

**FRONT STREET ENERGY OPPORTUNITIES
FUND INC.**

**INTERIM UNAUDITED FINANCIAL
STATEMENTS**

JUNE 30, 2015

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund in accordance with standards established by the Chartered Professional Accountants of Canada. The external auditors will be auditing the annual financial statements of the Fund in accordance with Canadian generally accepted auditing standards.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**STATEMENT OF FINANCIAL POSITION (Unaudited)
AS AT JUNE 30, 2015**

2015

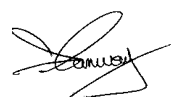
| | | |
|--|----|-------------------|
| Assets | | |
| Financial assets at fair value through profit and loss * | \$ | 4,927,637 |
| Cash and cash equivalents | | 5,288,126 |
| Subscriptions receivable | | 1,000,000 |
| Dividends receivable | | 8,009 |
| | \$ | <u>11,223,772</u> |
| Liabilities | | |
| Accrued expenses, note 8 | | <u>36,225</u> |
| Total liabilities before net assets attributable to shareholders of redeemable shares | | <u>36,225</u> |
| Net assets attributable to shareholders of redeemable shares | \$ | <u>11,187,547</u> |
| Net assets attributable to shareholders of redeemable shares | | |
| Series B | \$ | 1,947,308 |
| Series F | | <u>9,240,239</u> |
| Number of redeemable shares outstanding | | |
| Series B | | 205,562 |
| Series F | | <u>937,335</u> |
| Net assets attributable to shareholders of redeemable shares per share | | |
| Series B | \$ | 9.47 |
| Series F | | 9.86 |

*Cost of investments is reflected on the Schedule of Investment Portfolio.

Approved by the Board of Directors:



Gary P. Selke
Director



David A. Conway
Director

See accompanying notes to the financial statements.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
FOR THE PERIOD FROM THE COMMENCEMENT OF THE FUND ON
APRIL 8, 2015 TO JUNE 30, 2015**

| | | |
|---|----|-----------------------|
| Income | | |
| Interest income for distribution purposes and other | \$ | 32 |
| Dividends | | 15,827 |
| Other net changes in fair value of financial assets at fair value through profit or loss ("FVTPL") | | |
| Net realized gain on financial assets at FVTPL | | 27,345 |
| Change in unrealized depreciation on financial assets at FVTPL | | (309,141) |
| | | <hr/> |
| | | (265,937) |
| Expenses | | |
| Management fees, notes 6 and 8 | | 19,275 |
| Transaction costs, notes 3(j) and 7 | | 18,549 |
| Operating costs | | 14,442 |
| Dividends paid | | 1,250 |
| Audit fees | | 3,000 |
| | | <hr/> |
| | | 56,516 |
| Decrease in net assets attributable to shareholders of redeemable shares from operations | \$ | <hr/> <hr/> (322,453) |
| Decrease in net assets attributable to shareholders of redeemable shares from operations | | |
| Series B | \$ | (52,692) |
| Series F | | (269,761) |
| Decrease in net assets attributable to shareholders of redeemable shares from operations per share | | |
| Series B | \$ | (0.53) |
| Series F | | (0.35) |

See accompanying notes to the financial statements.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO
SHAREHOLDERS OF REDEEMABLE SHARES (Unaudited)**

**FOR THE PERIOD FROM THE COMMENCEMENT OF THE FUND ON APRIL 8, 2015 TO
JUNE 30, 2015**

**Net assets attributable to shareholders of redeemable shares,
beginning of period**

| | | |
|----------|----|----------|
| Series B | \$ | - |
| Series F | | - |
| | | <u>-</u> |

**Increase (decrease) in net assets attributable to
shareholders of redeemable shares from operations**

| | | |
|----------|--|------------------|
| Series B | | (52,692) |
| Series F | | (269,761) |
| | | <u>(322,453)</u> |

