

**GUARDIAN CANADIAN GROWTH EQUITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**



March 28, 2014

## **Independent Auditor's Report**

### **To the Unitholders and Trustee of Guardian Canadian Growth Equity Fund (the Fund)**

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at December 31, 2013, the statements of net assets as at December 31, 2013 and 2012 and the statements of operations and changes in net assets for the years then ended, 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 in accordance with Canadian generally accepted accounting principles, 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 these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2013 and 2012 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

# Guardian Canadian Growth Equity Fund

## Statements of Net Assets

<i>As at December 31</i>	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Investments, at fair value*	\$ 308,143,857	\$ 152,590,789
Cash and short-term securities	10,474,879	4,667,553
Subscriptions receivable	10,129	905
Interest and dividends receivable	252,447	253,727
	<b>318,881,312</b>	<b>157,512,974</b>
<b>Liabilities</b>		
Accrued expenses	56,197	84,678
<b>Net assets representing unitholders' equity (Note 4)</b>	<b>\$ 318,825,115</b>	<b>\$ 157,428,296</b>
<b>Net assets per series</b>		
Series W	\$ 1,078	\$ -
Series I	\$ 318,824,037	\$ 157,428,296
<b>Net assets per unit (Note 3)</b>		
Series W	\$ 10.67	\$ -
Series I	\$ 28.70	\$ 23.95
*Investments, at average cost	\$ 261,026,261	\$ 147,538,263

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

Approved on behalf of the Manager,  
Guardian Capital LP:

Per: "George Mavroudis"

Per: "Donald Yi"

## Guardian Canadian Growth Equity Fund

### Statements of Operations

<i>For the years ended December 31</i>	<b>2013</b>	<b>2012</b>
<b>Income:</b>		
Dividends	\$ 4,373,880	\$ 2,331,780
Interest	105,582	82,726
Securities lending income (Note 11)	28,700	11,726
Foreign withholding tax	(5,193)	-
<b>Total income</b>	<b>4,502,969</b>	<b>2,426,232</b>
<b>Operating Expenses (Note 5):</b>		
Administration fee	501,481	254,971
Management fee	5	-
Independent review committee costs	6,384	9,937
Interest charges	1,366	4
<b>Total expenses</b>	<b>509,236</b>	<b>264,912</b>
Net investment income	3,993,733	2,161,320
Realized gain (loss) on sale of investments	2,660,243	(1,082,195)
Realized gain on foreign currency transactions	122	-
Transaction costs (Note 7)	(302,284)	(159,609)
Change in unrealized appreciation in value of investments	42,065,070	6,826,754
<b>Increase in net assets from operations</b>	<b>\$ 48,416,884</b>	<b>\$ 7,746,270</b>
<b>Increase in net assets from operations</b>		
Series W	\$ 78	\$ -
Series I	\$ 48,416,806	\$ 7,746,270
<b>Increase in net assets from operations per unit</b>		
Series W	\$ 0.78	\$ -
Series I	\$ 5.16	\$ 1.38

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

**Guardian Canadian Growth Equity Fund**

**Statements of Changes in Net Assets**

<i>For the years ended December 31</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>Series W</b>	<b>Series W</b>	<b>Series I</b>	<b>Series I</b>	<b>Total</b>	<b>Total</b>
<b>Net assets, beginning of year</b>	\$ -	\$ -	\$ 157,428,296	\$ 99,010,808	\$ 157,428,296	\$ 99,010,808
Increase in net assets from operations	78	-	48,416,806	7,746,270	48,416,884	7,746,270
Distributions to unitholders from:						
Net investment income	(14)	-	(3,817,793)	(2,096,587)	(3,817,807)	(2,096,587)
Capital transactions:						
Proceeds from sale of units	1,000	-	140,602,872	58,152,940	140,603,872	58,152,940
Reinvested distributions	14	-	3,817,793	2,096,587	3,817,807	2,096,587
Redemption of units	-	-	(27,623,937)	(7,481,722)	(27,623,937)	(7,481,722)
	1,014	-	116,796,728	52,767,805	116,797,742	52,767,805
<b>Net assets, end of year</b>	\$ 1,078	\$ -	\$ 318,824,037	\$ 157,428,296	\$ 318,825,115	\$ 157,428,296

