

Financial statements of

# **Front Street Hedge Fund**

December 31, 2015

# Front Street Hedge Fund

December 31, 2015

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## **Independent Auditor's Report**

To the Unitholders and Management of Front Street Hedge Fund

We have audited the accompanying financial statements of Front Street Hedge Fund, which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders of redeemable units and statement of cash flows for the year then ended, and 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.

### **Auditor's 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 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 is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Front Street Hedge Fund as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
May 6, 2016

# Front Street Hedge Fund

## Statement of financial position as at December 31, 2015

	December 31, 2015	December 31, 2014
	\$	\$
<b>Assets</b>		
Financial assets at fair value through profit or loss*	110,783,956	112,403,555
Cash and cash equivalents	6,273,512	11,370,422
Subscriptions receivable	-	668,826
Receivable for investments sold	-	78,827
Interest and other receivable	-	142,050
Dividends receivable	77,956	127,361
<b>Total assets</b>	<b>117,135,424</b>	<b>124,791,041</b>
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss	3,181,388	1,563,531
Accrued expenses	184,164	164,251
Management fees payable	181,546	236,506
Redemptions payable	118,037	1,041,318
Payable for investments purchased	-	18,280
Dividends payable	10,176	4,485
unrealized loss on open foreign exchange forward contracts	294,318	-
<b>Total liabilities</b>	<b>3,969,629</b>	<b>3,028,371</b>
<b>Net assets attributable to unitholders of redeemable units</b>	<b>113,165,795</b>	<b>121,762,670</b>
<b>Net assets attributable to unitholders of redeemable units</b>		
	\$	\$
Class B	106,976,323	111,106,582
Class F	6,189,472	10,656,088
<b>Number of units outstanding (Note 5)</b>		
Class B	5,706,746	6,027,422
Class F	278,427	490,360
<b>Net assets attributable to unitholders of redeemable units per units</b>		
	\$	\$
Class B	18.75	18.43
Class F	22.23	21.73

\* Cost of investments is reflected on the schedule of investment portfolio.

Approved on behalf of the Trust,



Gerard Ferguson, Chief Executive Officer

The accompanying notes form an integral part of the financial statements.

# Front Street Hedge Fund

## Statement of comprehensive income for the year ended December 31, 2015

	2015	2014
	\$	\$
<b>Income</b>		
Interest for distribution purposes	222,320	338,567
Dividends	1,547,148	1,963,262
Securities lending income	26,503	25,409
Foreign currency gain (loss) on cash and other net assets	1,408,177	814,173
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on investments	5,246,407	17,907,134
Net realized gain (loss) on foreign exchange forward contracts	(780,305)	(132,999)
Change in unrealized appreciation (depreciation) on investments and derivatives	(539,915)	(3,875,242)
	<b>7,130,335</b>	<b>17,040,304</b>
<b>Expenses</b>		
Management fees (note 4)	2,530,883	2,741,075
Transaction costs	1,410,371	1,249,441
Operating costs	696,227	532,341
Withholding tax	76,175	52,780
Audit fee	52,358	49,835
Dividend expense	42,218	155,916
Trustee fees	10,719	10,001
Legal fees	5,832	30,720
Total expenses	<b>4,824,783</b>	<b>4,822,109</b>
<b>Increase in net assets attributable to unitholders of redeemable units</b>	<b>2,305,552</b>	<b>12,218,195</b>
<b>Increase in net assets attributable to unitholders of redeemable units</b>		
Class B	1,960,655	10,869,230
Class F	344,897	1,348,965
<b>Increase in net assets attributable to unitholders of redeemable units per unit</b>		
Class B	0.34	1.75
Class F	1.06	2.30

The accompanying notes form an integral part of the financial statements.

# Front Street Hedge Fund

Statement of changes in net assets attributable to unitholders  
of redeemable units  
for the year ended December 31, 2015

	2015	2014
	\$	\$
<b>Net assets attributable to unitholders of redeemable units</b>		
<b>beginning of year</b>		
Class B	111,106,582	108,036,514
Class F	10,656,088	11,920,835
	<b>121,762,670</b>	<b>119,957,349</b>
Increase net assets attributable to units of redeemable units		
Class B	1,960,655	10,869,230
Class F	344,897	1,348,965
	<b>2,305,552</b>	<b>12,218,195</b>
Redeemable unit transactions		
Proceeds from redeemable units issued		
Class B	-	-
Class F	465,165	668,826
Reinvestment of distributions to unitholders of redeemable units		
Class B	-	-
Class F	-	-
Redemption of redeemable units		
Class B	(6,090,914)	(7,799,162)
Class F	(5,276,678)	(3,282,538)
Net increase (decrease) from redeemable unit transactions	<b>(10,412,874)</b>	<b>(21,571,862)</b>
Net decrease in net assets attributable to unitholders of redeemable units	<b>(8,596,875)</b>	1,805,321
<b>Net assets attributable to unitholders of redeemable units</b>		
<b>end of year</b>		
Class B	106,976,323	111,106,582
Class F	6,189,472	10,656,088
	<b>113,165,795</b>	<b>121,762,670</b>

The accompanying notes form an integral part of the financial statements.