Redeemable share transactions

Proceeds from redeemable shares issued

| | | |
|----------|--|-------------------|
| Series B | | 2,000,000 |
| Series F | | 9,510,000 |
| | | <u>11,510,000</u> |

Redemption of redeemable shares

| | | |
|----------|--|----------|
| Series B | | - |
| Series F | | - |
| | | <u>-</u> |

Net increase (decrease) from redeemable share transactions

11,510,000

**Increase (decrease) in net assets attributable to shareholders of redeemable
shares**

11,187,547

**Net assets attributable to shareholders
of redeemable share, end of period**

| | | |
|----------|----|-------------------|
| Series B | | 1,947,308 |
| Series F | | 9,240,239 |
| | \$ | <u>11,187,547</u> |

See accompanying notes to the financial statements.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

STATEMENT OF CASH FLOWS (Unaudited)

FOR THE PERIOD FROM THE COMMENCEMENT OF THE FUND ON
APRIL 8, 2015 TO JUNE 30, 2015

Cash Flow from Operating Activities

| | | |
|---|----|-------------|
| Decrease in net assets attributable to shareholders of redeemable shares from operation | \$ | (322,453) |
| Adjustments for: | | |
| Net realized gain on financial assets at FVTPL | | (27,345) |
| Change in unrealized depreciation on financial assets at FVTPL | | 309,141 |
| Increase in dividends receivable | | (8,009) |
| Increase in accrued expenses | | 36,225 |
| Purchase of financial assets at FVTPL | | (5,537,871) |
| Proceeds from sales of financial assets at FVTPL | | 328,438 |

Net cash used by operating activities (5,221,874)

Cash flows from financing activities

| | | |
|---|--|-------------------|
| Proceeds from redeemable share issuec | | 10,510,000 |
| Net cash generated by financing activities | | <u>10,510,000</u> |

| | | |
|---|----|------------------|
| Net increase in cash and cash equivalents | | 5,288,126 |
| Cash and cash equivalents, beginning of period | | - |
| Cash and cash equivalents, end of period | \$ | <u>5,288,126</u> |

Cash and cash equivalents comprise:

| | | |
|--------------|----|------------------|
| Cash at bank | \$ | <u>5,288,126</u> |
|--------------|----|------------------|

| | | |
|--|----|---------|
| Interest received, net of withholding tax | \$ | 32 |
| Dividends received, net of withholding tax | \$ | 7,818 |
| Dividends expense paid | \$ | (1,250) |

See accompanying notes to the financial statements.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited)
AS AT JUNE 30, 2015**

| | Number of Shares/ Units | | Cost \$ | | Fair Value \$ |
|---|-------------------------------|----|---------------------|----|----------------------|
| Long positions (44.0%) | | | | | |
| Energy (42.2%) | | | | | |
| Advantage Oil & Gas Limited | 25,000 | \$ | 189,815 | \$ | 197,500 |
| Bankers Petroleum Limited | 155,900 | | 472,829 | | 483,290 |
| Boulder Energy Limited | 31,600 | | 259,051 | | 262,280 |
| CanElson Drilling Inc. | 35,000 | | 150,237 | | 151,200 |
| Kelt Exploration Limited | 35,000 | | 306,035 | | 295,400 |
| Parex Resources Inc. | 61,000 | | 558,150 | | 638,670 |
| PHX Energy Services Corporation | 92,600 | | 589,165 | | 507,448 |
| Raging River Exploration Inc. | 10,000 | | 85,769 | | 87,300 |
| RMP Energy Inc. | 215,000 | | 684,499 | | 503,100 |
| Spartan Energy Corporation | 185,000 | | 623,312 | | 569,800 |
| Surge Energy Inc. | 20,000 | | 77,900 | | 70,800 |
| Torc Oil & Gas Limited | 50,000 | | 505,000 | | 435,000 |
| Western Energy Services Corporation | 38,100 | | 266,358 | | 220,599 |
| Whitecap Resources Inc. | 12,500 | | 157,585 | | 164,750 |
| Xtreme Drilling and Coil Services Corporation | 50,000 | | 87,405 | | 139,500 |
| | | | <u>\$ 5,013,110</u> | | <u>\$ 4,726,637</u> |
| Industrials (1.8%) | | | | | |
| Ceiba Energy Services Inc. | 600,000 | \$ | 240,250 | \$ | 201,000 |
| | | | <u>\$ 240,250</u> | | <u>\$ 201,000</u> |
| Total Long Positions (44.0%) | | | <u>\$ 5,253,360</u> | | <u>\$ 4,927,637</u> |
| Transaction costs, note 3 | | | <u>(16,582)</u> | | |
| Total Investments (44.0%) | | | <u>\$ 5,236,778</u> | | 4,927,637 |
| Cash and cash equivalents (47.3%) | | | | | 5,288,126 |
| Other assets less liabilities (8.7%) | | | | | <u>971,784</u> |
| Net assets (100.0%) | | | | | <u>\$ 11,187,547</u> |