<b>Change in units</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>Series W</b>	<b>Series W</b>	<b>Series I</b>	<b>Series I</b>
<b>Units issued and outstanding, beginning of year</b>	-	-	6,572,932	4,315,143
Number of units issued	100	-	5,453,907	2,493,811
Number of units reinvested	1	-	132,931	87,394
	101	-	12,159,770	6,896,348
Number of units redeemed	-	-	(1,052,833)	(323,416)
<b>Units issued and outstanding, end of year</b>	101	-	11,106,937	6,572,932

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

## Guardian Canadian Growth Equity Fund

### Statement of Investment Portfolio As at December 31, 2013

Number of Shares/Units	Security	Average Cost	Fair Value
<b>Common Stocks - 96.6%</b>			
<b>Consumer Discretionary - 12.9%</b>			
93,300	Dollarama Inc.	\$ 4,998,154	\$ 8,218,797
173,504	Gildan Activewear Inc.	5,653,303	9,820,326
249,200	Imax Corp. *	6,095,796	7,772,548
93,200	Magna International Inc.	4,703,836	8,114,924
274,300	Quebecor Inc., Class B	5,395,155	7,244,263
		<u>26,846,244</u>	<u>41,170,858</u>
<b>Consumer Staples - 6.8%</b>			
106,481	Alimentation Couche-Tard Inc., Class B	4,553,449	8,502,508
151,100	Loblaw Cos. Ltd. *	7,253,523	6,403,618
412,300	Maple Leaf Foods Inc.	5,091,951	6,906,025
		<u>16,898,923</u>	<u>21,812,151</u>
<b>Energy - 22.3%</b>			
569,300	Bellatrix Exploration Ltd. *	4,500,477	4,440,540
212,450	Cameco Corp.	4,585,566	4,682,398
210,400	Canadian Energy Services & Technology Corp.	3,703,269	4,856,032
345,055	Canadian Natural Resources Ltd.	11,331,385	12,394,376
226,368	Cenovus Energy Inc.	7,360,475	6,881,587
186,700	Enbridge Inc.	8,296,558	8,661,013
273,190	MEG Energy Corp. *	9,766,413	8,362,346
191,000	Paramount Resources Ltd., Class A *	6,537,297	7,426,080
155,100	Tourmaline Oil Corp. *	6,188,039	6,932,970
230,400	Trilogy Energy Corp.	6,148,668	6,359,040
		<u>68,418,147</u>	<u>70,996,382</u>
<b>Financials - 28.7%</b>			
304,605	Bank of Nova Scotia	17,191,230	20,225,772
349,400	Element Financial Corp.	3,209,591	4,884,612
147,000	IGM Financial Inc. *	7,349,691	8,245,230
109,885	Intact Financial Corp.	6,339,030	7,621,624
514,100	Manulife Financial Corp. *	7,543,504	10,770,395
286,500	Royal Bank of Canada	16,456,306	20,456,100
194,435	Toronto-Dominion Bank	15,854,313	19,460,999
		<u>73,943,665</u>	<u>91,664,732</u>
<b>Health Care - 2.7%</b>			
169,300	Catamaran Corp. *	8,673,979	8,534,413
<b>Industrials - 5.8%</b>			
1,194,800	Bombardier Inc. *	5,015,242	5,496,080
197,900	CAE Inc.	2,591,141	2,671,650
168,900	Canadian National Railway Co.	7,494,854	10,225,206
		<u>15,101,237</u>	<u>18,392,936</u>
<b>Information Technology - 7.2%</b>			
131,600	CGI Group Inc.	3,476,191	4,674,432
36,300	Constellation Software Inc.	3,955,655	8,158,425
91,000	Open Text Corp. *	6,568,604	8,881,600
52,500	Sierra Wireless Inc. *	686,769	1,345,575
		<u>14,687,219</u>	<u>23,060,032</u>

\* Denotes all or part of securities on loan.