# Front Street Hedge Fund

## Statement of cash flows

for the year ended December 31, 2015

	2015	2014
	\$	\$
<b>Cash flow from operating activities</b>		
Increase in net assets attributable to unitholders of redeemable units	2,305,552	12,218,195
Adjustments for:		
Net realized gain on investments	(4,466,102)	(17,907,134)
Net realized loss on foreign exchange forward contracts	-	-
Net change in unrealized depreciation on investments and derivatives	539,915	3,875,242
Decrease in interest and other receivable	142,050	8,323
Decrease in dividends receivable	49,405	(34,628)
Increase in dividends payable	5,691	4,485
Decrease in other payable and accrued liabilities	(35,047)	49,317
Purchase of Investments	(206,299,326)	(309,974,695)
Proceeds from sales of Investments	213,817,835	330,551,891
<b>Net cash generated from operating activities</b>	<b>6,059,973</b>	<b>18,790,996</b>
Cash flows from financing activities		
Proceeds from redeemable units issued	1,133,991	-
Amount paid on redemption of redeemable units	(12,290,874)	(10,364,665)
<b>Net cash generated (used) by financing activities</b>	<b>(11,156,883)</b>	<b>(10,364,665)</b>
Foreign currency gain (loss) on cash and other net assets	-	-
Net increase (decrease) in cash and cash equivalents	(5,096,910)	8,426,331
Cash and cash equivalents beginning of year	11,370,422	2,944,091
<b>Cash and cash equivalents end of year</b>	<b>6,273,512</b>	<b>11,370,422</b>
Cash and cash equivalents comprise		
Cash (overdraft) at bank	6,273,512	11,370,422
	<b>6,273,512</b>	<b>11,370,422</b>
Interest received, net of withholding tax	364,370	372,229
Dividends received, net of withholding tax	1,565,294	1,875,854
Dividends paid	(36,527)	(151,431)

The accompanying notes form an integral part of the financial statements.



# Front Street Hedge Fund

## Schedule of Investment Portfolio

As at December 31, 2015

Number of Shares/Units Par Value		Average Cost	Fair Value	% of net assets
		\$	\$	%
<b>Investments - Long Positions</b>				
<b>Equities</b>				
<b>Consumer Discretionary</b>				
175,700	Aphria Inc.	229,179	223,829	
84,450	Aphria Inc., Warrants December 11, 2018	-	53,378	
97,100	Diversified Royalty Corporation	270,239	234,982	
500,000	GeoMonkey Inc., Private Placement	247,439	-	
160,000	iON Worldwide LLC, Private Placement	196,952	221,392	
4,000	Magna International Inc.	239,826	224,492	
170,600	Martinrea International Inc.	2,074,641	1,793,006	
318,900	MTI Limited Partnership, 'A' Series 3	32	-	
15,000	Netflix Inc.	1,580,154	2,374,014	
123,175	Performance Sports Group Limited	1,697,446	1,643,154	
324,000	Qyou Media Inc. (Restricted)	162,000	162,000	
324,000	Qyou Media Inc., Warrants January 9, 2018	-	-	
162,000	Qyou Media Inc., Warrants January 15, 2018	-	-	
112,000	The ONE Group Hospitality Inc., Warrants October 13, 2016	-	35,549	
162,000	The ONE Group Hospitality Inc.	871,338	670,237	
<b>Total Consumer Discretionary</b>		<b>7,569,246</b>	<b>7,636,033</b>	<b>6.75%</b>
<b>Consumer Staples</b>				
60,200	Alimentation couche-Tard Inc. 'B' SV	2,131,740	3,666,782	
<b>Total Consumer Staples</b>		<b>2,131,740</b>	<b>3,666,782</b>	<b>3.24%</b>
<b>Energy</b>				
24,500	ARC Resources Limited	392,530	409,150	
21,100	Crew Energy Inc.	77,245	85,455	
14	Estrella International Energy Services Limited, Warrants January 24, 2016	-	-	
4,300	Parex Resources Inc.	66,251	43,688	
150,900	Petrowest Energy Services Corporation	76,714	78,468	
233,800	RMP Energy Inc.	426,192	349,743	
137,800	Spartan Energy Corporation	337,634	325,208	
91,800	Tamarack Valley Energy Limited	246,745	274,482	
<b>Total Energy</b>		<b>1,623,311</b>	<b>1,566,194</b>	<b>1.38%</b>
<b>Financials</b>				
61662	Altus Group Limited	1,063,786	1,195,626	
48000	American International Group Inc.	3,450,379	4,115,899	
167600	Bank of America Corporation	3,652,246	3,901,927	
26000	Bank of Montreal	2,054,177	2,030,080	
47500	The Bank of Nova Scotia	2,823,532	2,665,847	
28400	Capital One Financial Corporation	2,853,118	2,836,463	
45400	Citigroup Inc.	3,187,734	3,251,007	
85800	Committed Capital Acquisition Corporation II	470,122	534,247	
105400	Dundee Acquisition Limited	1,054,000	1,018,164	
54000	Dundee Acquisition Limited, Warrants April 14, 2020	-	20,323	
183600	Element Financial Corporation	2,856,039	3,066,120	
30000	JPMorgan Chase & Company	2,289,982	2,740,971	
150300	Manulife Financial Corporation	3,230,929	3,117,222	
36000	MetLife Inc.	2,245,577	2,401,494	
55200	Morgan Stanley	2,446,637	2,429,655	
19000	Prudential Financial Inc.	2,093,373	2,140,293	
6700	Royal Bank of Canada	497,069	496,805	
79000	Sun Life Financial Inc.	3,077,355	3,408,850	
45800	The Toronto-Dominion Bank	2,426,399	2,484,192	
41100	The Westaim Corporation	117,114	112,203	
<b>Total Financials</b>		<b>41,889,569</b>	<b>43,967,389</b>	<b>38.85%</b>