See accompanying notes to the financial statements

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

1. THE FUND

Front Street Energy Opportunities Fund Inc. (the "Fund") is an investment fund corporation created under the laws of Canada pursuant to articles of incorporation (the "Articles") under the Canada Business Corporations Act. The business of the Fund is to invest in accordance with its investment objective and investment strategies, subject to its investment restrictions. The Fund is domiciled in Canada, and the address of its registered office is 33 Yonge Street, Suite 600, Toronto, Ontario, Canada, M5E 1G4.

As of June 30, 2015, Series B and Series F shares have been issued. Series B commenced operations on May 1, 2015 and Series F commenced operations on April 8, 2015.

Front Street Capital 2004 is the Manager of the Fund (the "Manager"). Front Street Investment Management Inc. (the "Investment Advisor") has been retained by the Manager, on behalf of the Fund, to provide investment advisory and portfolio management services to the Fund. NBCN Inc. is the custodian. Citigroup Fund Services Canada, Inc. provides fund accounting and shareholder record keeping services.

The Fund's investment objective is to achieve maximum capital appreciation and to provide long-term capital growth by investing primarily in a portfolio (the "portfolio") consisting primarily of equity and other securities of small and medium-sized business entities in a range of energy-related industries, including oil and gas exploration and development, production, servicing and drilling, the power generation market, including coal, liquefied natural gas, nuclear and electricity, and alternative energy-related projects, as well as other related natural resource sector industries

The Fund is not a mutual fund for securities law purposes. As a result, certain of the protections provided to investors in mutual funds under such laws are not available to investors in the shares.

2. BASIS OF PRESENTATION AND ADOPTION OF INTERNATIONAL FINANCIAL STANDARDS

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") using IAS 34 Interim Financial Reporting (IAS 34).

These financial statements were authorized for issue by the Manager on August 19, 2015.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

2. BASIS OF PRESENTATION AND ADOPTION OF INTERNATIONAL FINANCIAL STANDARDS (Continued...)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for financial assets and liabilities at fair value through profit and loss which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Fund's functional currency, and all values are rounded to the nearest dollar except where otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been applied consistently to the period presented in these financial statements and in preparing the statement of financial position as at June 30, 2015.

(a) Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Transaction costs include brokerage commissions incurred in the purchase and sale of portfolio investments in which the Fund invests. All such costs are expensed in the period incurred and presented in the statements of comprehensive income. Purchases and sales of financial assets are recognized at their trade date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit and loss (FVTPL), including certain investments in debt securities which have been designated at FVTPL. The Fund's obligation for net assets attributable to shareholders of redeemable shares is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Fund's accounting policies for measuring the fair value of its investments and derivatives except for warrants classified as level 2 are identical to those used in measuring its net asset value (NAV) for transactions with shareholders.