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

## Guardian Canadian Growth Equity Fund

### Statement of Investment Portfolio As at December 31, 2013

Number of Shares/Units	Security	Average Cost	Fair Value
<b>Common Stocks - 96.6%</b>			
<b>Materials - 10.2%</b>			
465,900	First Quantum Minerals Ltd.	\$ 9,130,889	\$ 8,908,008
248,987	Goldcorp Inc.	9,225,113	5,724,211
443,900	HudBay Minerals Inc. *	4,111,230	3,879,686
70,625	Methanex Corp.	2,395,899	4,435,956
823,300	New Gold Inc. *	6,937,646	4,577,548
232,600	Silver Wheaton Corp.	4,932,157	4,986,944
		<u>36,732,934</u>	<u>32,512,353</u>
	<b>Total Common Stocks</b>	<b>261,302,348</b>	<b>308,143,857</b>
	<b>Transaction Costs</b>	<b>(276,087)</b>	<b>-</b>
	<b>Total Investments - 96.6%</b>	<b>261,026,261</b>	<b>308,143,857</b>
<b>Short-Term Securities - 3.3%</b>			
1,046,510	Guardian Canadian Short-Term Investment Fund, Series I	10,465,101	10,465,101
	<b>Total Short-Term Securities</b>	<b>10,465,101</b>	<b>10,465,101</b>
	<b>Other Net Assets - 0.1%</b>		<b>216,157</b>
	<b>Total Net Assets - 100.0%</b>		<b>\$ 318,825,115</b>

\* Denotes all or part of securities on loan.

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



# GUARDIAN CANADIAN GROWTH EQUITY FUND

## NOTES TO FINANCIAL STATEMENTS

### 1. Formation of Fund:

Guardian Canadian Growth Equity Fund (the “Fund”) was formed on July 31, 1986 and Guardian Capital LP (the “Manager”) is the manager and trustee of the Fund. The primary objective of the Fund is the achievement of long-term growth of capital, primarily through the investment in the Canadian issuers with a growth orientation that are reasonably priced within the market. Pursuant to an amendment to the Fund’s Declaration of Trust, effective September 16, 2013, the existing Series A units were renamed as Series W units. The initial subscription for Series W units was made on September 30, 2013.

### 2. Significant accounting policies:

#### a) Basis of presentation:

These financial statements, prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), include estimates and assumptions made by the Manager that may affect the reported amounts of assets, liabilities, income and expenses during the reporting year. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Fund.

#### b) Valuation of investments:

In accordance with Accounting Guideline 18 – Investment Companies, investments are categorized as held for trading, and are required to be recorded at fair value as defined in the Chartered Professional Accountants Canada (“CPA Canada”) Handbook Section 3855, “Financial Instruments – Recognition and Measurement”. The fair values of investments as at the financial reporting date are determined as follows:

- i) Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation date. Securities with no available bid prices are valued at the closing sale prices.
- ii) Securities not listed upon a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner as may be established by the Manager.
- iii) Short-term notes and bonds are valued at the average bid quotations from recognized investment dealers.
- iv) Investment funds are valued at the closing net asset value per unit reported by the administrator of such funds.

#### c) Cash and short-term securities:

Cash includes cash on deposit with the custodian and is carried at the face amount thereof, which is its fair value. Short-term securities include highly liquid short-term investments with terms to maturity of less than 90 days, and the investment in Guardian Canadian Short-Term Investment Fund.

#### d) Investment transactions and income recognition:

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date. Securities lending income is accrued daily over the year the securities are loaned. Distributions received from investment trust units are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Amounts recorded as a return of capital reduce the cost of the investment in the trust unit. Discounts arising on the purchase of short-term notes are recognized as interest income over the term to maturity. Realized gains (losses) from investment transactions and unrealized appreciation (depreciation) in value of investments are determined on an average cost

## 2. Significant accounting policies (continued):

basis. Brokerage commissions and other transaction costs are expensed in the year incurred, and are reported as “Transaction costs” in the Statements of Operations.

Expenses are accrued on a daily basis, separately for each series of units, while income and realized and unrealized gains and losses are allocated to each series of units based upon the net asset value of each series.

### e) Translation of foreign currency transactions and balances:

The market values of investments and other assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on each valuation date. Purchases and sales of investments and income are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in realized gain (loss) on sales of investments and unrealized gains (losses) are included in change in unrealized appreciation (depreciation) in value of investments.