# Front Street Hedge Fund

## Schedule of Investment Portfolio

As at December 31, 2015

Number of Shares/Units Par Value		Average Cost	Fair Value	% of net assets
		\$	\$	%
<b>Health Care</b>				
15885	Gilead Sciences Inc.	2,225,853	2,224,164	
58000	HLS Therapeutics Inc. Restricted	717,982	802,546	
3146	HLS Therapeutics Inc., Warrants August 11, 2020	-	-	
104800	Medicure Inc.	230,560	445,400	
19500	Merck & Co., Inc.	1,343,774	1,425,197	
68500	Nobilis Health Corporation	324,750	267,835	
900	Nobilis Health Corporation, Warrants May 13, 2017	-	450	
20000	Pfizer Inc.	861,267	893,317	
10250	Theratechnologies Inc., Warrants August 7, 2017	-	3,966	
<b>Total Health Care</b>		<b>5,704,186</b>	<b>6,062,875</b>	<b>5.36%</b>
<b>Industrials</b>				
1,722	3801110 Canada Inc. (private)	17	17	
106,835	Air Canada	902,120	1,090,785	
110,250	Carmanah Technologies Corporation	568,665	626,220	
60,200	Dirtt Environmental Solutions.	461,082	417,788	
6,000	General Electric Company	200,764	258,614	
171,000	Savaria Corporation	764,429	942,210	
26,500	Savaria Corporation, Warrants April 15, 2017	1	37,133	
36,600	Walker Innovation Inc.	94,548	11,142	
25,000	Walker Innovation Inc., Warrants September 18, 2016	-	-	
100,000	Walker Innovation Inc., Private Placement	331,712	30,441	
<b>Total Industrials</b>		<b>3,323,338</b>	<b>3,414,350</b>	<b>3.02%</b>
<b>Information Technology</b>				
3,350	Alphabet Inc.	3,083,534	3,517,709	
66,800	CGI Group Inc., 'A' SV	3,385,964	3,700,720	
323,900	COM DEV International Limited	1,228,764	1,959,595	
150,000	Dealnet Capital Corporation, Warrant February 18, 2017	-	59,805	
225,200	DealNet Capital Corporation	111,590	164,396	
62,290	Embotics Corporation, Preferred Class 'A' (private)	267,558	6,229	
98,018	Embotics Corporation, Private Placement (private)	1,049,232	9,802	
37,800	Facebook Inc., 'A'	4,690,059	5,474,122	
9,400	Halogen Software Inc.	89,905	67,210	
32,238	Kinaxis Inc.	424,586	1,512,607	
23,000	Microsoft Corporation	1,762,238	1,765,657	
24,400	NXP Semiconductors N.V.	2,762,609	2,844,472	
271,239	Pure Technologies Limited.	757,987	1,266,686	
423,289	QHR Corporation	255,806	554,509	
3,400	Shopify Inc.	122,170	121,378	
18,100	Skyworks Solutions Inc.	1,937,027	1,924,205	
14,100	Splunk Inc.	1,107,084	1,147,393	
200,000	Stockhouse Media Corporation, Private Placement	2,476	-	
63,000	TECSYS Inc.	587,141	464,310	
199,305	The Descartes Systems Group Inc.	1,360,617	5,555,317	
241,000	TIO Networks Corp.	280,356	542,250	
313,246	VersaPay Corporation	399,965	372,763	
150,000	VersaPay Corporation, Warrants July, 05 2017	-	10,320	
55,000	VersaPay Corporation, Warrants May, 07 2017	-	7,310	
5,000	Visa Inc., 'A'	537,020	536,530	
589,470	XMG Studio Inc. (Restricted)	559,996	11,789	
<b>Total Information Technology</b>		<b>26,763,683</b>	<b>33,597,083</b>	<b>29.69%</b>
<b>Materials</b>				
150,000	Canam Group Inc.	1,896,624	2,083,500	
53,300	Canfor Corporation	1,020,263	1,076,127	
1,200	CCL Industries Inc., 'B' NV	201,538	269,244	
286,452	GoviEx Uranium Inc., Special Warrants	857,347	12,174	
70,000	Interfor Corporation	826,233	982,800	
107,262	Intertape Polymer Group Inc.	1,364,282	2,004,726	
74,000	Tahoe Resources Inc.	857,214	885,780	
280,000	Tolima Gold Inc., Warrants December 5, 2016	-	-	
<b>Total Materials</b>		<b>7,023,501</b>	<b>7,314,351</b>	<b>6.46%</b>

