AUSPICE

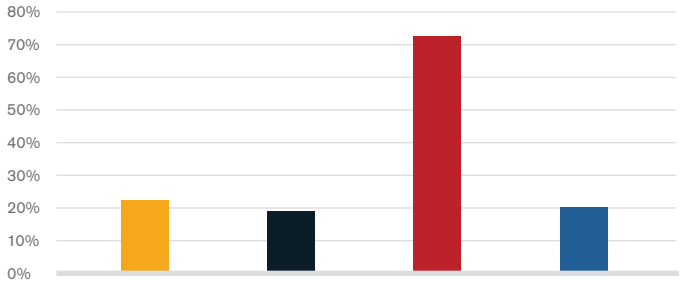
DIVERSIFIED PROGRAM

COMMENTARY + PORTFOLIO FACTS

JULY 2017

CUMULATIVE PERFORMANCE

(SINCE JANUARY 2007*)



	AUSPICE DIVERSIFIED	BARCLAY BTOP50 CTA INDEX	S&P 500	S&P / TSX 60
Correlation		0.68	-0.24	-0.13

*Cumulative performance from January 2007. This represents the first full year of the fund and is most representative of the current strategy and portfolio.

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SUMMARY

The Auspice Diversified Program lost 1.61% in July while the benchmark Barclay BTOP50 CTA index gained 0.50%. While underperforming thus far in 2017, the results remain similar on a 1 year basis and ahead of the peer benchmarks on a 3 and 10 year basis (Table 1).

July data showed the US economy picked up steam in Q2 with GDP climbing at an annualized rate of 2.6% up from 1.2% in Q1. As such, most stock markets added to the yearly gains. The S&P gained 1.93% while the MSCI World added 2.33% for reference. However, after raising rates for the first time in 7 years, the resource tilted Canadian TSX/S&P60 continued to soften 0.16% to be one of the few stock markets negative on the year.

After falling post the FED announcement in June (raising rates), Interest Rate futures stabilized and moved higher much of July. The US Dollar continued to soften in July and has been on this path since the start of the year, enabling most global currencies to gather upside momentum.

Commodities found support with Precious and Base metals moving higher while Petroleum Energies followed suit. Commodity benchmarks were stronger with the energy tilted GSCI leading with a gain of 6.11% while the more diverse Bloomberg Commodity Index gained 2.17%.

Chart 1 HISTORICAL GROWTH OF $1000 INVESTMENT

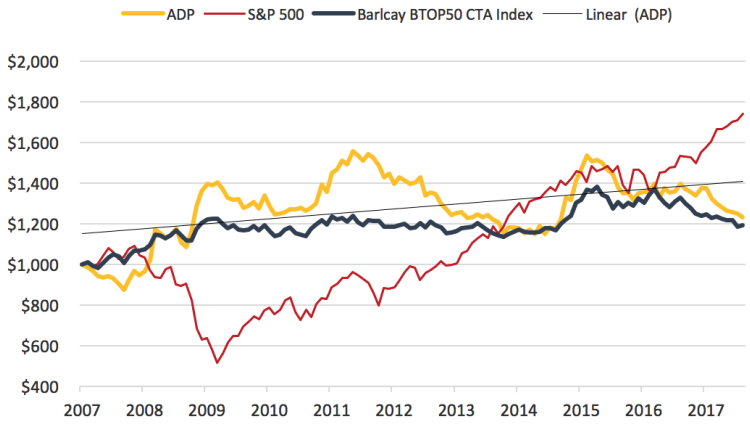

Table 1 ABSOLUTE PERFORMANCE

	Auspice Diversified	Barclay BTOP50 CTA Index	S&P 500	TSX 60
1 Month	**-1.61%**	0.50%	1.93%	-0.16%
2017 YTD	**-10.47%**	-4.29%	10.34%	-0.98%
1 yr (Aug 16)	**-11.77%**	-10.27%	13.65%	5.17%
3 yr (Aug 14)	**4.62%**	2.00%	27.95%	0.78%
5 yr (Aug 12)	**-9.14%**	-1.44%	79.10%	33.92%
10 yr (Aug 07)	**36.42%**	14.91%	69.75%	11.48%
Annualized (Jan 07)	**1.98%**	1.68%	5.38%	1.74%
Worst Drawdown	**-26.04%**	-14.07%	-52.56%	-44.27%

OUTLOOK

Cards on the table – while CTA benchmarks are down and Auspice has underperformed to boot, the reasons are understandable and simple. Low volatility and reversing commodity trends has hurt the strategy this year more than peers given the commodity tilting to the portfolio.