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Quantitative information on the impact on the Fund's statements of financial position if all amounts were set off is required.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(b) Fair value measurement

The Fund's portfolio investments are classified as fair value through profit and loss ("FVTPL"). Any unrealized gain or loss arising due to changes in fair value during the reporting period is presented separately in the statements of comprehensive income. Portfolio investments cannot be reclassified out of the FVTPL category while they are held.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. The fair value of financial instruments traded in active markets should be measured based on a price within the bid and ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. When the closing sale price of financial instruments traded in active markets is outside the bid and ask spread, such financial instruments are measured based on the bid price for securities owned or held long and on the asking price for securities sold short. The fair value of financial instruments not traded in an active market (including, but not limited to securities in private companies, warrants and restricted securities) are determined using valuation techniques. Depending on the circumstances, the Fund may use several methods and make assumptions based on market conditions existing at each reporting date. Valuation techniques may include, without limitation, the use of comparable recent arm's length transactions, discounted cash flow analysis, option-pricing models and other valuation techniques commonly used by market participants. Estimated fair values for investments in securities not traded in an active market are based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for such investments.

The fair value of financial instruments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided above less a discount of 2% per month up to four months.

Short-term investments, if any, are valued at the aggregate of cost and accrued interest receivable, which approximates fair value.

For financial statement reporting purposes, under National Instrument 81-106 ("NI 81-106") the Fund is required to disclose the differences between net assets attributable to redeemable shares per share and net asset value per share, including any differences in valuation principles or practices for the purposes of calculating net asset value versus those required under IFRS. A reconciliation between the net assets attributable to redeemable shares per share for financial reporting purposes and net asset value for investor transactions is presented in note 11 (Reconciliation of Net Asset Value to IFRS Net Assets Attributable to Shareholders of Redeemable Shares).

(c) Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments, other than cash collateral provided in respect of derivatives and securities borrowing transactions.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(d) Redeemable Shares

The Fund classifies redeemable shares issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has multiple classes of redeemable shares that do not have identical features and therefore, do not qualify as equity under IAS 32, Financial Instruments. The redeemable shares, which are classified as financial liabilities and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a share price based on the Fund's valuation policies at each redemption date. The shares represent the residual interest in the Fund.

(e) Impairment of financial assets

At the end of each reporting period, 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 period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed.

(f) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Realized gains and losses are calculated on a weighted average cost basis.

Revenue from investments is recognized on the accrual basis. Interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis and is recognized through profit and loss. Dividend revenue is recognized on the ex-dividend date.

(g) Foreign currency translation

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.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(g) Foreign currency translation (continued...)

Realized and unrealized exchange gains and losses on foreign currency cash and cash equivalents and other assets and liabilities are presented as "Foreign currency gain (loss) on cash and cash equivalents and other net assets". Realized and unrealized exchange gains and losses on investments and derivatives are presented within "Other net changes in fair value of financial assets and financial liabilities at fair value through profit and loss".

(h) Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations per share.

Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations per share is calculated by dividing the increase (decrease) in net assets attributable to shareholders of redeemable shares from operations of a series by the average number of shares outstanding of that series during the period.

(i) Net assets attributable to shareholders of redeemable shares per share.

The net assets attributable to shareholders of redeemable shares per share are calculated by dividing the net assets of a series of shares by the total number of redeemable shares of that series outstanding at the end of the period.

(j) Transaction costs

Portfolio transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges. The individual security's cost shown on the schedule of investment portfolio includes only those transaction costs incurred on the acquisition of portfolio investments.

(k) Provisions

The Fund recognizes a provision, if as a result of a prior event, the Fund has a current obligation requiring the outflow of resources to settle. Provisions are recorded at the Manager's best estimates of the most probable outcome of any future settlement.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(m) Future changes in accounting standards

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The timely preparation of financial statements requires the Fund to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The following summarizes the accounting judgments, estimates and assumptions the Fund considers significant:

(a) Valuation of investments

Portfolio investments are measured and reported at fair value through profit and loss. Portfolio investments may include securities not traded in an active market, the fair value of which is determined using valuation techniques. Such estimates of fair value of portfolio investments not traded in an active market involve assumptions and uncertainties, and may include matters of significant judgment. Therefore, such estimates are subjective and cannot be determined with precision. Changes in assumptions may significantly affect the estimates.