### f) Other assets and liabilities:

For the purposes of categorization in accordance with CPA Canada Handbook Section 3862, “Financial Instruments – Disclosures”, interest and dividends receivable, due from brokers, subscriptions receivable and other net assets are designated as loans and receivables, and recorded at cost or amortized cost. Similarly, due to brokers, redemptions payable, accrued expenses and other liabilities are designated as other financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short term nature.

### g) Increase (decrease) in net assets from operations per unit:

Increase (decrease) in net assets from operations per unit is calculated as the increase (decrease) in net assets from operations of a series divided by the average number of units of the series outstanding during the year.

### h) Comparative disclosure:

Certain disclosures for comparative years have been amended to reflect the disclosures adopted in the current year.

## 3. Comparison of net asset value:

The value of the Fund’s net assets of a series per unit for financial statement presentation purposes (“Net Assets per Unit”) is calculated by dividing the net assets of the series, calculated in accordance with GAAP by using the bid prices for investments, by the total number of units of the series outstanding. For the net asset value per unit for the purpose of the issuance and redemption of units of a series (“Net Asset Value per Unit”), the series’ net assets are valued using the closing traded prices for investments. This difference in the valuation of the series’ investments account for the potential difference between Net Assets per Unit and Net Asset Value per Unit.

A comparison of the Net Asset Value per Unit and the Net Assets per Unit is as follows:

	<u>Net Asset Value per unit</u>	<u>Net Assets per Unit</u>
As at December 31, 2013		
Series W	\$10.68	\$10.67
Series I	\$28.72	\$28.70
As at December 31, 2012		
Series W	-	-
Series I	\$23.99	\$23.95

#### **4. Unitholders' equity:**

Unitholders' equity includes the amounts representing the net assets of the Fund, which includes any undistributed net income and realized gain (loss) on sale of investments, and unrealized appreciation (depreciation) in value of investments. The Fund is authorized to issue Series I and Series W units. An unlimited number of the Fund's units of each series may be issued, which are redeemable at Net Asset Value per Unit for the series at the unitholder's option in accordance with the provisions of the Fund's Declaration of Trust. There are certain minimum purchase amounts for Series W and Series I units. The net asset value of the Fund attributable to Series W units is subject to a management fee charged to the Fund and payable to the Manager. The changes in the number of issued units are disclosed in the Statements of Changes in Net Assets. In accordance with the Fund's investment objectives and the risk management policies stated in Note 9, the Fund invests the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions.

#### **5. Operating expenses:**

The Fund's operating expenses consist of the management fee and administration fee described below, interest costs, fees and expenses of the Independent Review Committee, any new costs related to regulatory or legal requirements imposed upon the Fund, the HST on all of these expenses, and any income taxes to which the Fund may be subject. The Manager charges to the Fund a fixed annual management fee based on the average daily net asset value of the Fund attributable to Series W units of the Fund, which is accrued daily and paid at the end of the month. Effective September 16, 2013, such fee was reduced from 1.90% per annum to a rate of 1.50% per annum. The Manager also charges to the Fund a fixed administration fee of 0.18% of the average daily net asset value of the Fund, in return for the payment by the Manager of certain variable operating expenses of the Fund, including audit, custody, transfer agency, fund accounting, filing, securityholder reporting, legal, other related expenses, and HST on these expenses.

#### **6. Income taxes:**

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and, as such, is not subject to income taxes on its net taxable capital gains and its net income for the year if it allocates such gains and income (less any applicable losses carried forward) to unitholders. The taxable income of the Fund is allocated annually to unitholders so as to eliminate any income taxes otherwise payable by the Fund. As at December 31, 2013, capital losses available to be carried forward and applied against future capital gains amounted to \$1,242,679 (2012 - \$1,242,679). As at December 31, 2013 and 2012, there were no non-capital losses available to be carried forward and applied against future income.

#### **7. Transaction costs:**

Total transaction costs (brokerage commissions) paid to dealers in connection with the portfolio transactions of the Fund for the year ended December 31, 2013 amounted to \$302,284 (2012 - \$159,609). There were no soft dollar transactions for the years ended December 31, 2013 and 2012.