# Front Street Hedge Fund

## Schedule of Investment Portfolio

As at December 31, 2015

Number of Shares/Units Par Value		Average Cost	Fair Value	% of net assets
		\$	\$	%
	<b>Utilities</b>			
139,300	Crius Energy Trust	928,200	1,225,840	
2,191,988	Trilliant Energy Services Inc.	1,925,881	43,840	
	<b>Total Utilities</b>	<b>2,854,081</b>	<b>1,269,680</b>	<b>1.12%</b>
	<b>Total Equities - Long</b>	<b>98,882,655</b>	<b>108,494,737</b>	<b>95.87%</b>
	<b>Corporate Bonds</b>			
470,000	Element Financial Corporation Convertible Debentures 5.125% June 30, 2019	470,000	545,200	
1,067,464	Estrella International Energy Services Limited Convertible Debentures 12.000%	1,067,464	426,986	
1,558,000	Gran Colombia Gold Corporation 5.000% August 11, 2018	1,544,440	625,183	
500,000	HLS Therapeutics Tem Loan	652,878	691,850	
	<b>Total Corporate Bonds</b>	<b>3,734,782</b>	<b>2,289,219</b>	<b>2.02%</b>
	<b>Transaction costs</b>	<b>(113,306)</b>	<b>-</b>	
	<b>Total Investments - Long</b>	<b>102,504,131</b>	<b>110,783,956</b>	<b>97.89%</b>
	<b>Investments - Short Positions</b>			
	<b>Equities</b>			
	<b>Energy</b>			
(84,800)	Ensign Energy services Inc.	(942,729)	(625,824)	
	<b>Total Energy</b>	<b>(942,729)</b>	<b>(625,824)</b>	<b>(0.55)%</b>
	<b>Industrials</b>			
(4,300)	Lumenpulse Inc.	(57,960)	(80,109)	
	<b>Total Industrials</b>	<b>(57,960)</b>	<b>(80,109)</b>	<b>(0.07)%</b>
	<b>Information Technology</b>			
(12,500)	NXP Semiconductors N.V.	(1,267,787)	(1,463,875)	
(1,400)	Sierra Wireless, inc.	(71,226)	(30,491)	
(5,400)	Sphere 3D Corporation	(36,132)	(11,283)	
	<b>Total Information Technology</b>	<b>(1,375,145)</b>	<b>(1,505,649)</b>	<b>(1.33)%</b>
	<b>Total Equities - Short</b>	<b>(2,375,834)</b>	<b>(2,211,582)</b>	<b>(1.95)%</b>
	<b>Written Call Options</b>			
(507)	Alimentation Couche-Tard Inc. Jan/64 WCO	(80,049)	(10,140)	
(95)	Alimentation Couche-Tard Inc. Jan/ 66 WCO	(8,930)	(1,900)	
(15)	Alphabet Inc. Jan/780 WCO	(33,152)	(9,548)	
(90)	American International Group Inc. Jan/62.5 WCO	(7,910)	(11,955)	
(100)	American International Group Inc. Jan/65 WCO	(16,019)	(2,629)	
(130)	Bank of America Corporation Jan/18 WCO	(4,352)	(899)	
(240)	CGI Group Inc. Jan/60 WCO	(17,320)	(2,400)	
(180)	Citigroup Inc. Jan/55 WCO	(21,094)	(3,487)	
(1,145)	Descartes Systems Group Inc. Jan/26 WCO	(128,810)	(217,550)	
(640)	Descartes Systems Group Inc. Jan/27 WCO	(48,535)	(67,200)	
(110)	Element Financial Corporation Jan/16 WCO	(4,510)	(10,230)	
(675)	Element Financial Corporation Jan/17 WCO	(27,225)	(43,200)	
(80)	Facebook Inc. Jan/110 WCO	(18,474)	(3,874)	
(675)	Intertape Polymer Group Inc. Jan/18 WCO	(49,950)	(55,688)	
(65)	JPMorgan Chase & Company Jan/70 WCO	(9,647)	(720)	
(40)	Magna International Inc. Jan/45 WCO	(3,967)	(553)	
(90)	Morgan Stanley Jan/34 WCO	(7,407)	(872)	
(65)	Netflix Inc. Jan/135 WCO	(30,639)	(1,079)	
(180)	Tahoe Resources Inc. Jan/12 WCO	(6,390)	(8,100)	
(3)	Walt Disney Company Jan/115 WCO	(1,021)	(25)	
	<b>Total Written Call Options</b>	<b>(525,401)</b>	<b>(452,049)</b>	<b>(0.40)%</b>