(b) Other judgments, estimates and assumptions

Estimates are also used when determining the amount of impairment of assets and the likelihood of contingencies.

(c) Assessment as investment entity

The Manager has concluded that the Fund meets the characteristics of an investment entity, in that it has more than one investment and is managed in accordance with the Management Agreement and offering memorandum; the investments are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties, and has also concluded that the Fund meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics change.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

5. REDEEMABLE SHARES

Net assets attributable to holders of redeemable shares consists of amounts paid for shares, undistributed income, realized gains and losses, unrealized appreciation (depreciation) of financial assets at FVTPL, less amounts paid for redemptions and represents the capital of the Fund. The Fund may issue an unlimited number of redeemable shares. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives.

The Fund is authorized to issue an unlimited number of shares in one or more series. Series B shares and series F shares have been issued. Each share of a series represents an undivided interest in the net assets of the Fund applicable to that series. Each share has equal rights with respect to voting, liquidation and other events in respect of the Fund.

Subject to the Fund's right to suspend redemptions, shares, may be surrendered at least 30 days prior to the last business day of each month (each, a "Redemption Date") for redemption on such Redemption Date. Shares so surrendered for redemption by a Shareholder will be redeemed on such Redemption Date for a redemption price equal to the applicable Series Net Asset Value per Share on such Redemption Date. Shares held for less than twelve months will be subject to an early redemption charge of 2%.

The following redeemable shareholder transactions took place during the period:

| | April 8, 2015 to June 30, 2015 |
|--|-----------------------------------|
| Shares outstanding, beginning of the period: | |
| Series B | - |
| Series F | - |
| Redeemable Shares issued during the period: | |
| Series B | 205,562 |
| Series F | 937,335 |
| Redeemable Shares redeemed during the period | |
| Series B | - |
| Series F | - |
| Shares outstanding, end of the period | |
| Series B | 205,562 |
| Series F | 937,335 |

6. MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee, within 10 business days after the end of each month, equal to 1/12 of 1.5% of the Series B net asset value and a monthly management fee equal to 1/12 of 1% of the net asset value of the Series F net asset value, calculated based on the month-end series net asset value for each month and paid at the end of each month in arrears for each series. The Manager will pay any fees owing to the Investment Advisor out of the management fee.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

6. MANAGEMENT AND PERFORMANCE FEES (Continued...)

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees, custodial fees and expenses making dividends to shareholders. As the Fund has more than one series of shares, the shareholders of each series, bear their pro rata share of those expenses which are common to the operation of all series, as well as those expenses which are attributable solely to that series.

The Fund pays a performance fee per share of each series equal to 15% of the amount by which the aggregate of:

- (a) the Series Net Asset Value per share for the relevant series at the end of such fiscal year (without regard to any accrual of the Performance Bonus), and
- (b) Any dividend per share of such series declared during such year;

exceeds the series Net Asset Value per share for such series at the beginning of such fiscal year, provided that the Fund generates an annual return on investment of at least 5% and provided that the Series Net Asset Value per share (including dividends) for the relevant series is greater than all previous values at the end of each previous fiscal year in which a performance bonus was paid.

7. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the period ended June 30, 2015 was \$18,549.