#### **8. Concentration of unitholders:**

Four unitholders of the Fund at December 31, 2013 held a total of 6,453,002 units, 58% (2012 - five unitholders, 3,994,623 units, 61%) of the outstanding Series I units. The investment activities of these unitholders could have a material impact on the Fund.

## 9. Financial risk management:

The Fund's financial instruments consist principally of short-term securities and investments. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and the markets in which it invests. The most significant risks include market risk which includes currency risk, interest rate risk and other price risk, concentration risk, liquidity risk and credit risk. These risks and related risk management practices employed by the Fund are discussed below:

### a) Market risk

#### (i) Currency risk

The Fund may from time to time hold assets valued in currencies other than the Canadian dollar, which is the Fund's functional currency. When it does so, it is exposed to currency risk, as the value of the assets valued in other currencies will fluctuate due to changes in exchange rates. As the Fund generally does not have significant investments in assets valued in foreign currencies, foreign currency risk is not considered to be material to the Fund. As at December 31, 2013 and 2012, the Fund's exposure to foreign currencies was minimal.

#### (ii) Interest rate risk

The Fund is exposed to interest rate risk through its investments in short-term securities. The most significant of these investments is the investment in Guardian Canadian Short-Term Investment Fund. Because of the short-term nature of its investments, this risk is not considered to be significant to the Fund.

#### (iii) Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to market fluctuations and the risks inherent in financial markets. The Manager moderates this risk through a careful selection of securities within specified limits, and through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a daily basis, and positions are maintained within established ranges. At December 31, 2013 and 2012, the overall equity investment exposure was as follows:

<b>As at December 31, 2013</b>	<b>Fair value</b>	<b>% of net assets</b>
Common stocks	\$ 308,143,857	96.6%

  

<b>As at December 31, 2012</b>	<b>Fair value</b>	<b>% of net assets</b>
Common stocks	\$ 152,590,789	96.9%

At December 31, 2013, if the prices on the stock exchanges for the common stocks held by the Fund increased or decreased by 5%, with all other variables held constant, this would have increased or decreased the net assets of the Fund by approximately \$15,407,000 or 4.8% of the Fund's net assets (2012 – \$7,630,000, 4.8%). In practice, the actual trading results could differ, and the difference could be material.

## 9. Financial risk management (continued):

### b) Concentration risk

The Fund is exposed to the possible risk inherent in the concentration of the investment portfolio in a small number of industries or investment sectors. The Manager moderates this risk through a careful selection of securities in several investment sectors. At December 31, 2013 and 2012, the percentages of the Fund's total net assets invested in each investment sector were as follows:

<b>Sectors as at December 31</b>	<b>2013</b>	<b>2012</b>
Consumer discretionary	12.9%	15.0%
Consumer staples	6.8%	5.3%
Energy	22.3%	16.8%
Financials	28.7%	22.8%
Health care	2.7%	1.4%
Industrials	5.8%	6.8%
Information technology	7.2%	7.7%
Materials	10.2%	18.8%
Telecommunication services	-	2.3%
Short-term securities	3.3%	2.9%
Other net assets	0.1%	0.2%
<b>Total net assets</b>	<b>100.0%</b>	<b>100.0%</b>

### c) Liquidity risk

The Fund is exposed to daily cash needs related to the redemption of units, and to the discharge of financial obligations related to the daily operations of the Fund. The ability to meet these needs is managed by retaining sufficient cash and short-term securities within the Fund, and by investing in securities which are considered readily realizable and highly liquid. All liabilities of the Fund are short-term in nature and are due within 60 days.

### d) Credit risk

The Fund is exposed to credit risk through its investments in short-term securities and preferred shares. The most significant of these investments is the investment in Guardian Canadian Short-Term Investment Fund which, at December 31, 2013, amounted to 3.3% of the total net assets (2012 – 2.9%), which held short-term securities which had credit ratings of R-1 High and R-1 Mid as of December 31, 2013 and 2012.

## 10. Fair value disclosure:

### Classification for fair value measurements

The Fund's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy. Fair values based on quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3), are provided in the following table, as at December 31, 2013 and 2012.