# Front Street Hedge Fund

## Schedule of Investment Portfolio

As at December 31, 2015

Number of Shares/Units Par Value		Average Cost	Fair Value	% of net assets
		\$	\$	%
	<b>Written Put Options</b>			
(162)	Alimentation Couche-Tard Inc. Jan/60 WPO	(15,714)	(10,530)	
(8)	Alphabet Inc. Jan/740 WPO	(22,972)	(5,756)	
(280)	American International Group Inc. Jan/60 WPO	(94,333)	(11,623)	
(280)	ARC Resources Limited Jan/16 WPO	(21,840)	(9,100)	
(162)	Bank of Nova Scotia Jan/58 WPO	(32,724)	(34,020)	
(90)	Canadian Natural Resources Limited Jan/27 WPO	(5,580)	(1,620)	
(270)	Canfor Corporation Jan/20 WPO	(17,010)	(14,850)	
(210)	Cardinal Energy Limited Jan/8 WPO	(5,880)	(2,520)	
(100)	CGI Group Inc. Jan/54 WPO	(7,800)	(5,300)	
(90)	Citigroup Inc. Jan/50 WPO	(9,846)	(6,600)	
(90)	Devon Energy Corporation Jan/30 WPO	(28,261)	(8,593)	
(90)	Devon Energy Corporation Jan/32.5 WPO	(31,239)	(21,046)	
(1,000)	Element Financial Corporation Jan/16 WPO	(60,000)	(25,000)	
(730)	Ensign Energy Services Inc. Jan/8 WPO	(105,485)	(51,100)	
(270)	Interfor Corporation Jan/13 WPO	(6,885)	(4,050)	
(110)	Macy's Inc. Jan/36 WPO	(27,601)	(24,962)	
(85)	Magna International Inc. Jan/58 WPO	(17,170)	(19,338)	
(250)	Manulife Financial Corporation Jan/21 WPO	(26,250)	(11,250)	
(150)	MetLife Inc. Jan/47 WPO	(28,347)	(7,887)	
(105)	Microsoft Corporation Jan/55 WPO	(14,785)	(8,863)	
(90)	Morgan Stanley Jan/32 WPO	(11,042)	(8,468)	
(95)	Netflix Inc. Jan/108.57 WPO	(39,550)	(20,769)	
(50)	Netflix Inc. Jan/115.71 WPO	(33,815)	(28,158)	
(45)	Netflix Inc. Jan/117.14 WPO	(33,264)	(32,379)	
(208)	Pfizer Inc. Jan/32 WPO	(104)	(8,346)	
(108)	Royal Bank of CA Jan/74 WPO	(21,816)	(10,368)	
(98)	Splunk Inc. Jan/57.5 WPO	(74,814)	(18,306)	
(135)	Torc Oil & Gas Limited Jan/5 WPO	(6,615)	(2,700)	
(270)	Torc Oil & Gas Limited Jan/6 WPO	(27,540)	(24,300)	
(110)	Whirlpool Corporation Jan/150 WPO	(124,052)	(62,405)	
(180)	Whitecap Resources Inc. Jan/10 WPO	(20,340)	(17,550)	
	<b>Total Written Put Options</b>	<b>(972,674)</b>	<b>(517,757)</b>	<b>(0.46)%</b>
	<b>Total Options</b>	<b>(1,498,075)</b>	<b>(969,806)</b>	<b>(0.86)%</b>
	<b>Transaction costs</b>	<b>(39,957)</b>		
	<b>Total Investments Sold Short</b>	<b>(3,910,866)</b>	<b>(3,181,388)</b>	<b>(2.81)%</b>
	<b>Total Investments, net long and short</b>	<b>98,593,265</b>	<b>107,602,568</b>	<b>95.08%</b>
	<b>Forward Contracts - Schedule 1</b>		<b>(294,318)</b>	<b>(0.26)%</b>
	<b>Other assets, less liabilities</b>		<b>5,857,545</b>	<b>5.18%</b>
	<b>Total Net Assets</b>		<b>113,165,795</b>	<b>100.00%</b>

# Front Street Hedge Fund

## Foreign Currency Forward Contract (Schedule 1)

As at December 31, 2015

Settlement Date	Currency to be Delivered	Currency	Canadian Value		Canadian Value		Contract Price	Unrealized Loss
			as at December 31, 2015	Currency to be Received	as at December 31, 2015			
January 14, 2016	3,000,000	USD	\$ 4,150,974	\$ 4,115,214	CAD	\$ 4,115,214	1.37174	\$ 35,760
January 14, 2016	3,000,000	USD	4,150,974	4,105,872	CAD	4,105,872	1.36862	45,102
January 14, 2016	12,000,000	USD	16,603,896	16,390,440	CAD	16,390,440	1.36587	213,456
			<b>\$ 24,905,844</b>			<b>\$ 24,611,526</b>		<b>\$ 294,318</b>

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 1. Establishment of the investment fund and nature of operations

Front Street Hedge Fund (the “Fund”) is an investment fund created under the laws of the Province of Ontario pursuant to a Trust Agreement dated September 30, 2003 which was amended and restated on January 31, 2005, May 1, 2009, January 29, 2010 and as of December 1, 2013 (the “Trust Agreement”). The Fund was formerly known as Front Street Canadian Hedge. Valiant Trust Company (Canada), a trust company incorporated under the laws of Canada, which is authorized under the laws of the Province of

Ontario to carry on the business of a trust company, is the trustee of the Fund (the “Trustee”). CIBC Mellon is the custodian and provides unitholder recordkeeping services and fund accounting services. Front Street Capital, formed as a Trust pursuant to a Trust Agreement dated as of October 1, 2001, is the manager of the Fund (the “Manager”) pursuant to the Trust Agreement. The Fund is domiciled in Canada, and the address of its registered office is 33 Yonge Street, Suite 600, Toronto, Ontario, Canada, M5E 1G4.

The Fund’s investment objective is to provide holders of units (the “Unitholders”) with long term capital growth primarily through the selection and strategic trading of both long and short positions in equity, debt and derivative securities. The Fund’s portfolio (the “Portfolio”) consists primarily of investments which generate capital gains, but may also include investments which generate income.

The beneficial interest in the Fund is divided into two series of Units (the “Fund Units”), designated as Series B Units (the “B Units”), formerly Series B2 Units and Series F Units (the “F Units”).

The Fund is not a reporting issuer or equivalent for securities law purposes. As a result, the protections provided to investors in mutual funds that are reporting issuers or equivalent under such laws are not available to investors in the Fund.

### 2. Summary of significant accounting policies

#### *Basis of presentation*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). In preparing the financial statements, management may make estimates and assumptions that affect the reported amounts of investments, derivatives, assets, liabilities, investment income and expenses reported during the years. Actual results could differ from these estimates.

These financial statements were authorized for issue by the Manager on May 6, 2016.

