

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Front Street Energy Opportunities Fund Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Front Street Energy Opportunities Fund Inc. which comprise the statement of financial position as at December 31, 2016, the statement of comprehensive income, statement of changes in net assets attributable to shareholders of redeemable shares 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 of material misstatement.

*An independent firm associated with
Moore Stephens International Limited*

MOORE STEPHENS

Independent Auditor's Report
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit 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 Energy Opportunities Fund Inc. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Segal LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
March 30, 2017

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016**

	2016	2015
ASSETS		
Financial assets at fair value through profit and loss ("FVTPL")*	\$ 21,208,128	\$ 6,684,208
Dividends receivable	2,900	11,712
Cash	<u>-</u>	<u>1,856,122</u>
	<u>\$ 21,211,028</u>	<u>\$ 8,552,042</u>
LIABILITIES		
Bank indebtedness	\$ 2,212,442	\$ -
Performance fees payable, note 8	805,542	-
Financial liabilities at FVTPL	849,526	-
Accrued expenses, note 8	129,651	134,264
Compensatory dividends payable	<u>2,854</u>	<u>-</u>
Total liabilities before net assets attributable to shareholders of redeemable shares	<u>4,000,015</u>	<u>134,264</u>
Net assets attributable to shareholders of redeemable shares	<u>\$ 17,211,013</u>	<u>\$ 8,417,778</u>
Net assets attributable to shareholders of redeemable shares		
Series B	\$ 2,940,492	\$ 1,462,199
Series F	\$ 14,270,521	\$ 6,955,579
Number of redeemable shares outstanding		
Series B	223,239	205,562
Series F	1,040,368	937,335
Net assets attributable to shareholders of redeemable shares per share		
Series B	\$ 13.17	\$ 7.11
Series F	\$ 13.72	\$ 7.42

Approved on behalf of LOGiQ Capital 2016, The Manager:



Joe Canavan
Chief Executive Officer
LOGiQ Capital 2016 (formerly
Front Street Capital 2004)



Mary Anne Palangio
Chief Financial Officer
LOGiQ Capital 2016 (formerly
Front Street Capital 2004)

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

See accompanying notes to the financial statements

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016 (12 months)	2015 (8-3/4 months)
Income		
Dividends	\$ 67,544	\$ 87,462
Securities lending revenue, note 10	9	-
Foreign currency loss on cash and other net assets	(32,197)	-
Other net changes in fair value of financial assets at fair value through profit or loss ("FVTPL")		
Net realized loss on sale of financial assets at FVTPL	(22,639)	(21,957)
Change in unrealized appreciation (depreciation) on financial assets at FVTPL	<u>8,524,914</u>	<u>(2,905,365)</u>
	<u>8,537,631</u>	<u>(2,839,860)</u>
Expenses		
Performance fees, notes 6 and 8	805,542	-
Management fees, notes 6 and 8	152,357	73,304
Transaction costs	72,943	40,372
Operating costs	49,510	63,495
Audit fees	18,000	12,000
Legal fees	17,522	90,865
Compensatory dividends	13,936	1,250
Security borrowing fees	3,550	-
Securityholder reporting costs	<u>1,175</u>	<u>2,138</u>
	1,134,535	283,424
Expenses waived or absorbed by Manager, notes 6 and 8	<u>-</u>	<u>(31,062)</u>
	<u>1,134,535</u>	<u>252,362</u>
Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations	<u>\$ 7,403,096</u>	<u>\$ (3,092,222)</u>
Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations		
Series B	\$ 1,278,293	\$ (537,801)
Series F	\$ 6,124,803	\$ (2,554,421)
Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations per share		
Series B	\$ 6.17	\$ (3.01)
Series F	\$ 6.37	\$ (2.89)