There were no soft dollar amounts included in brokerage commissions.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

8. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2015, fees paid to the Manager were:

| | |
|-------------------------|------------------|
| Management fees, note 6 | <u>\$ 19,275</u> |
|-------------------------|------------------|

| | |
|---|------------------|
| Included in accrued expenses are amounts payable to the Manager of: | <u>\$ 19,275</u> |
|---|------------------|

The following are ownership held by the related party of the Fund:

| | June 30, 2015 |
|--|------------------|
| Series F shares held by Partners of the Manager | 250,000 |
| Percentage of Series F shares held by the Partners of the Manager | 26.67% |
| Series F shares held by the relatives of the Partners of the Manager | 250,000 |
| Percentage of Series F shares held by the relatives of the Partners of the Manager | 26.67% |

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution only basis. During the period ended June 30, 2015, Tuscarora Capital Inc., a company under common control to the Manager, received \$Nil in commissions on portfolio transactions for the Fund.

Management fees and performance fees are measured at the amount of consideration prescribed by the offering documents of the Fund. When related parties enter shareholder transactions with the Fund, the amount of consideration is the NAV available to all other shareholders on the trade date.

9. INCOME TAXES AND DIVIDEND POLICY

The Fund does not intend to pay regular dividends. The Fund may make annual special dividends to Shareholders so that the Fund will not be subject to any material for income tax liability. Dividends over the life of the Fund will be derived primarily from net realized capital gains and income from the Portfolio.

The Fund intends to qualify as a mutual fund corporation as defined in the Tax Act and will therefore be entitled to a refund of tax paid by it in respect of its net realized capital gains. The Fund is not subject to tax under Part IV.1 of the Tax Act on dividends received by the Fund.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

10. INDEMNIFICATION OF THE MANAGER

The Fund, pursuant to the Management Agreement, will indemnify the Manager, its partners, directors, officers, employees and agents from all claims that may arise in connection with the exercise of its duties as Manager if they do not result from the Manager's willful misconduct, bad faith, gross negligence or reckless disregard of its duties, or breach of its obligations as manager under the Management Agreement.

11. RECONCILIATION OF NET ASSET VALUE TO IFRS NET ASSETS ATTRIBUTABLE TO REDEEMABLE SHARES

Investment funds may have two different net asset values: (i) one for financial statements, which is prepared in accordance with IFRS (referred to as "IFRS NA") and (ii) another for all other purposes, including share pricing for investor transactions (referred to as "Net asset value"). For investments that are traded in an active market where quoted prices are readily and regularly available, IFRS requires investments to be valued using the methods and principles described in Note 3 (Summary of significant accounting policies – Fair value measurement), whereas the Fund may use closing sale prices for the purpose of determining Net asset value. For investments that are not traded in an active market, IFRS requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry. National Instrument 81-106 ("NI 81-106") requires that and annual financial statements present a reconciliation of Net asset value per share to IFRS Net Assets Attributable to Shareholders of Redeemable Shares.

As at June 30, 2015, there is no variance between the IFRS NA per share to Net asset value per share.

12. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of financial assets at FVTPL, subscriptions receivable, receivable for investments sold, dividends receivable, bank indebtedness, redemptions payable and accrued expenses. It is the Manager's opinion that due to the short term nature of these financial instruments, the Fund is not exposed to significant market price, currency, interest rate, liquidity, cash flow, credit, and portfolio concentration risks arising from these financial instruments except as described below. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

All securities present a risk of loss of capital. The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisors, by daily monitoring of the Fund's positions and market events, and by diversifying the investment portfolio within the constraints of the investment objective. To assist in managing risk, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

The schedule of investment portfolio presents the securities held by the Fund as at June 30, 2015 and groups the securities by asset type, sector and/or market segment. The investment portfolio is comprised of issuers in the energy sector and industrials sector. The Manager will maintain a mix of debt instruments, equities and cash that represents its view of the most optimal combination of these investments based on economic outlook, market conditions and the relative value of these investments. Significant risks that are relevant to the Fund are discussed below.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

12. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued...)

i) Market price risk

Market price risk, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Fund is exposed to market price risk arising from its investments in securities. The Investment Advisor manages the Fund's market price risk on a daily basis in accordance with the Fund's investment objective and policies.

ii) Currency risk

The Fund may invest in financial instruments denominated in currencies other than its measurement currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of the portion of the Fund's assets or liabilities denominated in currencies other than Canadian dollars, absent any changes in market prices or investment specific events.

