



**FRONT STREET  
GROWTH FUND**

**FRONT STREET GROWTH FUND  
A FRONT STREET CAPITAL MUTUAL FUND**

**Interim Management Report of Fund Performance  
&  
Unaudited Interim Financial Statements**

**June 30, 2015**

## **Interim Management Report of Fund Performance As at June 30, 2015 Front Street Growth Fund**

*This Interim Management Report of Fund Performance contains financial highlights but does not contain the complete interim financial statements for Front Street Growth Fund, a Front Street Capital mutual fund, formerly the Front Street Small Cap Canadian Fund (the “Fund”). The interim financials of the Fund are attached behind this report and you can also get a copy of the annual (or interim) financial statements at your request, and at no cost, by calling 1-800-513-2832, by writing to us at Front Street Capital 2004, 33 Yonge Street, Suite 600, Toronto, Ontario M5E 1G4 or by visiting our website at [www.frontstreetcapital.com](http://www.frontstreetcapital.com) or SEDAR at [www.sedar.com](http://www.sedar.com).*

*Securityholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the Fund.*

### **Forward Looking Information**

This Interim Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Fund. Forward looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Interim Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific that contributes to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund’s filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Interim Management Report of Fund Performance, and the Fund undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## Management Discussion of Fund Performance

### INVESTMENT OBJECTIVES AND STRATEGIES

The Fund's principal investment objective is to seek capital appreciation primarily through investment in equity securities of a diversified group of publicly traded companies and to a lesser extent in equity securities of a diversified group of private companies, subject to prescribed limits on illiquid investments.

Front Street Capital will employ alternative investment strategies, including event-related special situations investing (including, for instance, investment in securities of issuers undergoing or undertaking tenders, mergers and acquisitions, liquidations, spin-offs and recapitalizations) and the purchase of undervalued shares in the equity markets.

From time to time the Fund may use clearing corporation options and listed warrants ("permitted derivatives") as permitted by Canadian securities regulators and consistent with the investment objectives and strategies of the Fund. The Fund may use these permitted derivatives for hedging and non-hedging purposes.

### RISK

The fund is exposed to commodity risk. A significant portion of fund is invested in the energy sector. After falling over 50% from its highs last year, the price of West Texas oil (a benchmark grade) rebounded by about 10% in the first half of the year. Other commodities such as gold and copper exhibited significant volatility climbing over 10% during the half year before retracing all of their gains. Bulk commodities, such as coal and iron ore, displayed significant weakness year to date.

Currency risk proved to have an effect as the Canadian dollar fell relative to the U.S. dollar this year. This would have had a positive effect as a majority of companies in the fund would have Canadian dollar expenses, but U.S. dollar revenues.

Interest rate risk remains a factor. The U.S. Federal Reserve ended its quantitative easing strategy, leading to concerns that interest rates could start to rise there later in 2015. Globally, expectations remain that interest rates will remain low, and in fact many countries recently have lowered their rates in an attempt to stimulate their economies.

Political risk remained a factor affecting the markets and the fund. The unknown outcomes of the Greek financial crisis and the Iran Nuclear negotiations weighed on markets. The ongoing battles with ISIS in Iraq and Syria continued to weigh on energy markets.

Stock market volatility continues to be high affecting the fund. The TSX Capped Energy index had five swings of greater than 10% of its value in the first half alone. The TSX Capped materials index rose 16% to start the year before retracing all those gains as the period ended.

The risks of investing in the Fund are further discussed in the Fund's Annual Information Form.

## **RESULTS OF OPERATIONS**

The Front Street Growth Fund was down -4.2% over the period. The S&P/TSX Energy Index was down -7.0% over the same period. The S&P/TSX Materials Index was up over 15% in the first month of the period, only to give all of its gains back over the remaining 5 months to finish the period negative. The price of oil was volatile over the period, and geopolitical factors also weighed on the energy markets.

During the period ended June 30, 2015, the Fund earned investment income of \$1.3 million from dividends and interest. There were net realized losses on the sale of investments of \$15.9 million and an unrealized depreciation on the value of investments and derivatives of \$12.3 million.

Operating expenses, excluding management fees, transaction costs and dividend expense paid totalled \$191,630 during the period ended June 30, 2015.

## **RECENT DEVELOPMENTS**

We are remaining patient with our energy theme. We believe oil prices are unsustainable at these levels, and will recover, in time.

The markets have shown significant concern with oversupply of oil, which has helped to depress the price of oil. It is easy to forget that demand, on the other hand, has risen sharply this year, helping to soak up some of this excess production. Moreover, we continue to be impressed by ongoing cost reductions for the shale producers. Costs are coming down, not only traditional costs, but lower costs as a result of productivity improvements. Daniel Yergin, head of IHS, stated earlier in June that 'every dollar spent in upstream this year will be 65% more productive than last year'. What has taken place over the past 5-6 years has been incredible in terms of costs reductions. In an environment where we continue to expect lower oil prices for longer, the low cost guys will win. The portfolio continues to be focused on low cost players with clean balance sheets. We believe these companies will continue to grow even in an environment of very low oil and gas prices. We expect the price of oil to head back into the \$60+ range, into next year. That is a very good price level to support growth and good profitability for these low cost shale producers. We continue to avoid the producers with heavy balanced sheets.