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
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016 (12 months)	2015 (8-3/4 months)
Net assets attributable to shareholders of redeemable shares, beginning of year/period		
Series B	\$ 1,462,199	\$ -
Series F	<u>6,955,579</u>	<u>-</u>
	<u>8,417,778</u>	<u>-</u>
Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations		
Series B	1,278,293	(537,801)
Series F	<u>6,124,803</u>	<u>(2,554,421)</u>
	<u>7,403,096</u>	<u>(3,092,222)</u>
Redeemable share transactions		
Proceeds from redeemable shares issued		
Series B	200,000	2,000,000
Series F	<u>3,728,750</u>	<u>9,510,000</u>
	<u>3,928,750</u>	<u>11,510,000</u>
Redemption of redeemable shares		
Class B	-	-
Class F	<u>(2,538,611)</u>	<u>-</u>
	<u>(2,538,611)</u>	<u>-</u>
Net increase from redeemable share transactions	<u>1,390,139</u>	<u>11,510,000</u>
Increase in net assets attributable to shareholders of redeemable shares	<u>8,793,235</u>	<u>8,417,778</u>
Net assets attributable to shareholders of redeemable shares, end of year/period		
Series B	2,940,492	1,462,199
Series F	<u>14,270,521</u>	<u>6,955,579</u>
	<u>\$ 17,211,013</u>	<u>\$ 8,417,778</u>

See accompanying notes to the financial statements

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016 (12 months)	2015 (8-3/4 months)
Cash flows from operating activities		
Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations	\$ 7,403,096	\$ (3,092,222)
Adjustments for:		
Foreign currency loss on cash and other net assets	32,197	-
Net realized loss on financial assets at FVTPL	22,639	21,957
Change in unrealized depreciation (appreciation) on financial assets at FVTPL	(8,524,914)	2,905,365
Decrease (increase) in dividends receivable	8,812	(11,712)
Increase (decrease) in compensatory dividends payable	2,854	-
Increase (decrease) in other payables and accrued liabilities	800,929	134,264
Purchases of financial assets at FVTPL	(14,792,241)	(10,894,730)
Proceeds from sales of financial assets at FVTPL	<u>9,620,122</u>	<u>1,283,200</u>
Cash flows used in operating activities	<u>(5,426,506)</u>	<u>(9,653,878)</u>
Cash flows from financing activities		
Proceeds from redeemable shares issued	3,928,750	11,510,000
Amounts paid on redemption of redeemable shares	<u>(2,538,611)</u>	<u>-</u>
Net change in cash	(4,036,367)	1,856,122
Foreign currency loss on cash and other net assets	(32,197)	-
Cash and cash equivalents, beginning of year	<u>1,856,122</u>	<u>-</u>
Cash and cash equivalents (bank indebtedness), end of year	<u>\$ (2,212,442)</u>	<u>\$ 1,856,122</u>
Cash and cash equivalents (bank indebtedness) comprise:		
Overdraft at bank	\$ (2,212,442)	\$ -
Deposit at bank	<u>-</u>	<u>1,856,122</u>
	<u>\$ (2,212,442)</u>	<u>\$ 1,856,122</u>
Dividends received, net of withholding tax	<u>\$ 76,356</u>	<u>\$ 75,748</u>
Compensatory dividends paid	<u>\$ (11,082)</u>	<u>\$ -</u>