	<b>Financial Assets at fair value as at December 31, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stocks	\$ 308,143,857	\$ -	\$ -	\$ 308,143,857
Short-term securities	10,465,101	-	-	10,465,101
<b>Total investments and short-term securities</b>	<b>\$ 318,608,958</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 318,608,958</b>

**10. Fair value disclosure (continued):**

	Financial Assets at fair value as at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 152,590,789	\$ -	\$ -	\$ 152,590,789
Short-term securities	4,605,407	-	-	4,605,407
<b>Total investments and short-term securities</b>	<b>\$ 157,196,196</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 157,196,196</b>

**Significant transfers between Levels 1 and 2**

There were no significant transfers between Levels 1 and 2 for the years ended December 31, 2013 and 2012.

**11. Securities lending:**

The Fund has entered into a securities lending agreement with its custodian, RBC Investor Services Trust, which has a credit rating of AA- (2012 AA-). The Fund will receive collateral of at least 105% of the value of the securities on loan. Collateral will generally comprise obligations guaranteed by the Government of Canada or a province thereof, or other governments with appropriate credit ratings. In the event that any of the loaned securities are not returned to RBC Investor Services Trust, RBC Investor Services Trust may, at its option, either restore to the Fund securities identical to the loaned securities or pay to the Fund the value of the collateral up to but not exceeding the market value of the loaned securities on the date on which the loaned securities were to have been returned ("Valuation Date"). If the collateral is not sufficient to allow RBC Investor Services Trust to pay such market value to the Fund, RBC Investor Services Trust shall indemnify the Fund for the difference between the fair value of the securities and the value of such collateral on the Valuation Date. Securities loaned in the program earn securities lending income at market rates. The securities lending arrangements are revolving, and can be terminated at any time by the borrowers, RBC Investor Services Trust or the Fund.

At December 31, 2013, the Fund has loaned approximately \$47,704,619 (2012 – \$19,057,334) in securities and received approximately \$50,089,860 (2012 – \$20,010,194) in collateral. The Fund recognized \$28,700 in securities lending income for the year ended December 31, 2013 (2012 – \$11,726).

**12. Related party unitholders:**

Affiliates of the Manager, or other investment funds managed by the Manager, held the following units of the fund, as at December 31, 2013 and 2012:

As at December 31	2013		2012	
	Number of units	Percentage of outstanding units	Number of units	Percentage of outstanding units
Series W	101	100%	-	-
Series I	93,811	1%	140,090	2%

### **13. Future changes in accounting standards:**

International Financial Reporting Standards (IFRS) have replaced Canadian GAAP for publicly accountable enterprises in Canada, which include investment funds. The Canadian Accounting Standards Board has determined that the effective date of the adoption of IFRS by investment funds will be January 1, 2014.

The Manager has carried out an assessment of the impact on the Fund of the conversion to IFRS. Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, and the standards that are in effect at December 31, 2013, the Manager does not anticipate that there will be any changes to the calculation of the Fund's Net Asset Value or Net Asset Value per Unit, which is used for the issuance and redemption of Fund units. The Manager has, however, identified the following areas in which there may be changes in the presentation of the Fund's financial statements:

- a) International Accounting Standards 32, "Financial Instruments: Presentation", allows puttable (redeemable) instruments to be classified as equity, only if certain conditions are met. The Manager has assessed the guidance that will apply under IFRS, and has determined that the Fund's units will not meet the conditions which would allow them to be classified as equity. As a result, the Fund's units will be classified as a liability on the Fund's Statement of Net Assets.
- b) IFRS 13, "Fair Value Measurements", provides guidance on the measurement of fair value and allows for the use of a price within the bid-ask spread that is most representative of fair value to value investments. Under Canadian GAAP, the fair value of investments for financial statement purposes is currently required to be measured at closing bid prices for long positions and closing asked prices for short positions. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of closing traded prices is appropriate in valuing the Fund's investments. This change will result in the elimination of the difference between the Fund's Net Assets per Unit and Net Asset Value per Unit, as disclosed in note 3 above.
- c) A Statement of Cash Flow will be required for IFRS reporting purposes.
- d) There will also likely be requirements for additional note disclosures and modifications to existing financial statement presentation.

The Manager's current assessment of the effect of IFRS may change if new standards are issued or if the interpretations of current standards are revised.