**RELATED PARTY-TRANSACTIONS**

During the periods ended June 30, 2015 and 2014, fees paid to the Manager were as follows:

|                 | 2015              | 2014                |
|-----------------|-------------------|---------------------|
| Management fees | <u>\$ 860,829</u> | <u>\$ 1,789,309</u> |

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

|                         | June 30,<br>2015  | December 31,<br>2014 |
|-------------------------|-------------------|----------------------|
| Management fees payable | <u>\$ 141,807</u> | <u>\$ 180,942</u>    |

The following are redeemable units held by related parties of the Fund:

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Series B units held by the Partners of the Manager                                | 5,809            | 5,809                |
| Percentage of Series B units held by the Partners of the Manager                  | 0.06%            | 0.06%                |
| Series B units held by the relatives of the Partners of the Manager               | 3,386            | 11,836               |
| Percentage of Series B units held by the relatives of the Partners of the Manager | 0.04%            | 0.12%                |
| Series F units held by the Partners of the Manager                                | 39,606           | 39,606               |
| Percentage of Series F units held by the Partners of the Manager                  | 2.33%            | 2.33%                |
| Series F units held by the relatives of the Partners of the Manager               | 169,407          | 173,815              |
| Percentage of Series F units held by the relatives of the Partners of the Manager | 9.99%            | 10.24%               |

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 \$4,442 (June 30, 2014 - \$21,527) 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 unitholder transactions with the Fund, the consideration is the NAV available to all other unitholders on the trade date.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five financial years. This information is derived from the Fund's audited annual financial statements and from the unaudited interim financial statements for the six-month period ended June 30, 2015.

### Series A

#### The Fund's net assets per redeemable unit <sup>(1)</sup>

|   | June 30<br>2015<br>\$ | December 31<br>2014<br>\$ | December 31<br>2013<br>\$ | December 31<br>2012<br>\$ | December 31<br>2011<br>\$ | December 31<br>2010<br>\$ |
|---|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Net assets, beginning of the period</b>                          | 4.57                  | 6.12                      | 6.49                      | 7.96                      | 10.14                     | 6.98                      |
| <b>Increase (decrease) from operations:</b>                         |                       |                           |                           |                           |                           |                           |
| Total revenue   | 0.07                  | 0.16                      | 0.16                      | 0.12                      | 0.12                      | 0.07                      |
| Total expenses  | (0.06)                | (0.19)                    | (0.17)                    | (0.19)                    | (0.26)                    | (0.85)                    |
| Realized gains (losses) for the period                              | (0.84)                | (0.08)                    | (1.08)                    | (0.39)                    | 0.27                      | 1.80                      |
| Unrealized gains (losses) for the period                            | 0.64                  | (1.03)                    | 0.64                      | (1.09)                    | (2.50)                    | 2.16                      |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>     | (0.19)                | (1.14)                    | (0.45)                    | (1.55)                    | (2.37)                    | 3.18                      |
| <b>Distributions to unitholders:</b>                                |                       |                           |                           |                           |                           |                           |
| From income (excluding dividends)                                   | —                     | —                         | —                         | —                         | —                         | —                         |
| From dividends  | —                     | —                         | —                         | —                         | —                         | —                         |
| From capital gains  | —                     | —                         | —                         | —                         | —                         | —                         |
| Return of capital   | —                     | —                         | —                         | —                         | —                         | —                         |
| <b>Total distributions to redeemable unitholders <sup>(3)</sup></b> | —                     | —                         | —                         | —                         | —                         | —                         |
| <b>Net assets, end of the period</b>                                | 4.38                  | 4.57                      | 6.12                      | 6.44                      | 7.96                      | 10.14                     |

- (1) The information for June 30, 2015, December 31, 2014 and 2013 is derived from the Fund's unaudited interim and audited annual financial statements prepared in accordance with IFRS. The information prior to 2013 is derived from the Fund's annual audited financial statements prepared based on Canadian GAAP.
- (2) Net assets and distributions are based on the actual number of redeemable units outstanding at the relevant time. The increase/decrease from operations is based on the average number of redeemable units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional redeemable units of the Fund or both.

### Ratios and Supplemental Data

|  |           |           |            |            |            |            |
|--|-----------|-----------|------------|------------|------------|------------|
| Total net asset value (000's) <sup>(1)</sup>           | \$29,241  | \$36,916  | \$71,608   | \$103,359  | \$130,716  | \$138,101  |
| Number of redeemable units outstanding <sup>(1)</sup>  | 6,668,436 | 8,077,716 | 11,707,876 | 15,936,692 | 16,272,621 | 13,531,055 |
| Management expense ratio <sup>(2)</sup>                | 2.63%     | 2.54%     | 2.54%      | 2.57%      | 2.65%      | 10.77%     |
| Management expense ratio before waivers or absorptions | 2.63%     | 2.54%     | 2.54%      | 2.57%      | 2.65%      | 10.77%     |
| Trading expense ratio <sup>(3)</sup>                   | 0.23%     | 0.31%     | 0.25%      | 0.22%      | 0.26%      | 0.29%      |
| Portfolio turnover rate <sup>(4)</sup>                 | 18.38%    | 46.26%    | 29.37%     | 46.02%     | 54.82%     | 70.29%     |
| Net asset value per redeemable unit <sup>(5)</sup>     | \$4.38    | \$4.57    | \$6.12     | \$6.49     | \$8.03     | \$10.21    |

- (1) This information is provided as at end of the period shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs) for the stated period end and is expressed as annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction cost expressed as an annualized percentage of daily average net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is an equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate is in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.
- (5) The information for June 30, 2015, December 31, 2014 and 2013 is derived from the Fund's unaudited interim and audited annual financial statements prepared in accordance with IFRS. The information prior to 2013 is derived from the Fund's annual audited financial statements prepared based on Canadian GAAP.