See accompanying notes to the financial statements

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**SCHEDULE OF INVESTMENT PORTFOLIO
AS AT DECEMBER 31, 2016**

	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
Long positions (123.2%)			
Energy (119.6%)			
Advantage Oil & Gas Limited	49,800	\$ 366,563	\$ 454,176
Baytex Energy Corporation	150,000	787,500	984,000
Birchcliff Energy Limited	67,700	417,236	634,349
Calfrac Well Services Limited Restricted	433,600	1,235,760	1,898,821
Canyon Services Group Inc.	124,873	566,582	877,857
Chinook Energy Inc.	431,485	274,068	196,326
Craft Oil Limited	303,519	-	-
Crescent Point Energy Corporation	30,000	444,582	547,500
Crew Energy Inc.	128,850	423,276	967,664
Front Range Resources Limited	780,100	546,070	702,090
Kelt Exploration Limited	157,683	890,424	1,067,514
Leucrotta Exploration Inc.	257,600	267,302	564,144
Lilis Energy Inc. Convertible Preferred Stock	450	572,040	604,192
Lilis Energy Inc., Warrants June 22, 2018	2,045,455	-	822,918
Parex Resources Inc.	56,400	509,830	953,160
Parkland Fuel Corporation Subscription Receipts	30,200	739,900	832,535
PHX Energy Services Corporation	254,500	982,665	1,045,995
Pine Cliff Energy Limited	378,215	404,714	427,383
Raging River Exploration Inc.	68,900	568,661	727,584
RMP Energy Inc.	128,234	303,962	97,458
Seven Generations Energy Limited	32,800	798,680	1,026,968
Spartan Energy Corporation	404,300	1,212,828	1,346,319
TORC Oil & Gas Limited	100,000	800,151	827,000
Trican Well Service Limited	201,425	372,282	926,555
Trinidad Drilling Limited	277,933	678,105	928,296
Western Energy Services Corporation	117,800	482,731	365,180
Xtreme Drilling and Coil Services Corporation	269,480	<u>512,441</u>	<u>754,544</u>
		<u>\$ 15,158,353</u>	<u>\$ 20,580,528</u>
Industrials (1.9%)			
Ceiba Energy Services Inc.	1,820,000	<u>\$ 443,295</u>	<u>\$ 327,600</u>
Materials (1.7%)			
Titan Mining Group LLC	300,000	<u>\$ 75,000</u>	<u>\$ 300,000</u>

See accompanying notes to the financial statements

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**SCHEDULE OF INVESTMENT PORTFOLIO
AS AT DECEMBER 31, 2016**

	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
Total long positions (123.2%)		<u>\$ 15,676,648</u>	<u>\$ 21,208,128</u>
Short positions (-4.9%)			
Energy (-4.9%)			
Parkland Fuel Corporation	(30,200)	<u>\$ (906,392)</u>	<u>\$ (849,526)</u>
Total short positions		<u>\$ (906,392)</u>	<u>\$ (849,526)</u>
Transaction costs, note 3		<u>(31,203)</u>	-
Total investments (118.3%)		<u>\$ 14,739,053</u>	20,358,602
Bank indebtedness (-12.9%)			(2,212,442)
Other assets less other liabilities (-5.4%)			<u>(935,147)</u>
Net assets (100.0%)			<u>\$ 17,211,013</u>

See accompanying notes to the financial statements

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

1. THE FUND

Front Street Energy Opportunities Fund Inc. is an investment fund corporation created pursuant to articles of incorporation (the "Articles") filed under the Canada Business Corporations Act. The business of the Fund is to invest in accordance with its investment objectives and investment strategies, subject to certain investment restrictions. The Fund is domiciled in Canada, and the address of its registered office is 77 King Street West, 21st Floor, Toronto, Ontario, Canada, M5K 1G8.

As of December 31, 2016, 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.

LOGiQ Capital 2016 (formerly Front Street Capital 2004) is the Manager of the Fund (the "Manager") providing investment advisory and portfolio management services to the Fund. CIBC Mellon is the custodian and provides fund accounting and shareholder record keeping services.

On December 8, 2016, Front Street Capital 2004 ("FSC 2004"), together with Aston Hill Financial Inc. ("Aston Hill") and Tuscarora Capital Inc. ("TCI"), an entity under common control with the Manager, completed a transaction whereby Aston Hill would acquire all of the equity interests in the FSC 2004 and TCI, and the companies would combine their respective operations. As part of the transaction, Aston Hill also changed its name to LOGiQ Asset Management Inc.

At special meetings of securityholders of the Fund on November 10, 2016, investors approved the change of manager resulting from the aforementioned transaction. Effective December 20, 2016, the Manager was renamed LOGiQ Capital 2016.

The Fund's investment objective is to achieve maximum capital appreciation and to provide long-term capital growth by investing in a portfolio (the "Portfolio") consisting of securities related to the energy sector. The Fund will invest primarily in equities and other securities of companies involved directly or indirectly in the energy sector.

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

(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").

These financial statements were authorized for issue by the Manager on March 30, 2017.