As at June 30, 2015, the fund did not invest in financial instruments in foreign currencies.

iii) Interest rate risk

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 June 30, 2015, the bulk of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

As at June 30, 2015

| Financial assets | Floating Rate Financial Instruments | Fixed Rate Financial Instruments | Non-interest Bearing | Total |
|-----------------------------|---|--|-------------------------|----------------------|
| Financial assets at FVTPL | \$ - | \$ - | \$ 4,927,637 | \$ 4,927,637 |
| Loans and receivables | - | - | 6,296,135 | 6,296,135 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 11,223,772</u> | <u>\$ 11,223,772</u> |
| Financial liabilities | | | | |
| Other financial liabilities | \$ - | \$ - | \$ 36,225 | \$ 36,225 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,225</u> | <u>\$ 36,225</u> |
| IFRS NA | | | | <u>\$ 11,287,547</u> |

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2015**

12. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued...)

iv) Liquidity risk

Liquidity risk is the risk the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Shareholder redemption requests are the main liquidity risk for the Fund.

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

As at June 30, 2015

| | 0 - 12 months | 1 - 3 years | 3 - 5 years | Beyond 5 years | Indefinite maturity | Total |
|-----------------------------|---------------------|----------------|----------------|-------------------|------------------------|----------------------|
| Financial assets | | | | | | |
| Financial assets at FVTPL | \$ - | \$ - | \$ - | \$ - | \$ 4,927,637 | \$ 4,927,637 |
| Loans and receivables | <u>6,296,135</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,296,135</u> |
| | <u>\$ 6,296,135</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,927,637</u> | <u>\$ 11,223,772</u> |
| Financial liabilities | | | | | | |
| Other financial liabilities | <u>\$ 36,225</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,225</u> |
| | <u>\$ 36,225</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,225</u> |
| IFRS NA | | | | | | <u>\$ 11,187,547</u> |

As at June 30, 2015, there were no investments in private securities.

v) Cash flow risk

The risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. In the case of a floating rate debt instrument, for example, such fluctuations could result from a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2015

12. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued...)

vi) Credit risk

The Fund is exposed to credit risk arising from its transactions with its counterparties and brokers, related to securities purchases and sales. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Financial assets which potentially expose the Fund to credit risk consist principally of investments in bonds and amounts due from brokers. The Fund seeks to mitigate its exposure to credit risk by placing its cash, and transacting its securities activity with large financial institutions. The Fund may also invest in corporate bonds. Until the bonds are sold or mature, the Fund is exposed to credit risk relating to whether the bond issuer will meet its obligations when they come due. The extent of the Fund's exposure to credit risk in respect of these financial assets is reflected in their carrying value as recorded in the Fund's Statement of Financial Position.

As at June 30, 2015, the Fund had no investments in debt instruments.

vii) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The Fund's concentration risk by market segments/categories of financial instruments has been summarized as follows:

| | June 30, 2015 |
|-------------------------------|----------------------|
| Energy | 42.2% |
| Industrials | 1.8% |
| Cash and cash equivalents | 47.3% |
| Other assets less liabilities | <u>8.7%</u> |
| Total | <u><u>100.0%</u></u> |

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2015

13. CAPITAL MANAGEMENT

The Fund considers financial instruments in the form of Redeemable Shares to represent capital. In managing this capital, the objectives of the Fund are:

- (a) to safeguard the Fund's ability to continue as a going concern, be flexible and take advantage of opportunities that might present themselves;
- (b) to provide an appropriate return to shareholders; and
- (c) to use active management strategies intended to enhance the returns of the Fund and concurrently minimize risk and preserve capital, consistent with the investment guidelines, strategies and objectives of the Fund.

The Fund follows, and is in compliance with, the Investment Guidelines described in the Offering memorandum.