**Series B**
**The Fund's net assets per redeemable unit <sup>(1)</sup>**

|   | June 30<br>2015<br>\$ | December 31<br>2014<br>\$ | December 31<br>2013<br>\$ | December 31<br>2012<br>\$ | December 31<br>2011<br>\$ | December 31<br>2010<br>\$ |
|---|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Net assets, beginning of the period</b>                          | 4.57                  | 6.11                      | 6.49                      | 7.95                      | 10.13                     | 6.98                      |
| <b>Increase (decrease) from operations:</b>                         |                       |                           |                           |                           |                           |                           |
| Total revenue   | 0.07                  | 0.17                      | 0.15                      | 0.12                      | 0.12                      | 0.07                      |
| Total expenses  | (0.06)                | (0.20)                    | (0.17)                    | (0.18)                    | (0.26)                    | (0.83)                    |
| Realized gains (losses) for the period                              | (0.85)                | (0.13)                    | (1.06)                    | (0.38)                    | 0.32                      | 1.78                      |
| Unrealized gains (losses) for the period                            | 0.66                  | (0.19)                    | 0.63                      | (1.12)                    | (2.60)                    | 2.05                      |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>     | <b>(0.18)</b>         | <b>(1.35)</b>             | <b>(0.45)</b>             | <b>(1.56)</b>             | <b>(2.42)</b>             | <b>3.07</b>               |
| <b>Distributions to unitholders:</b>                                |                       |                           |                           |                           |                           |                           |
| From income (excluding dividends)                                   | —                     | —                         | —                         | —                         | —                         | —                         |
| From dividends  | —                     | —                         | —                         | —                         | —                         | —                         |
| From capital gains  | —                     | —                         | —                         | —                         | —                         | —                         |
| Return of capital   | —                     | —                         | —                         | —                         | —                         | —                         |
| <b>Total distributions to redeemable unitholders <sup>(3)</sup></b> | <b>—</b>              | <b>—</b>                  | <b>—</b>                  | <b>—</b>                  | <b>—</b>                  | <b>—</b>                  |
| <b>Net assets, end of the period</b>                                | <b>4.38</b>           | <b>4.57</b>               | <b>6.11</b>               | <b>6.44</b>               | <b>7.95</b>               | <b>10.13</b>              |

- (1) The information for June 30, 2015, December 31, 2014 and 2013 is derived from the Fund's unaudited interim and audited annual financial statements prepared in accordance with IFRS. The information prior to 2013 is derived from the Fund's annual audited financial statements prepared based on Canadian GAAP.
- (2) Net assets and distributions are based on the actual number of redeemable units outstanding at the relevant time. The increase/decrease from operations is based on the average number of redeemable units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional redeemable units of the Fund or both.

**Ratios and Supplemental Data**

|  |           |            |            |            |            |            |
|--|-----------|------------|------------|------------|------------|------------|
| Total net asset value (000's) <sup>(1)</sup>           | \$39,737  | \$45,992   | \$77,258   | \$118,961  | \$171,117  | \$194,261  |
| Number of redeemable units outstanding <sup>(1)</sup>  | 9,065,428 | 10,067,447 | 12,638,040 | 18,352,079 | 21,316,936 | 19,038,235 |
| Management expense ratio <sup>(2)</sup>                | 2.60%     | 2.52%      | 2.54%      | 2.55%      | 2.63%      | 10.54%     |
| Management expense ratio before waivers or absorptions | 2.60%     | 2.52%      | 2.54%      | 2.55%      | 2.63%      | 10.54%     |
| Trading expense ratio <sup>(3)</sup>                   | 0.23%     | 0.31%      | 0.25%      | 0.22%      | 0.26%      | 0.29%      |
| Portfolio turnover rate <sup>(4)</sup>                 | 18.38%    | 46.26%     | 29.37%     | 46.02%     | 54.82%     | 70.29%     |
| Net asset value per redeemable unit <sup>(5)</sup>     | \$4.38    | \$4.57     | \$6.11     | \$6.48     | \$8.03     | \$10.20    |

- (1) This information is provided as at end of the period shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs) for the stated period end and is expressed as annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction cost expressed as an annualized percentage of daily average net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is an equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate is in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.
- (5) The information for June 30, 2015, December 31, 2014 and 2013 is derived from the Fund's unaudited interim and audited annual financial statements prepared in accordance with IFRS. The information prior to 2013 is derived from the Fund's annual audited financial statements prepared based on Canadian GAAP.

**Series F**
**The Fund's net assets per redeemable unit <sup>(1)</sup>**

|   | June 30<br>2015 | December 31<br>2014 | December 31<br>2013 | December 31<br>2012 | December 31<br>2011 | December 31<br>2010 |
|---|-----------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | \$              | \$                  | \$                  | \$                  | \$                  | \$                  |
| <b>Net assets, beginning of the period</b>                          | 4.99            | 6.60                | 6.94                | 8.40                | 10.57               | 7.23                |
| <b>Increase (decrease) from operations:</b>                         |                 |                     |                     |                     |                     |                     |
| Total revenue   | 0.08            | 0.17                | 0.16                | 0.13                | 0.12                | 0.07                |
| Total expenses  | (0.04)          | (0.13)              | (0.11)              | (0.11)              | (0.15)              | (0.80)              |
| Realized gains (losses) for the period                              | (0.95)          | (0.04)              | (1.11)              | (0.40)              | 0.29                | 1.85                |
| Unrealized gains (losses) for the period                            | 0.73            | (1.07)              | 0.60                | (1.19)              | (2.69)              | 2.18                |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>     | <b>(0.18)</b>   | <b>(1.07)</b>       | <b>(0.46)</b>       | <b>(1.57)</b>       | <b>(2.43)</b>       | <b>3.30</b>         |
| <b>Distributions to unitholders:</b>                                |                 |                     |                     |                     |                     |                     |
| From income (excluding dividends)                                   | —               | —                   | —                   | —                   | —                   | —                   |
| From dividends  | —               | —                   | —                   | —                   | —                   | —                   |
| From capital gains  | —               | —                   | —                   | —                   | —                   | —                   |
| Return of capital   | —               | —                   | —                   | —                   | —                   | —                   |
| <b>Total distributions to redeemable unitholders <sup>(3)</sup></b> | <b>—</b>        | <b>—</b>            | <b>—</b>            | <b>—</b>            | <b>—</b>            | <b>—</b>            |
| <b>Net assets, end of the period</b>                                | <b>4.81</b>     | <b>4.99</b>         | <b>6.60</b>         | <b>6.88</b>         | <b>8.40</b>         | <b>10.57</b>        |