Our agile approach is a double-edged sword at times. When volatility and opportune trends erupt, we have historically been able to capture more of the gains and provide a superior return at times when investors need this the most. As illustrated in Chart 1, the strategy shows historic outperformance to the Barclay BTOP50 CTA Index in the critical times of 2008, 2010, 2014 and most recently in 2016.

While making gains in financials, this has not offset the challenges in commodities. This sector is choppy and challenging to trade right now which is typical of transition periods in cycles that are typically very long and also opportune. From a historical perspective, we have been here before – many times. Moreover, from a quantitative perspective, commodities are near the bottom of the statistical distribution of returns while equities remain near the top

(We encourage you to check out the Auspice Blog for more info on this specific topic).

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ATTRIBUTIONS AND TRADES

Portfolio performance came from financial sectors led by Currency trends and complemented with Equity indices. The Hang Seng led equities while the portfolio reduced exposure in Rates, specifically European and in the long end of the US curve.

While Metals posted a small gain on the back of Copper momentum, the majority of commodities were hit with reversals and risk reductions. In Grains, whipsaws higher and lower had the portfolio trim exposure in Soybeans, Corn and Wheat. In Energies, we trimmed shorts in Oil and Gasoline.

It should be noted that in Softs, while the sector attribution is negative, we took profits on short positions in Coffee and Sugar which have been great trends over the last few months.

Return Drivers: The dominant portfolio Trend & Momentum return driver underperformed in July. This was partially offset by Mean Reversion exposures while Short Term strategies also struggled. See Chart 3.

Chart 2 **SECTOR PNL MONTHLY ATTRIBUTION**

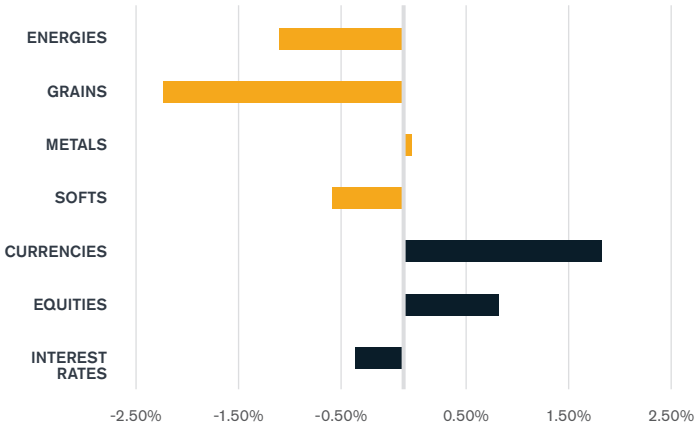
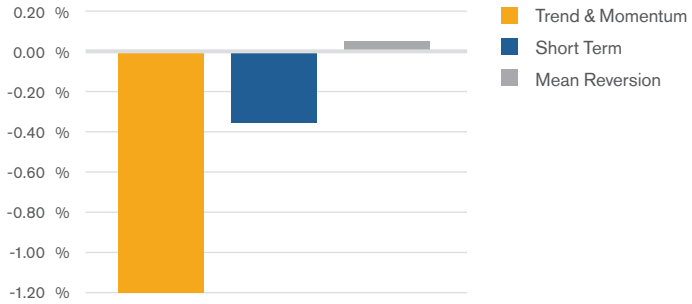


Chart 3 **STRATEGY (RETURN DRIVER) ATTRIBUTION**



POSITION HIGHLIGHTS

GAINS

- Currency gains led by Euro, Canadian and Aussie dollars as the US Dollar softened.
- Long Asian Hang Seng equity index led the sector.
- Copper gained and exposure was added.

LOSSES

- Grains across Soybeans, Corn and Wheat.
- Energies: Losses on shorts in petroleum markets.
- Sugar rallied against long standing profitable short exposure – some profits taken.

EXPOSURE AND RISK ALLOCATION

This month we reduced commodity exposure, bringing the exposure to near 50:50 alongside financials.

Within commodities, the most notable reductions came from Energies and Softs where rallies pressured recent downtrends. Within Grains, the reverse occurred, with quick reversals pressured recent rallies.

