

LIGHTWATER

PARTNERS LTD

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August 23, 2016

Dear Investors,

We've had a few meetings with corporate management teams over the last few days as well as some institutional meetings last week. We felt we would share some observations that are timely.

Please see attached a one pager of the Lightwater Long Short Fund over the last three full calendar years month by month. We think it clearly illustrates why now is the best time to be investing or adding in.

We have yet to meet a long only Portfolio Manager that does not think that the majority of the non-resource stocks they own are very expensive. The TSX now trades at an average forward price-to-earnings ratio of 20 times, which is five points higher than the historical average.

Our funds have very low correlation to the market, in fact, one of the lowest in Canada. We historically have done well in down markets, when portfolios needed it the most. That's why you invest in Lightwater, because we do very well in down markets. We do well in moderate markets, and we often underperform when markets are ripping.

As we look to the fall, we feel there is a good argument to be made for positioning in alternative assets while the markets continue to hit new 52 week highs. Obviously, we cannot forecast a repeat of a historically bad September to October, but we are making sure that our highest conviction shorts are appropriately weighted in our portfolio. We are also looking forward to adding a few names when they get pulled back.

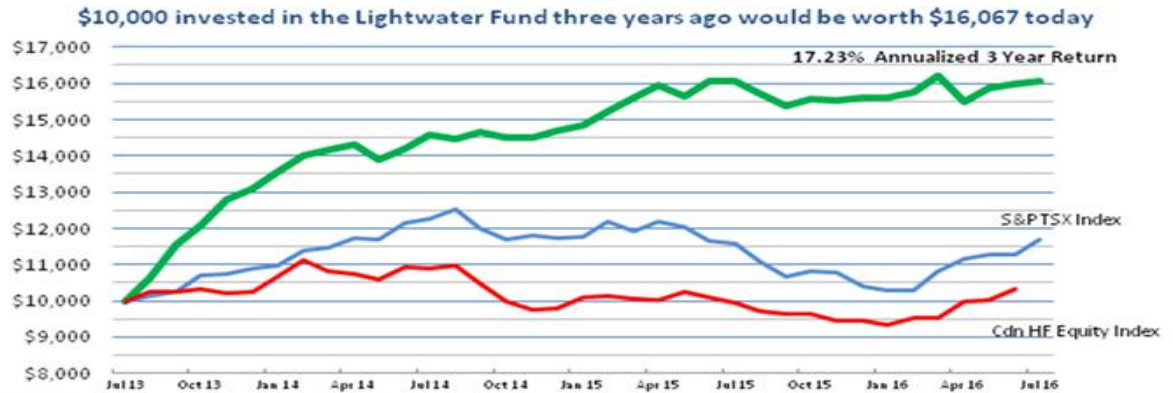
Lightwater's strong performance in the worst markets of 2008, 2015, and through January to March of this year helped create one of the best track records in the industry and a reputation for downside protection. That is our goal.

We firmly believe that with each passing week of new highs, downside protection and low correlation of a long short equity fund is worth adding now. Portfolio insurance, as with any insurance, is put in place prior to volatile events.

Most portfolios need good markets to achieve good results. We do not.

Best Regards,

Lightwater Partners



RETURNS

	1 Mth	3 Mth	YTD	1 Year	2 Year*	3 Year*	5 Year*	Inception*	Cumulative**
Lightwater ¹	0.63%	4.09%	3.20%	0.26%	5.15%	17.23%	8.37%	4.48%	45.62%
S&P/TSX Composite Index	3.68%	4.52%	12.09%	0.79%	-2.47%	5.31%	2.41%	0.62%	5.42%
CDN - Hedge Fund Equity Index ²	TBD ²	8.09%	8.99%	2.03%	-2.92%	1.69%	-3.33%	-3.37%	-25.26%

* annualized performance data ** Performance figures since inception of fund¹, January 1st 2008

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	0.05%	0.93%	3.29%	-4.95%	2.81%	0.61%	0.63%						3.20%
2015	1.19%	2.52%	2.52%	2.06%	-1.84%	2.67%	0.04%	-2.28%	-1.96%	1.20%	-0.42%	0.63%	6.32%
2014	3.64%	3.39%	0.89%	1.07%	-2.91%	2.16%	2.72%	-0.68%	1.34%	-1.21%	0.01%	1.32%	12.17%
2013	6.17%	0.17%	-2.40%	-1.79%	0.88%	0.78%	7.65%	6.38%	8.66%	4.36%	5.92%	2.44%	46.02%

¹The return figures for Lightwater are a composite beginning January 1st 2008 and is comprised of the Lightwater proprietary account (Jan '08 to June '08), the Lightwater Canadian Opportunities Fund and the Lightwater Long Short Fund (Jan '09 – present). These funds/account employed the same investment strategies. The Lightwater proprietary account was non-fee paying however all performance figures have been adjusted downwards to take into account the effects of management and performance fees. The Lightwater Canadian Opportunities Fund is currently closed to investors.

²CDN Hedge Fund Equity Index figures are as of June 30 2016. July 31 2016 index figures will be released by Canadian Hedge Watch mid-month.

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