(b) Basis of presentation

These financial statements have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective as at December 31, 2016, the Fund's annual reporting date.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

2. **BASIS OF PRESENTATION** (Continued...)

(c) 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 or loss which are measured at fair value.

(d) Functional and presentation currency

The financial statements have been 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 all periods presented in these financial statements.

(a) Financial instruments

Classification of financial instruments

The Fund classifies its financial assets and financial liabilities at initial recognition into the following categories, in accordance with IAS 39, Financial Instruments: Recognition and Measurement:

Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through profit or loss is sub-divided into the following two sub-categories.

Financial assets and liabilities held for trading: financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. Derivatives are classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Fund's policy is not to apply hedge accounting.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(a) Financial instruments (Continued...)

Financial instruments designated as fair value through profit or loss upon initial recognition: these include equities, treasury bills, and other interest-bearing investments. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund as set out in the Fund's Investment Guidelines.

The Fund recognizes financial instruments at fair value upon initial recognition. 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 or 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 statement 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 DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(b) Fair value measurement

The Fund's portfolio investments are classified as fair value through profit or 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. The Fund has determined the closing sale price to be most reflective of fair value unless this price is outside the bid and 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 For Financial Statements).

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(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. Bank indebtedness represents the overdraft of the operating bank/broker margin account.

(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 or loss. Dividend revenue is recognized on the ex-dividend date.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(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.

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 or 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 holders 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 DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(l) Interests in subsidiaries, associates and unconsolidated structured entities

The Fund meets the definition of an investment entity and as such, does not consolidate the entities it controls. Instead, interests in entities subject to control are classified as fair value through profit or loss, and measured at fair value.

The Fund may invest in redeemable shares of other investment funds as part of its investment strategy. The nature and purpose of the investee funds generally is to manage assets on behalf of third party investors and generate fees for the investment manager, and are financed through the issue of redeemable shares to investors.

The maximum exposure to loss from interests in investee funds is equal to the fair value of the investment in those respective funds, which are included in financial assets at fair value through profit or loss in the statement of financial position.

(m) Securities lending, repurchase and reverse repurchase transactions

The Fund is permitted to enter into securities lending, repurchase and reverse repurchase transactions as set out in the offering memorandum. These transactions involve the temporary exchange of securities for collateral with commitment to redeliver the same securities on a future date. The value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned, sold or purchased. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the statements of comprehensive income under the heading securities lending income.

(n) Future changes in accounting standards

IFRS 9 was issued in November 2009 with an implementation date of annual periods beginning on or after January 1, 2018. 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.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

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 or 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 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 DECEMBER 31, 2016

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.

Series B shares

Commission fees payable to brokers, dealers or advisors may be applicable upon the purchase of shares of this series up to 5% of the gross purchase amount, at the discretion of the broker, dealer or advisor.

Series F shares

No redemption or commission fees are applicable to shares of this series.

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 year ended December 31, 2016:

	2016 (12 months)	2015 (8-3/4 months)
Redeemable shares outstanding, beginning of the year/period:		
Series B	205,562	-
Series F	937,335	-
Redeemable shares issued during the year/period:		
Series B	17,677	205,562
Series F	354,033	937,335
Redeemable shares redeemed during the year/period:		
Series B	-	-
Series F	251,000	-
Redeemable shares outstanding, end of the year/period:		
Series B	223,239	205,562
Series F	1,040,368	937,335

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

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 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 period (without regard to any accrual of the Performance Bonus), and
- (b) Any dividend per share of such series declared during such period;

exceeds the series Net Asset Value per share for such series at the beginning of such fiscal period, 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.

The Manager absorbed certain expenses relating to the operation of the Fund in the prior year. These expenses include administration fees, operating costs, securityholder reporting costs and management fees.

7. TRANSACTION COSTS AND SOFT DOLLARS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended December 31, 2016 was \$72,943 (2015 - \$40,372).