#### *Financial instruments*

The Fund’s financial instruments may include cash and cash equivalents, investments, derivative assets, investment income receivable, trade receivables, subscriptions receivable, derivative liabilities, trade payables, redemptions payable, other accrued liabilities and net assets attributable to holders of redeemable units. The Fund’s derivative assets and derivative liabilities are classified as Held For Trading and are measured at fair value. The Fund’s portfolio of investments are designated as fair value through profit or loss (“FVTPL”). The Fund’s obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial instruments are measured at amortized cost.

#### *Recognition, derecognition and measurement*

Regular way purchases and sales of investments are recognized on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value. Transaction costs and brokerage commissions are expensed as incurred and presented in the statement of comprehensive income.

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.

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 2. Summary of 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 gain or loss and is presented in the statement of comprehensive income within net realized gains (losses) on financial assets at fair value through profit or loss.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Net changes in unrealized gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the statement of comprehensive income within the net change in unrealized appreciation (depreciation) on investments.

#### *Cash and cash equivalents*

Cash and cash equivalents is comprised of deposits with financial institutions and short-term investments.

#### *Valuation of investments and derivatives*

IFRS 13, Fair Value Measurement, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The price used to measure the fair value shall not be adjusted for transaction costs.

The fair value of the Fund's investments (securities and derivatives) as at the financial reporting date is determined as follows:

- a) Investments that are traded in active markets such as public stock exchanges, over-the-counter markets are valued at the quoted closing price as at the reporting date as where the last traded price falls within that day's bid-ask spread. If the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value in the circumstances.
- b) Investments that are not traded in active markets are valued based on valuation techniques approved by the Manager that are appropriate in the circumstances using observable and/or unobservable market inputs. Wherever possible, the use of relevant observable inputs are maximised and unobservable inputs are minimized.

The valuation techniques include using recent arm's length market transactions, if available, or current value of another investment that is substantially the same, discounted cash flow analysis, earnings multiples of comparable companies and broker quotes.

- c) Foreign exchange forward contracts are valued based on the difference between the contract forward rate and the forward bid rate (for currency held long) and the forward ask rate (for currency sold short).

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 2. Summary of significant accounting policies (continued)

#### *Impairment of financial assets*

At the end of each reporting year, the Fund reviews its financial assets that are carried at amortized cost for any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed.

#### *Cost of investments*

The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding transaction costs. On the schedule of investment portfolio, transaction costs have been deducted in aggregate from the total cost of individual investments which include transaction costs. The premium received on a written put option is added to the cost of investments acquired when the written put option is exercised.

#### *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 set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

#### *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.

#### *Other financial assets and liabilities*

In accordance with IAS 39, Financial Instruments: Recognition and Measurements ("IAS 39"), all other assets and liabilities are classified as loans and receivables. The carrying value of current assets and liabilities approximates fair value due to their short-term nature.

#### *Transaction costs*

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs are expensed and included in "Transaction costs" in the statement of comprehensive income.

#### *Investment transactions and income*

Investment transactions are accounted for on the trade date. Interest for distribution purposes is accrued on a daily basis based on the debt instruments' stated coupon rate of interest. Dividends are recognized on ex-dividend date and withholding tax is disclosed separately. Distributions from other investment funds are recognized on distribution date. Security lending income and expenses are recorded on an accrual basis. Realized gain and loss from investment transactions are calculated on an average cost basis.



# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 2. Summary of significant accounting policies (continued)

#### *Foreign currency translation*

The Fund's functional and presentation currency is Canadian dollars. This is the currency the Fund uses to transact subscriptions and redemptions of its redeemable units.

The fair value of investments and derivatives, other assets and liabilities denominated in foreign currencies are translated at the exchange rate between the functional currency and the foreign currency at each of the valuation date. Foreign currency transactions, including purchase and sales of investments, investment income and expenses are translated at the exchange rate between the functional currency and the foreign currency at the date of the transaction.

Realized and unrealized exchange gains and losses on foreign currency cash and cash equivalent and other assets and liabilities are presented as "Foreign currency gain (loss) on cash and cash equivalent and other net assets". Realized and unrealized exchange gains and losses on investments and derivatives are presented separately in the statement of comprehensive income.

#### *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 rights. Such units are classified as financial liabilities and can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value ("NAV") attributable to the unit class. The Fund's NAV per unit is calculated by dividing the net assets attributable to the holders of each class of redeemable units with the total number of outstanding redeemable units for each respective class.

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.

#### *Future accounting standards*

IFRS 9, Financial Instruments ("IFRS 9"), is the first of a multi-phase project to replace IAS 39, Financial Instruments: Recognition and Measurement. It addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces a new hedge accounting model. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value. Classification is made at the time the financial asset is initially recognized when the entity becomes a party to the contractual provisions of the instrument. The new standard requires modified disclosures on transition.

Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss. IFRS 9 is effective on January 1, 2018. The Manager is currently assessing the impact to the Fund.

The new hedge accounting model enables entities to better reflect their risk management activities in the consolidated financial statements. The model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In December 2014, Disclosure Initiative was issued, which amends IAS 1, Presentation of Financial Statements. The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying the guidance on materiality, presentation and note disclosure. The amendments are effective for annual periods beginning on or after January 1, 2016. The Manager is assessing the impact of the amendments of IAS 1 on the Fund's financial statements.

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 3. Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing these financial statements. Actual results may differ from these estimates.

The fair value of such securities not quoted in an active market may be determined by the Fund using reputable pricing sources (such as pricing agencies) or indicative prices from bond/debt market makers. The Fund would exercise judgments and evaluates the quantity and quality of pricing sources used. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be 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.