Within financials, the increase in risk exposure came predominantly from an increase in mark to market (unrealized) gains in Currencies.

Portfolio exposure continues to fluctuate but within our typical band as measured by the Margin to Equity ratio (see Chart 6 next page).

Chart 4 COMMODITIES VS. FINANCIAL EXPOSURE

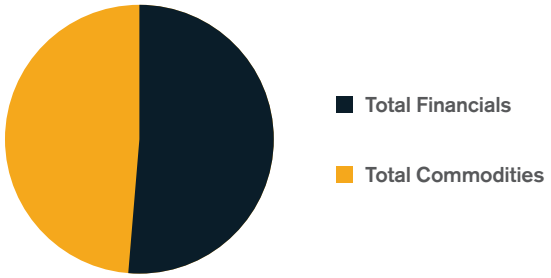
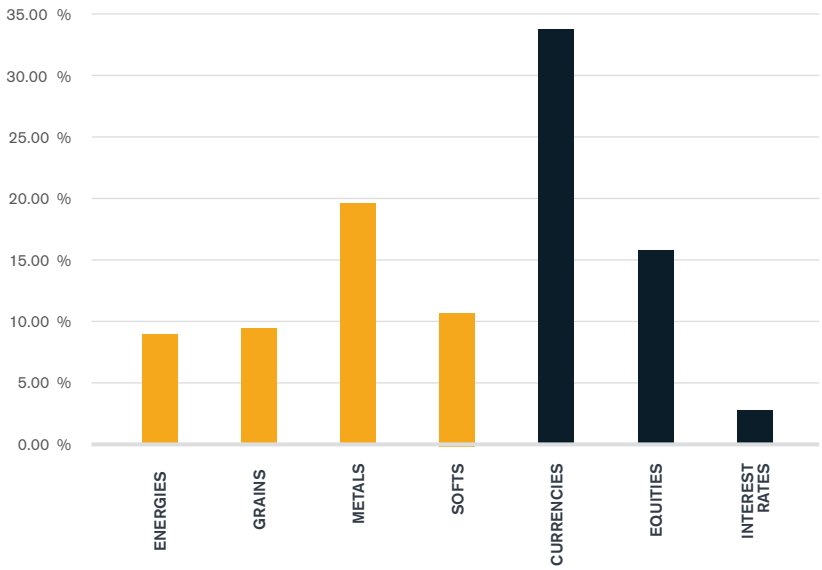


Chart 5 CURRENT SECTOR RISK



CURRENT RISK BY SECTOR

ENERGIES		8.90%
Largest Holdings	**Position**	**% of Risk**
Natural Gas	Short	5.08%
Heating Oil	Short	1.65%
WTI Crude Oil	Short	1.48%

GRAINS		9.25%
Largest Holdings	**Position**	**% of Risk**
Canola	Long	5.96%
Soybeans	Short	1.54%
Wheat	Long	1.36%

METALS		19.58%
Largest Holdings	**Position**	**% of Risk**
Copper	Long	10.87%
Gold	Long	3.44%
Silver	Short	3.34%

SOFTS		10.73%
Largest Holdings	**Position**	**% of Risk**
Cotton	Short	6.41%
Sugar #11	Short	4.33%

CURRENCIES		33.19%
Largest Holdings	**Position**	**% of Risk**
Aussie Dollar	Long	8.74%
Canadian Dollar	Long	7.72%
Euro	Long	7.61%

EQUITIES		15.70%
Largest Holdings	**Position**	**% of Risk**
Hang Seng	Long	6.39%
S&P500 (USA)	Long	3.51%
NASDAQ (USA)	Long	3.15%

INTEREST RATES		2.65%
Largest Holdings	**Position**	**% of Risk**
Treasury Bond/30yr (USA)	Long	0.88%
Treasury Note/10yr (USA)	Long	0.74%
Treasury Note/5yr (USA)	Long	0.69%

* Risk is expressed as the maximum expected loss in a position or sector divided by the total portfolio risk across all positions.

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JULY 2017

STRATEGY DESCRIPTION

Auspice Diversified is our flagship strategy. It is a rules-based multi-strategy investment program designed to deliver superior, non-correlated returns at critical times. It represents the culmination of the ongoing research and experience of the Auspice Portfolio Management and Research teams.