There were no soft dollar amounts included in brokerage commissions.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, fees paid to the Manager were as follows:

	2016 (12 months)	2015 (8-3/4 months)
Management fees, note 6	<u>\$ 152,357</u>	<u>\$ 73,304</u>
Performance fees, note 6	<u>\$ 805,542</u>	<u>\$ -</u>
Expenses waived and/or absorbed by Manager, note 6	<u>\$ -</u>	<u>\$ (31,062)</u>

Included in accrued expenses are amounts payable to the Manager as follows:

	2016	2015
Management fees payable	<u>\$ 17,292</u>	<u>\$ 9,477</u>
Performance fees payable	<u>\$ 805,542</u>	<u>\$ -</u>

The following are redeemable shares held by the related party of the Fund:

	2016	2015
Series F shares held by the Officers of the Manager	500,000	250,000
Percentage of Series F shares held by the Officers of the Manager	48.06%	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 year ended December 31, 2016, Tuscarora Capital Inc, a company under common control to the Manager, received \$2,786 (2015 - \$Nil) in commissions on portfolio transactions for the Fund.

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

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

9. INCOME TAXES AND DISTRIBUTION 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 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 has \$1,041,310 in non-capital losses available to be applied against taxable income of future years which will expire as follows:

2035	\$ 47,271
2036	994,039
	<u>\$ 1,041,310</u>

The Fund has \$126,430 in allowable capital losses available to be applied against taxable capital gains of future years. These losses do not expire.

10. SECURITIES LENDING

The Fund lends portfolio securities from time to time in order to earn additional income. Income is earned from securities lending transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. The Fund has entered into a securities lending program with its custodian, CIBC Mellon. The aggregate fair value of all securities loaned will not exceed 50% of the net assets of the Fund. The Fund receives collateral (in the form of obligations of, or guaranteed by, the Government of Canada, or a province thereof, by the United States government or its agencies and/or cash) or by corporate bonds and equities against the loaned securities. Collateral is maintained in an amount representing at least 102% of the fair value of the loaned securities during the year the loan is outstanding. The fair value of the loaned securities is determined daily at the close of business of the Fund and any additional collateral required is delivered to the Fund on the next business day.

A reconciliation of the gross amount generated from the securities lending transactions to the security lending income to the Fund for the year ended December 31, 2016 is as follows:

Securities lending income

	2016	2015
Gross securities lending income	\$ 18	\$ -
Agent fees - The Bank of New York Mellon Corp.	<u>(9)</u>	<u>-</u>
Securities lending income to the Fund before tax reclaims (withholding taxes)	9	-
Tax reclaims (withholding taxes)	<u>-</u>	<u>-</u>
Net securities lending income	<u>\$ 9</u>	<u>\$ -</u>

As at December 31, 2016, the aggregate fair values of the Fund's securities loaned and the collateral received were \$Nil (December 31, 2015 - \$Nil).

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

11. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS FOR FINANCIAL STATEMENTS

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), wherein 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 in 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.

The NAV per share is higher than the net assets attributable to holders of redeemable shares per share because of the difference in the treatment of organizational expenses. Such expenses were recorded in full in the financial statements for the year ended December 31, 2015 but are deducted from NAV on a monthly basis over a three year period for purposes of shareholder transactions. Therefore, the NAV per share is higher than net assets attributable to holders of redeemable shares per share.

As at December 31, 2016, that reconciliation is as follows:

	Net asset value	IFRS fair value adjustment	IFRS NA	Net asset value per share	IFRS NA per share
Series B	\$ 2,837,417	\$ 103,075	\$ 2,940,492	\$ 12.71	\$ 13.17
Series F	13,770,485	500,036	14,270,521	13.24	13.72
Total	\$ 16,607,902	\$ 603,111	\$ 17,211,013		

12. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of financial assets and liabilities at FVTPL, dividends receivable, bank indebtedness, compensating dividends payable, performance fees 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 approximate 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.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

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

The schedule of investment portfolio presents the securities held by the Fund as at December 31, 2016 and groups the securities by asset type, sector and/or market segment. The investment portfolio is comprised primarily of issuers in the energy 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.

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 Manager 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.

