of these ETFs, if any, are disclosed in investments in the statement of financial position and listed in the schedule of investments.

## 10. Filing exemption:

The Fund is relying on the exemption contained in Section 2.11(d) of National Instrument 81-106 not to file its financial statements with the Ontario Securities Commission.

## 11. Subsequent events:

The Fund has evaluated the effect of subsequent events on the Fund's financial statements through March 31, 2017, which is the date the financial statements were available to be issued. For the period from January 1, 2017 to March 31, 2017, the Fund had subscriptions of \$45,968,635 and redemptions of \$961,427.