- (1) The information for June 30, 2015, December 31, 2014 and 2013 is derived from the Fund's unaudited interim and audited annual financial statements prepared in accordance with IFRS. The information prior to 2013 is derived from the Fund's annual audited financial statements prepared based on Canadian GAAP.
- (2) Net assets and distributions are based on the actual number of redeemable units outstanding at the relevant time. The increase/decrease from operations is based on the average number of redeemable units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional redeemable units of the Fund or both.

**Ratios and Supplemental Data**

|  |           |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Total net asset value (000's) <sup>(1)</sup>           | \$8,163   | \$8,472   | \$20,444  | \$32,185  | \$35,950  | \$38,703  |
| Number of redeemable units outstanding <sup>(1)</sup>  | 1,696,220 | 1,698,031 | 3,096,221 | 4,646,786 | 4,237,731 | 3,636,859 |
| Management expense ratio <sup>(2)</sup>                | 1.56%     | 1.42%     | 1.45%     | 1.46%     | 1.50%     | 9.91%     |
| Management expense ratio before waivers or absorptions | 1.56%     | 1.42%     | 1.45%     | 1.46%     | 1.50%     | 9.91%     |
| Trading expense ratio <sup>(3)</sup>                   | 0.23%     | 0.31%     | 0.25%     | 0.22%     | 0.26%     | 0.29%     |
| Portfolio turnover rate <sup>(4)</sup>                 | 18.38%    | 46.26%    | 29.37%    | 46.02%    | 54.82%    | 70.29%    |
| Net asset value per redeemable unit <sup>(5)</sup>     | \$4.81    | \$4.99    | \$6.60    | \$6.93    | \$8.48    | \$10.64   |

- (1) This information is provided as at end of the period shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs) for the stated period end and is expressed as annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction cost expressed as an annualized percentage of daily average net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is an equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate is in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.
- (5) The information for June 30, 2015, December 31, 2014 and 2013 is derived from the Fund's unaudited interim and audited annual financial statements prepared in accordance with IFRS. The information prior to 2013 is derived from the Fund's annual audited financial statements prepared based on Canadian GAAP.



## MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee equal to 1/12 of 2% of the net asset value of the Fund calculated and paid at the end of each month in arrears for series A and B units and a monthly management fee equal to 1/12 of 1% of the net asset value of the Fund calculated and paid at the end of each month in arrears for series F units.

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, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to unitholders. As the Fund has more than one series of units, the unitholders 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 Manager uses the management fees to pay for sales and trailing commissions to registered dealers.

|                                      | <b>Series A</b> | <b>Series B</b> | <b>Series F</b> |
|--------------------------------------|-----------------|-----------------|-----------------|
| Annual Rates                         | 2.00%           | 2.00%           | 1.00%           |
| As a percentage of management fees   |                 |                 |                 |
| Dealer Compensation                  | 25%             | 50%             | -               |
| Investment management, admin & other | 75%             | 50%             | 100%            |