The strategy draws from all of Auspice's current research (the Auspice Building Blocks). The strategy is rooted in trend following but is our most active and evolving multi-strategy quantitative approach pulling together other complementary strategies and wrapping them in a rigorous risk and capital allocation model. The strategy is designed to be agile and resilient as we believe these traits are necessary in order to generate performance long term.

With a long term correlation of -0.24 to the S&P (see front page), and a modest 0.56 correlation to the SG CTA Index (1 year basis - daily returns), this demonstrates the combined performance and non-correlation to equity and other CTAs is accretive and valuable.

THE MAIN POINTS OF DIFFERENTIATION INCLUDE:

- Higher allocation to commodities relative to our peers,
- Negative correlation to equity, no correlation to commodity,
- Low risk (margin to equity average <7.0%) makes it scalable, low round turns per million.
- Portfolio Management team with experience trading in volatile environments.
- Positive skew: Auspice Diversified has outperformed at critical times of crisis, recovery, and volatility expansion.

FUND FACTS

Chart 6 PORTFOLIO EXPOSURE (MARGIN TO EQUITY)

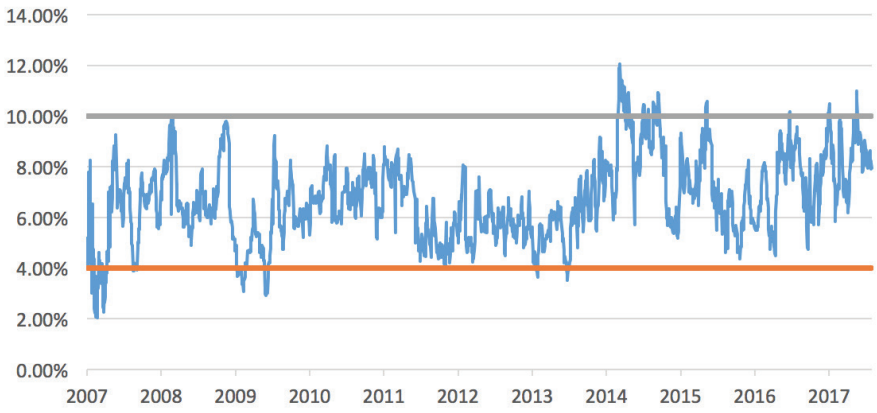

Table 3 NAVS

NAV	Auspice Managed Futures LP*	
Series 1	1106.6726	-1.61%
NAV	**Auspice Diversified Trust**	
Class A	8.6039	-1.65%
Class F	8.9860	-1.57%
Class S	8.3945	-1.65%
Class H	9.8078	-1.57%
Class I	10.6321	-1.48%
Class X	10.2790	-1.56%

Program Statistics (from Jan 2007)		Trade Statistics	
Annualized Return	1.98%	Avg Monthly Gain	2.81%
Annualized Std Dev	11.23%	Avg Monthly Loss	-2.04%
Largest Drawdown	-26.04%	Daily Std Dev	0.68%
Sharpe Ratio[1]	0.29	Daily VAR (sim w/99% conf)	-0.98%
MAR Index[2]	0.08	Round Turns per $million	450
Sortino	0.53	Margin to Equity ratio	6.7
Upside/Downside Deviation	0.16 / 0.06	Average Hold Period (Days)	22
Correlation to S&P 500	-0.24	% Profitable	43%
Correlation to TSX60	-0.13	$Win / $Loss	1.3
Correlation to BCOM ER	0.05		

Program Details	
Structure	Unit Trust / LP / Mngd Account / Offshore
Mgmt Fee	0-2%
Incentive Fee	20% w/High-Water Mark
Liquidity	Monthly (no lockup)
Firm Assets	$200M
Min. Investment	Accredited Investor / QEP
Unit Pricing	$CAD or $USD

1. Assumes Risk free rate of 0%.
2. MAR is the annualized return divided by the largest drawdown.

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FUND FACTS (CONT)