Judgment was exercised in the decision to present redeemable units as financial liabilities.

### 4. Expenses

The Manager has the power to incur and make payment out of the Fund, any charges or expenses which, in the opinion of the Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Trust Agreement, including without limitation all fees and expenses relating to the management and administration of the Fund. The Fund is responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

#### *Management fees*

Management fees equal to one-twelfth of 2.0% of the Series Net Asset Value in respect of the B Units and one-twelfth of 1% of the Series Net Asset Value in respect of the F Units, based on the weekly net asset value calculations during each month plus applicable taxes and related expenses, are payable within ten business days after the end of each month. Management fees are payable to the Manager.

#### *Performance fee*

The performance fee per unit of the B Units or F Units is paid to the Manager based on the Trust's annual performance. The performance fee is calculated and accrued monthly as 20% of the Fund performance in excess of the minimum performance specifically defined in the Trust Agreement, plus applicable taxes.

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 5. Units of the trust

#### *Authorized*

The Fund is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net asset value per unit calculated on the redemption date.

Units of the Fund surrendered for redemption at least 30 days prior to the last business day of each quarter (a "Valuation Date") will be redeemed at a redemption price equal to the net asset value per unit on such valuation date. Redemption of units prior to the first anniversary of the purchase of such units will be subject to an early redemption fee equal to 1% of the Net Asset value of the units so redeemed.

	December 31, 2015	
	Series B	Series F
Balance, beginning of year	6,027,422	490,360
Subscriptions	-	20,704
Redeemed	<u>(320,676)</u>	<u>(232,637)</u>
Balance, end of year	<u>5,706,746</u>	<u>278,427</u>
	December 31, 2014	
	Series B	Series F
Balance, beginning of year	6,450,687	610,431
Subscriptions	-	30,783
Redeemed	<u>(423,265)</u>	<u>(150,854)</u>
Balance, end of year	<u>6,027,422</u>	<u>490,360</u>

#### *Capital disclosure*

The capital of the Fund is represented by issued and redeemable units. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Trust's net asset value per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the statement of changes in net assets attributable to unitholders of redeemable units. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 6, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

### 6. Financial instruments

#### *Management of financial instrument risks*

In the normal course of business, the Fund is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). 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, market and company news related to specific securities within the Fund. The level of risk depends on the Fund's investment objectives and the type of securities it invests in.

The investment objective of the Fund is to provide high long-term total investment returns with relatively moderate risk, through a combination of long-term capital growth and current income. The Fund invests primarily in common shares of Canadian and U.S. issuers.

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 6. Financial instruments (continued)

#### *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.

Where the Fund invests in debt instruments and derivatives, this represents the main concentration of credit risk. The fair value of debt instruments and derivatives includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Fund.

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.

As at December 31, 2015, the Fund had 2.13% (December 31, 2014 – 1.8%) of investments in debt instruments on which credit ratings are not available.

#### *Liquidity risk*

Liquidity risk is defined as the risk that the Fund may not be able to settle or meet its obligation on time or at a reasonable price.

The Fund's exposure to liquidity risk is concentrated in the periodic cash redemptions of units. The Fund primarily invests in securities that are traded in active markets and can be readily disposed of. In addition, the Fund generally retains sufficient cash and cash equivalent positions to maintain liquidity.

The Fund may employ the use of derivatives to moderate certain risk exposures. There is no guarantee that a market will exist for some derivatives and it is possible that the exchanges may impose limits on trading of derivatives. Liabilities are generally settled within 90 days.

The Fund maintains sufficient cash and marketable securities, and manages liquidity risk through its ability to close out market positions.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is minimal sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates.

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at December 31, 2015, there were 2.13% (December 31, 2014 – 1.8%;) of investments owned which are held in bonds. The remaining portion of the Fund's assets are substantially non-interest bearing equity investments and the exposure to interest rate changes is minimal.

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 6. Financial instruments (continued)

#### *Other price risk*

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

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

As at December 31, 2015, 90.0% (December 31, 2014 – 86.2%) of the Fund's net assets were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately \$10.2 million (December 31, 2014 - \$10.5 million) respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. The Fund may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

The Fund holds assets denominated in currencies other than Canadian Dollars which is the functional currency. The Fund is therefore exposed to currency risk, as the value of the securities denominated in other currencies fluctuates due to change in exchange rates.

The tables below summarize the Fund's exposure to currency risk due to concentration of assets in foreign currencies as at December 31, 2015 and 2014:

#### **December 31, 2015**

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<b>Currency</b>	<b>Portfolio Holdings</b>	<b>Cash</b>	<b>Foreign exchange forward contracts</b>	<b>Net exposure</b>	<b>% of Net Assets</b>
	\$	\$	\$	\$	
United States Dollar	50,327,223	4,749,784	(24,905,844)	30,171,163	26.66%
Total	50,327,223	4,749,784	(24,905,844)	30,171,163	26.66%

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# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 6. Financial instruments (continued)

#### Currency risk (continued)

December 31, 2014

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Currency	Portfolio Holdings	Cash	Foreign exchange forward contracts	Net exposure	% of Net Assets
	\$	\$	\$	\$	
United States Dollar	40,795,995	9,296,725	-	50,092,720	41.14%
Total	40,795,995	9,286,725	-	50,092,720	41.14%

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The amounts in the above tables are based on the fair value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivable, receivable for equities sold, and subscription receivable) and financial liabilities (including payables for equities purchased) that are denominated in foreign currencies do not expose the Fund to significant currency risk.