Included in the undernoted accounts are the following foreign currency balances:

As at December 31, 2016

Currency	Financial assets at FVTPL	Bank indebtedness	Total	Percentage of Net Assets
United States Dollar	<u>\$ 1,427,110</u>	<u>\$ (606,904)</u>	<u>\$ 820,206</u>	<u>4.77 %</u>

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 December 31, 2016, the bulk of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

iii) Interest rate risk (Continued...)

As at December 31, 2016

	Floating Rate Financial Instruments	Fixed Rate Financial Instruments	Non-interest Bearing	Total
Financial assets				
Financial assets at FVTPL	\$ -	\$ -	\$ 21,208,128	\$ 21,208,128
Loans and receivables	<u>-</u>	<u>-</u>	<u>2,900</u>	<u>2,900</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,211,028</u>	<u>\$ 21,211,028</u>
Financial liabilities				
Financial liabilities at FVTPL	\$ -	\$ -	\$ 849,526	\$ 849,526
Bank indebtedness	2,212,442	-	-	2,212,442
Other financial liabilities	<u>-</u>	<u>-</u>	<u>938,047</u>	<u>938,047</u>
	<u>\$ 2,212,442</u>	<u>\$ -</u>	<u>\$ 1,787,573</u>	<u>\$ 4,000,015</u>
IFRS NA				<u>\$ 17,211,013</u>

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 December 31, 2016

	0 - 12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Financial assets						
Financial assets at FVTPL	\$ -	\$ 822,918	\$ -	\$ -	\$ 20,385,210	\$ 21,208,128
Loans and receivables	<u>2,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,900</u>
	<u>\$ 2,900</u>	<u>\$ 822,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,385,210</u>	<u>\$ 21,211,028</u>
Financial liabilities						
Financial liabilities at FVTPL	\$ -	\$ -	\$ -	\$ -	\$ 849,526	\$ 849,526
Bank indebtedness	2,212,442	-	-	-	-	2,212,442
Other financial liabilities	<u>938,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>938,047</u>
	<u>\$ 3,150,489</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 849,526</u>	<u>\$ 4,000,015</u>
IFRS NA						<u>\$ 17,211,013</u>

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

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

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.

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 Net Assets.

As at December 31, 2016, 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:

	2016	2015
Energy	119.6 %	78.0 %
Industrials	1.9 %	1.4 %
Materials	1.7 %	- %
Energy	(4.9)%	- %
Other assets less liabilities	(5.4)%	(1.5)%
Bank indebtedness/Cash and cash equivalents	<u>(12.9)%</u>	<u>22.1 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

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.

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 Partnership'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., as 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 December 31, 2016 in valuing the Fund's financial assets and liabilities at FVTPL.

As at December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	<u>\$ 18,486,389</u>	<u>\$ 2,721,739</u>	<u>\$ -</u>	<u>\$ 21,208,128</u>
Financial liabilities at FVTPL	<u>\$ 849,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 849,526</u>

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

14. FAIR VALUE HIERARCHY (Continued...)

During the year ended December 31, 2016, the Fund did not hold any investments measured at fair value using unobservable inputs (Level 3).

There were no transfers in or out between the fair value hierarchy levels for the financial assets and liabilities at fair value through profit or loss during the period.

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 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 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. The Manager applies a certain discount to restricted securities in order to determine the fair value of these securities. To determine the fair value of warrants, the manager uses the Black-Scholes stock option model, which incorporates the volatility of the underlying stock.

FRONT STREET ENERGY OPPORTUNITIES FUND INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016

14. **FAIR VALUE HIERARCHY** (Continued...)

Valuation techniques and framework (Continued...)

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 judgment and estimation in the determination of fair value. 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.

The Fund has established a control framework for the measurement of fair value. The valuation process is overseen by the Manager, 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 the Manager 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 Statement of Financial Position is presented as at December 31, 2016 and 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 year ended December 31, 2016 and for the period from April 8, 2015 (the Initial Closing Date and date of commencement of operations) to December 31, 2015, which is a period of approximately eight and three-quarter (8.75) 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 year ended December 31, 2016 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.