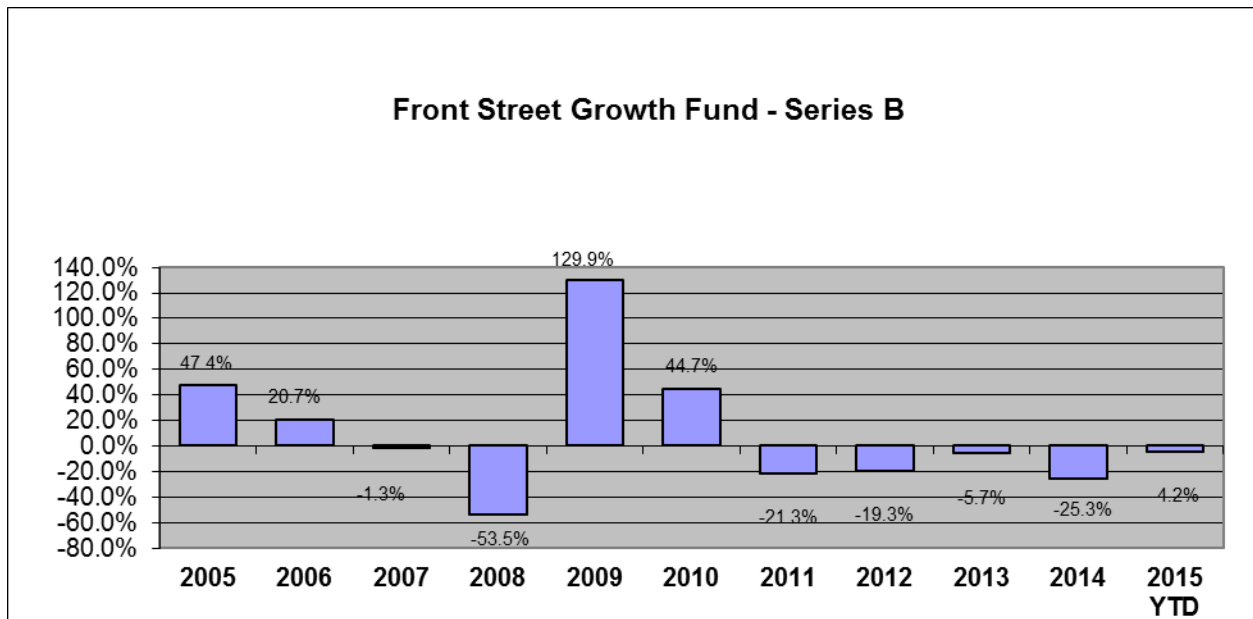
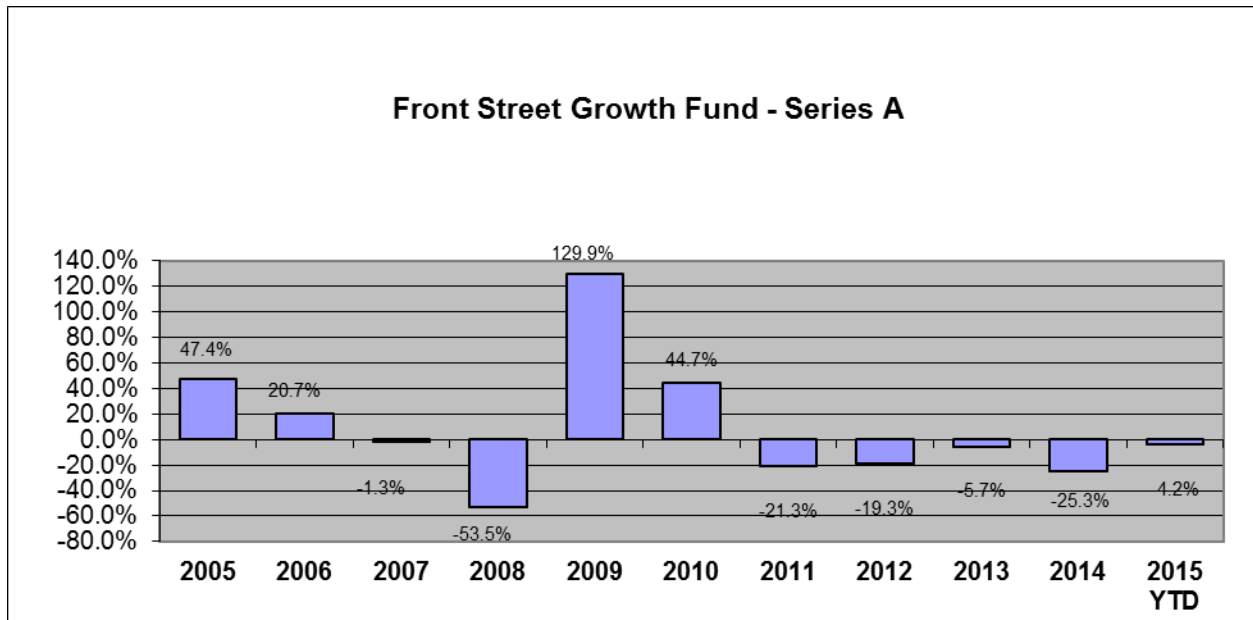
The Fund pays a performance fee if the percentage gain in the net asset value of a series of the Fund (as adjusted for any prior return deficiencies) over the preceding calendar quarter or quarters since a performance fee was last payable exceed the percentage gain or loss of the benchmark (the "Benchmark") over the same period. The Benchmark for the Fund is the S&P/TSX Composite Index. The fee is equal to this excess return per unit multiplied by the number of units outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per unit of the Fund (including distributions) is greater than all previous values at the end of each previous calendar quarter. The starting reference point for the next calendar quarter's calculation will be based on the higher of either the Benchmark performance adjusted net asset value per unit or the adjusted actual net asset value per unit, both with respect to the previous quarter in which a performance fee was payable.

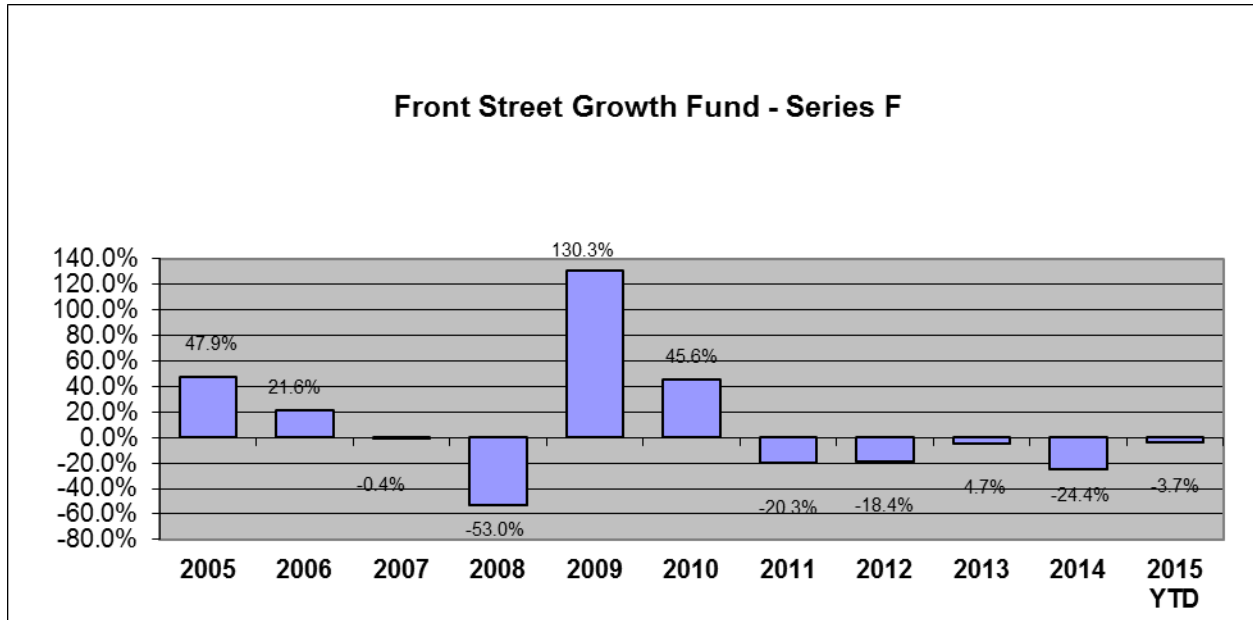
## PAST PERFORMANCE

The past performance of the Fund is set out below and includes year-by-year returns.