As at December 31, 2015, if the Canadian dollar had strengthened or weakened by 5 percent in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$1,436,722 (December 31, 2014 - \$2,385,368). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 7. Classification of financial instruments - fair value measurements

IFRS requires the Fund to use a three-tier hierarchy as a framework for disclosing fair values, based on inputs used to value the Fund's investments in financial assets and financial liabilities. This hierarchy is summarized as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables summarize the inputs used as of as of December 31, 2015 and 2014 in valuing the Fund's financial assets and liabilities at FVTPL.

<b>December 31, 2015</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>				
Equities – long	105,071,540	2,165,582	1,257,615	108,494,737
Bonds – long	-	1,170,383	1,118,836	2,289,219
	<b>105,071,540</b>	<b>3,335,965</b>	<b>2,376,451</b>	<b>110,783,956</b>
<b>Liabilities</b>				
Equities – short	(2,211,582)	-	-	(2,211,582)
Options – short	(969,806)	-	-	(969,806)
Currency forward contracts	-	(294,318)	-	(294,318)
	<b>(3,181,388)</b>	<b>(294,318)</b>	<b>-</b>	<b>(3,475,706)</b>
<b>December 31, 2014</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>				
Equities – long	106,488,275	856,225	3,068,980	110,413,480
Bonds – long	-	730,075	1,260,000	1,990,075
	<b>106,488,275</b>	<b>1,586,300</b>	<b>4,328,980</b>	<b>112,403,555</b>
<b>Liabilities</b>				
Equities – short	(166,544)	(32,263)	-	(198,807)
Options – short	(1,364,723)	-	-	(1,364,724)
	<b>(1,531,268)</b>	<b>(32,263)</b>	<b>-</b>	<b>(1,563,531)</b>

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

### 7. Classification of financial instruments - fair value measurements (continued)

The changes in investments measured at fair value using significant level 3 inputs are reflected below for the years ended December 31, 2015 and 2014:

#### December 31, 2015

	Beginning balance January 1, 2015 (FV)	Net purchases and sales	Transfers out	Realized gains and losses, net	Change in unrealized gains and losses, net	Ending balance December 31, 2015 (FV)
	\$			\$	\$	\$
<b>Assets</b>						
Equities	3,068,980	(1,366,100)	(561,990)	(100,262)	216,987	1,257,615
Bonds	1,260,000	453,356	-	(133,014)	(461,506)	1,118,836
	<b>4,328,980</b>	<b>(912,744)</b>	<b>(561,990)</b>	<b>(233,276)</b>	<b>(244,519)</b>	<b>2,376,451</b>

During the year ended December 31, 2015, there were transfers from Level 3 to Level 1, as certain securities became listed. There were no significant transfers between Level 1 and 2.

#### December 31, 2014

	Beginning balance January 1, 2014 (FV)	Net purchases and sales	Net transfers in (out)	Realized gains and losses, net	Change in unrealized gains and losses, net	Ending balance December 31, 2014 (FV)
	\$			\$	\$	\$
<b>Assets</b>						
Equities	2,781,503	1,570,285	(462,763)	(2,944,652)	2,124,607	3,068,980
Bonds	2,901,560	(1,054,082)	-	(617,998)	30,520	1,260,000
	<b>5,683,063</b>	<b>516,203</b>	<b>(462,763)</b>	<b>(3,562,650)</b>	<b>2,155,127</b>	<b>4,328,980</b>

During the year ended December 31, 2014, there were transfers from Level 3 to Level 1, as certain securities became listed. There were no significant transfers between Level 1 and 2.



# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 7. Classification of financial instruments - fair value measurements (continued)

The significant unobservable inputs and valuation techniques used to determine the fair value measurement categorized in level 3 for years ended December 31, 2015 and 2014 are indicated below:

	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>December 31, 2015 (\$)</b>
Equities	Grey Market trades	Trade details	-
	Private company book value	Financial statements of private company	<b>1,185,938</b>
	Comparable company multiples	Financial statements of comparable company	<b>71,677</b>
<b>Total</b>			<b>1,257,615</b>
Bonds	Discounted cash flow	Discount rate	<b>1,118,836</b>
<b>Total</b>			<b>1,118,836</b>

	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>December 31, 2014 (\$)</b>
Equities	Grey Market trades	Trade details	255,120
	Private company book value	Financial statements of private company	484,737
	Comparable company multiples	Financial statements of comparable company	2,329,123
<b>Total</b>			<b>3,068,980</b>
Bonds	Discounted cash flow	Discount rate	1,260,000
<b>Total</b>			<b>1,260,000</b>

# Front Street Hedge Fund

## Notes to the financial statements

December 31, 2015

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### 8. Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"), 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 not paid or payable to unitholders, is subject to income tax. 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. The Fund may be subject to alternative minimum tax, potentially recoverable.

The Fund has \$9,878,659 in non-capital losses available to be applied against taxable income of future years which will expire as follows:

	\$
2028	1,582,276
2030	7,099,485
2032	1,196,898
	<hr/> 9,878,659

The Fund has \$2,848,043 in net capital losses available to be applied against capital gains of future years. These losses do not expire.

### 9. Filing exemption

The Fund is relying on the exemption pursuant to Section 2.11 of National Instrument 81-106, to not file its financial statements with the Ontario Securities Commission.