MONTHLY PERFORMANCE TABLE*

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
2017	-3.66%	-1.89%	-1.35%	-1.39%	-0.53%	-0.51%	-1.61%						**-10.47%**
2016	-0.22%	3.12%	-4.93%	3.59%	-1.64%	0.56%	2.44%	-1.55%	-1.06%	-1.34%	2.68%	-0.13%	**1.15%**
2015	4.66%	-1.93%	0.47%	-0.98%	-2.03%	-1.84%	-4.36%	-2.14%	0.26%	-2.74%	2.56%	0.66%	**-7.47%**
2014	-2.02%	1.62%	-1.84%	3.25%	-3.11%	2.65%	-0.43%	3.92%	8.56%	-0.78%	7.05%	4.19%	**24.76%**
2013	0.40%	-2.23%	0.26%	0.99%	-0.90%	0.66%	-1.54%	-1.33%	-4.07%	2.01%	0.04%	-0.36%	**-6.01%**
2012	2.41%	-1.11%	-1.19%	0.60%	1.72%	-6.29%	1.17%	-0.70%	-3.64%	-1.80%	2.38%	-0.81%	**-10.24%**
2011	1.39%	2.97%	-1.16%	4.09%	-1.31%	-1.62%	2.16%	-1.09%	-2.60%	-3.82%	1.07%	-3.44%	**-3.66%**
2010	-3.26%	0.45%	0.61%	0.95%	0.01%	0.62%	-1.02%	1.07%	1.82%	6.98%	-2.51%	6.68%	**12.53%**
2009	-0.61%	1.08%	-2.27%	-3.32%	-0.58%	0.15%	-3.23%	0.75%	1.44%	-2.31%	4.84%	-3.83%	**-7.93%**
2008	5.60%	14.59%	-1.72%	-1.58%	0.71%	2.86%	-5.61%	-1.99%	6.86%	10.80%	5.77%	2.73%	**44.30%**
2007	-1.43%	-1.76%	-2.42%	-0.79%	0.71%	-1.32%	-3.16%	-3.07%	5.87%	4.53%	-2.13%	2.29%	**-3.11%**

* Returns represent the oldest series of Auspice Managed Futures LP, Series 1 (2% management and 20% performance fee). See Important Disclaimers and Notes for additional details.

IMPORTANT DISCLAIMERS AND NOTES

Futures trading is speculative and is not suitable for all customers. Past results is not necessarily indicative of future results. This document is for information purposes only and should not be construed as an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice. Auspice Capital Advisors Ltd. makes no representation or warranty relating to any information herein, which is derived from independent sources. No securities regulatory authority has expressed an opinion about the securities offered herein and it is an offence to claim otherwise.

COMPARABLE INDICES

*Returns for **Auspice Diversified or "ADP"** represent the performance of the Auspice Managed Futures LP Series 1. Performance is calculated net of all fees.

The **Barclay BTOP50 CTA Index** seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 employs a top-down approach in selecting its constituents. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the BTOP50.

The **S&P/TSX 60 Index** is designed to represent leading companies in leading industries. Its 60 stocks make it ideal for coverage of companies with large market capitalizations and a cost-efficient way to achieve Canadian equity exposure. Price Return data is used (not including dividends).

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Price Return data is used (not including dividends).

The **(MSCI) World Index**, Morgan Stanley Capital International, is designed to measure equity market performance large and mid-cap equity performance across 23 developed markets countries, covering approximately 85% of the free float-adjusted market capitalization in each. This index offers a broad global equity benchmark, without emerging markets exposure.

The Bloomberg Commodity (Excess Return) Index **(BCOM ER)**, is a broadly diversified index that allows investors to track 19 commodity futures through a single, simple measure.

Excess Return (ER) Indexes do not include collateral return.

The S&P Goldman Sachs Commodity Excess Return Index **(S&P GSCI ER)**, is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

The **SG CTA Index** provides the market with a reliable daily performance benchmark of major commodity trading advisors (CTAs). The SG CTA Index calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment.

PERFORMANCE NOTES

The Equity benchmarks used in this material are intended to reflect the general equity market performance. They are shown to illustrate the non-correlated attributes versus other assets such as the Barclay CTA Index and the Auspice Diversified Program. Adding non-correlated assets within a portfolio has the potential to reduce portfolio volatility and drawdowns.

QUALIFIED INVESTORS

For U.S. investors, any reference to the Auspice Diversified Strategy or Program, "ADP", is only available to Qualified Eligible Persons "QEP's" as defined by CFTC Regulation 4.7.

For Canadian investors, any reference to the Auspice Diversified Strategy or Program, "ADP", is only available to "Accredited Investors" as defined by CSA NI 45-106.

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