With respect to the charts displayed below, please note the following:

- (a) the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund;
- (b) the return or performance information does not take into account sales, redemption, distribution or other optional charges or income taxes payable that would have reduced returns or performance; and
- (c) how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

**YEAR-BY-YEAR RETURNS**




## Summary of Investment Portfolio as at June 30, 2015

### Portfolio by Category

|  | % of Net<br>Asset Value |
|--|-------------------------|
| <b>Cash and cash equivalents</b>           | <b>2.2%</b>             |
| <b>Long positions in equities</b>          |                         |
| Energy                                     | 83.6%                   |
| Materials                                  | 10.2%                   |
| Telecommunication Services                 | 3.1%                    |
| Financials                                 | 1.5%                    |
| Corporate Bonds                            | 0.4%                    |
| Utilities                                  | 0.0%                    |
| <b>Total long positions in equities</b>    | <b>98.8%</b>            |
| <b>Total cash and investment portfolio</b> | <b>101.0%</b>           |
| Other assets less liabilities              | -1.0%                   |
| <b>Total net asset value</b>               | <b>100.0%</b>           |

### Top 25 Holdings

| <b>Long Positions</b>                          | % of Net<br>Asset Value |
|--|-------------------------|
| Precision Drilling Corporation                 | 9.3%                    |
| Whitecap Resources Inc.                        | 8.6%                    |
| Torc Oil & Gas Limited                         | 8.5%                    |
| Advantage Oil & Gas Limited                    | 8.0%                    |
| Crew Energy Inc.                               | 7.0%                    |
| CanElson Drilling Inc.                         | 6.8%                    |
| PHX Energy Services Corporation                | 6.8%                    |
| Tourmaline Oil Corporation                     | 5.4%                    |
| Conifex Timber Inc.                            | 4.7%                    |
| ARC Resources Limited                          | 4.6%                    |
| Crescent Point Energy Corporation              | 4.4%                    |
| West Fraser Timber Company Limited             | 3.9%                    |
| Baytex Energy Corporation                      | 3.1%                    |
| Painted Pony Petroleum Limited                 | 3.1%                    |
| Tidewater Midstream and Infrastructure Limited | 3.1%                    |
| MEG Energy Corporation                         | 2.4%                    |
| Journey Energy Inc.                            | 2.2%                    |
| Bonterra Energy Corporation                    | 2.2%                    |
| AZ Mining Inc                                  | 1.6%                    |
| Delavaco Residential Properties Corporation    | 1.5%                    |
| Sintana Energy Inc.                            | 0.4%                    |
| Savanna Energy Services Corporation            | 0.4%                    |
| Delavaco Properties Inc. *                     | 0.4%                    |
| Tamarack Valley Energy Limited                 | 0.2%                    |
| Surge Energy Inc.                              | 0.2%                    |
|  | 98.8%                   |
| <b>TOTAL NET ASSET VALUE (000s)</b>            | <b>\$ 77,140</b>        |

\*Debt Instruments

The information presented in the foregoing list is subject to change due to the ongoing portfolio transactions of the Limited Partnership. A quarterly update may be obtained by contacting Front Street Capital.



**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](http://www.FrontStreetCapital.com)



# **FRONT STREET GROWTH FUND**

## **INTERIM UNAUDITED FINANCIAL STATEMENTS**

### **FRONT STREET GROWTH FUND**

FOR THE SIX MONTHS ENDED 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 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 GROWTH FUND

### STATEMENTS OF FINANCIAL POSITION

As at June 30, 2015 and December 31, 2014

|  | June 30,<br>2015<br>(Unaudited) | December 31,<br>2014<br>(Audited) |
|--|---------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                 |                                   |
| Financial assets at fair value through profit or loss*                                       | \$ 76,246,310                   | \$ 88,157,731                     |
| Cash and cash equivalents  | 1,680,530                       | 7,644,023                         |
| Dividends receivable   | 155,244                         | 261,759                           |
| Subscriptions receivable   | 22,487                          | 63,560                            |
|  | <b>\$ 78,104,571</b>            | <b>\$ 96,127,073</b>              |
| <b>LIABILITIES</b>   |                                 |                                   |
| Redemptions payable  | \$ 675,401                      | \$ 136,676                        |
| Accrued expenses, note 8   | 288,847                         | 357,356                           |
| Financial liabilities at fair value through profit or loss*                                  | -                               | 4,252,710                         |
| <b>Total liabilities before net assets attributable to shareholders of redeemable shares</b> | <b>964,248</b>                  | <b>4,746,742</b>                  |
| <b>Net assets attributable to unitholders of redeemable units</b>                            | <b>\$ 77,140,323</b>            | <b>\$ 91,380,331</b>              |
| <b>Net assets attributable to unitholders of redeemable units</b>                            |                                 |                                   |
| Series A   | \$ 29,240,592                   | \$ 36,916,289                     |
| Series B   | \$ 39,737,114                   | \$ 45,991,710                     |
| Series F   | \$ 8,162,617                    | \$ 8,472,332                      |
| <b>Number of redeemable units outstanding, note 5</b>  |                                 |                                   |
| Series A   | 6,668,436                       | 8,077,716                         |
| Series B   | 9,065,428                       | 10,067,447                        |
| Series F   | 1,696,220                       | 1,698,031                         |
| <b>Net assets attributable to unitholders of redeemable units per unit</b>                   |                                 |                                   |
| Series A   | \$ 4.38                         | \$ 4.57                           |
| Series B   | \$ 4.38                         | \$ 4.57                           |
| Series F   | \$ 4.81                         | \$ 4.99                           |