The Fund is not subject to any externally imposed capital requirements. The Manager considers the Fund's capital to consist of the issued shares and the net assets attributable to shareholders of redeemable shares.

14. FAIR VALUE HIERARCHY

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 June 30, 2015 in valuing the Fund's financial assets and liabilities at FVTPL.

| As at June 30, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------------------|-------------|-------------|---------------------|
| Financial assets at FVTPL | <u>\$ 4,927,637</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,927,637</u> |

During the period ended June 30, 2015, the Fund did not hold any investments measured at fair value using unobservable inputs (Level 3).

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2015

14. FAIR VALUE HIERARCHY (Continued...)

Valuation techniques and framework

The Fund's portfolio investments in equity securities are classified as Level 1 when the security is actively traded and a reliable price is observable. The Fund may not be able to trade certain equity securities of publicly listed issuers (primarily warrants and shares for which trading is restricted by a contractual hold period), and therefore observable prices may not be available. In such cases, fair value is determined based on observable market data (e.g., prices for transactions for similar securities of the same issuer) and the fair value is classified as Level 2. However, if the determination of fair value requires significant unobservable data, the measurement of such securities is classified as Level 3.

Valuation techniques are used for equity securities classified as Level 2 and Level 3 (primarily private companies).

Valuation techniques may include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models, including but not limited to the Black Scholes stock option model. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indices, EBITDA and/or revenue multiples and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement for an asset to be sold or a liability to be transferred between market participants at a measurement date.

The Fund uses widely recognized valuation models for determining the fair value of common and simple financial instruments, such as warrants and temporarily restricted shares of public companies, which generally use observable market data and require some management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and other simple derivatives. The availability of observable market prices and model inputs may reduce the need for management judgment and estimation and may reduce, but does not eliminate, uncertainty associated with determining fair values. The availability of observable inputs may vary and depends on the nature of the securities being valued and markets, and is subject to change based on specific events and general conditions in the financial markets. Management applies a certain discount to restricted securities in order to determine the fair value of these securities. To determine the fair value of warrants, management uses the Black-Scholes stock option model, which incorporates the volatility of the underlying stock.

The Fund may invest in equity securities of private companies, which are classified as Level 3 securities. These may be valued using the most recent rounds of financing, or in certain cases, using models. Some or all of the significant inputs into the valuation models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the security being valued, and other inputs (such as discount rate, liquidity risk, credit risk, as applicable), to the extent that the Fund believes that a third party market participant would take them into account in pricing a transaction.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2015

14. FAIR VALUE HIERARCHY (Continued...)

The Fund has established a control framework for the measurement of fair value. The valuation process is overseen by management, who is responsible for developing the Fund's valuation processes and procedures, conducting periodic reviews of those policies and evaluating their consistent application. When third party information, such as broker quotes or pricing services or recent transactions, is used to measure value, then management assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes verifying the information provided, and analyzing the information to check for any material inconsistencies.

15. REPORTING PERIOD:

The Statements of Financial Position and Schedule of Investment Portfolio are presented as at June 30, 2015. The Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Shareholders of Redeemable Shares and Statement of Cash Flows are presented for the period from April 8, 2015 (the Initial Closing Date and date of commencement of operations) to June 30, 2015, which is a period of approximately two and three-quarter (2.75) months.

16. EXEMPTION FROM REGULATORY FILING REQUIREMENTS

The Fund is not a reporting issuer and is exempt from the financial statement filing requirements of Sections 2.1 and 2.3 of National Instrument 81-106 for the period ended June 30, 2015 and following financial periods. The Fund has prepared its financial statements under National Instrument 81-106 and has advised the Ontario Securities Commission that it is relying on the exemption not to file its financial statements according to Sections 2.1 and 2.3.



FRONT STREET CAPITAL

33 Yonge Street, Suite 600
Toronto, ON M5E 1G4

Tel.: 1 (800) 513-2832
or (416) 364-1990

Fax: (416) 364-8893

www.FrontStreetCapital.com