Approved on behalf of Front Street Capital 2004, The Manager:



Gary P. Selke  
Management Committee Member



Normand G. Lamarche  
Management Committee Member

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

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED) For the Periods Ended June 30

|   | 2015                  | 2014                 |
|---|-----------------------|----------------------|
| <b>Investment income</b>  |                       |                      |
| Dividends   | \$ 1,315,124          | \$ 1,620,694         |
| Interest income for distribution purposes   | 18,402                | 140,947              |
| Security lending revenue, note 9  | -                     | -                    |
| Foreign currency gain (loss) on cash and cash equivalents and other net assets  | 18,691                | 21,064               |
| Other net changes in fair value of financial assets<br>and financial liabilities at fair value through profit or loss ("FVTPL") |                       |                      |
| Net realized gain (loss) on financial assets and liabilities at FVTPL   | (15,850,478)          | 8,326,034            |
| Change in unrealized appreciation (depreciation) on financial assets and liabilities at FVTPL                                   | 12,251,534            | 31,831,972           |
|   | (2,246,727)           | 41,940,711           |
| <b>Expenses</b>   |                       |                      |
| Management fees, notes 6 and 8  | 860,829               | 1,789,309            |
| Administration fees   | 118,539               | 212,371              |
| Transaction costs, notes 3(k) and 7   | 97,291                | 325,156              |
| Legal fees  | 19,836                | 17,356               |
| Audit fees  | 19,000                | 19,836               |
| Custodial fees  | 16,899                | 26,779               |
| Unitholder reporting costs  | 12,397                | 14,876               |
| Independent review committee  | 4,959                 | 6,201                |
| Dividends paid  | 4,145                 | 40,496               |
|   | 1,153,895             | 2,452,380            |
| <b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations</b>                        | <b>\$ (3,400,622)</b> | <b>\$ 39,488,331</b> |
| <b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations</b>                        |                       |                      |
| Series A  | \$ (1,363,743)        | \$ 16,901,526        |
| Series B  | \$ (1,733,500)        | \$ 18,931,841        |
| Series F  | \$ (303,379)          | \$ 3,654,964         |
| <b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations per unit</b>               |                       |                      |
| Series A  | \$ (0.19)             | \$ 1.59              |
| Series B  | \$ (0.18)             | \$ 1.58              |
| Series F  | \$ (0.18)             | \$ 1.64              |

See accompanying notes to the financial statements



**FRONT STREET GROWTH FUND**

**STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS OF REDEEMABLE UNITS (UNAUDITED)**

*For the Periods Ended June 30*

|  | 2015                 | 2014                  |
|--|----------------------|-----------------------|
| <b>Net assets attributable to unitholders of redeemable units, beginning of period</b>                   |                      |                       |
| Series A   | \$ 36,916,289        | \$ 71,607,906         |
| Series B   | 45,991,710           | 77,257,965            |
| Series F   | 8,472,332            | 20,444,341            |
|  | <u>91,380,331</u>    | <u>169,310,212</u>    |
| <b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations</b> |                      |                       |
| Series A   | (1,363,743)          | 16,901,526            |
| Series B   | (1,733,500)          | 18,931,841            |
| Series F   | (303,379)            | 3,654,964             |
|  | <u>(3,400,622)</u>   | <u>39,488,331</u>     |
| <b>Redeemable unit transactions</b>  |                      |                       |
| Proceeds from redeemable units issued  |                      |                       |
| Series A   | 697,403              | 1,635,127             |
| Series B   | 1,529,332            | 3,274,452             |
| Series F   | 1,010,252            | 2,165,883             |
|  | <u>3,236,987</u>     | <u>7,075,462</u>      |
| Redemption of redeemable units   |                      |                       |
| Series A   | (7,009,357)          | (14,060,275)          |
| Series B   | (6,050,428)          | (10,554,270)          |
| Series F   | (1,016,588)          | (10,057,940)          |
|  | <u>(14,076,373)</u>  | <u>(34,672,485)</u>   |
| <b>Net increase (decrease) from redeemable unit transactions</b>   | <u>(10,839,386)</u>  | <u>(27,597,023)</u>   |
| <b>Increase (decrease) in net assets attributable to unitholders of redeemable units</b>                 | <u>(14,240,008)</u>  | <u>11,891,308</u>     |
| <b>Net assets attributable to unitholders of redeemable units, end of period</b>                         |                      |                       |
| Series A   | 29,240,592           | 76,084,284            |
| Series B   | 39,737,114           | 88,909,988            |
| Series F   | 8,162,617            | 16,207,248            |
|  | <u>\$ 77,140,323</u> | <u>\$ 181,201,520</u> |

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Periods Ended June 30

|   | 2015                | 2014                |
|---|---------------------|---------------------|
| <b>Cash flow from operating activities</b>  |                     |                     |
| Increase (decrease) in net assets attributable to unitholders of redeemable units from operations | \$ (3,400,622)      | \$ 39,488,331       |
| Adjustments for:  |                     |                     |
| Foreign currency gain on cash and other net assets  | (18,691)            | (21,064)            |
| Net realized loss on financial assets and liabilities at FVTPL                                    | 15,850,478          | (8,326,034)         |
| Change in unrealized (appreciation) depreciation on financial assets and liabilities at FVTPL     | (12,251,534)        | (31,831,972)        |
| Decrease in interest and other receivable   | -                   | 7,502               |
| Decrease in dividends receivable  | 106,515             | 16,881              |
| Decrease in other payable and accrued liabilities   | (68,509)            | (23,328)            |
| Purchase of financial assets and liabilities at FVTPL   | (13,811,284)        | (59,471,689)        |
| Proceeds from sales of financial assets and liabilities at FVTPL                                  | 17,871,051          | 86,312,507          |
| <b>Net cash generated by operating activities</b>   | <u>4,277,404</u>    | <u>26,151,134</u>   |
| <b>Cash flows from financing activities</b>   |                     |                     |
| Proceeds from redeemable units issued   | 3,278,060           | 7,036,459           |
| Amount paid on redemption of redeemable units   | (13,537,648)        | (34,907,849)        |
| <b>Net cash used by financing activities</b>  | <u>(10,259,588)</u> | <u>(27,871,390)</u> |
| Net decrease in cash and cash equivalents   | (5,982,184)         | (1,720,256)         |
| Foreign currency gain on cash and other net assets  | 18,691              | 21,064              |
| Cash and cash equivalents, beginning of period  | <u>7,644,023</u>    | <u>5,219,859</u>    |
| <b>Cash and cash equivalents, end of period</b>   | <u>\$ 1,680,530</u> | <u>\$ 3,520,667</u> |
| <b>Cash and cash equivalents comprise:</b>  |                     |                     |
| Cash at bank  | <u>\$ 1,680,530</u> | <u>\$ 3,520,667</u> |
| Interest received, net of withholding tax   | \$ 18,402           | \$ 148,450          |
| Dividends received, net of withholding tax  | \$ 1,421,639        | \$ 1,637,575        |
| Dividends paid  | \$ (19,836)         | \$ (40,496)         |

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### SCHEDULE OF INVESTMENT PORTFOLIO (UNAUDITED)

As at June 30, 2015

|  | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$           | Fair<br>Value<br>\$  |
|--|---|----------------------|----------------------|
| <b>Long positions (98.4%)</b>  |   |                      |                      |
| <b>Energy (83.6%)</b>  |   |                      |                      |
| Advantage Oil & Gas Limited  | 780,977                                 | \$ 3,431,884         | \$ 6,169,718         |
| ARC Resources Limited  | 164,100                                 | 4,709,927            | 3,511,740            |
| Baytex Energy Corporation  | 124,700                                 | 2,163,545            | 2,422,921            |
| Bonterra Energy Corporation  | 53,074                                  | 2,141,763            | 1,671,300            |
| CanElson Drilling Inc.   | 1,217,530                               | 4,611,323            | 5,259,730            |
| Crescent Point Energy Corporation                                    | 131,100                                 | 5,688,429            | 3,360,093            |
| Crew Energy Inc.   | 947,134                                 | 10,018,923           | 5,408,135            |
| Journey Energy Inc.  | 408,405                                 | 4,900,860            | 1,731,637            |
| MEG Energy Corporation   | 88,800                                  | 1,683,273            | 1,811,520            |
| Painted Pony Petroleum Limited                                       | 299,050                                 | 2,404,480            | 2,380,438            |
| Petro Rio SA   | 88,500                                  | 2,637,887            | 145,511              |
| PHX Energy Services Corporation                                      | 957,729                                 | 8,605,280            | 5,248,355            |
| Precision Drilling Corporation                                       | 850,866                                 | 7,636,616            | 7,147,274            |
| Savanna Energy Services Corporation                                  | 198,761                                 | 1,434,666            | 298,142              |
| Sintana Energy Inc.  | 6,402,816                               | 1,033,459            | 320,141              |
| Surge Energy Inc.  | 44,700                                  | 172,988              | 158,238              |
| Tamarack Valley Energy Limited                                       | 52,387                                  | 198,023              | 184,926              |
| Torc Oil & Gas Limited   | 749,260                                 | 9,773,921            | 6,518,562            |
| Tourmaline Oil Corporation   | 110,603                                 | 3,153,448            | 4,149,825            |
| Whitecap Resources Inc.  | 501,453                                 | 5,614,894            | 6,609,151            |
|  |   | <u>\$ 82,015,589</u> | <u>\$ 64,507,357</u> |
| <b>Financial (1.5%)</b>  |   |                      |                      |
| Delavaco Residential Properties Corporation                          | 2,464,434                               | \$ 2,866,226         | \$ 1,167,803         |
| <b>Materials (10.2%)</b>   |   |                      |                      |
| AZ Mining Inc  | 3,305,741                               | 3,873,291            | 1,239,653            |
| Conifex Timber Inc.  | 556,195                                 | 4,405,825            | 3,615,267            |
| Tolima Gold Inc.   | 7,154,000                               | 72,040               | 35,770               |
| West Fraser Timber Company Limited                                   | 43,800                                  | 2,240,804            | 3,005,994            |
|  |   | <u>\$ 10,591,960</u> | <u>\$ 7,896,684</u>  |
| <b>Telecommunications (3.1%)</b>                                     |   |                      |                      |
| Tidewater Midstream and Infrastructure Limited, Subscription Receipt | 1,326,200                               | \$ 1,790,370         | \$ 2,379,203         |
| <b>Utilities (0.0%)</b>  |   |                      |                      |
| Trilliant Inc.   | 671,939                                 | \$ 488,570           | \$ 13,439            |
| <b>Total Equities (98.4%)</b>  |   | <u>\$ 97,752,715</u> | <u>\$ 75,964,486</u> |

See accompanying notes to the financial statements

**FRONT STREET GROWTH FUND****SCHEDULE OF INVESTMENT PORTFOLIO (UNAUDITED)***As at June 30, 2015*

|  | <b>Number of<br/>Shares/Units<br/>/Par Value</b> | <b>Cost<br/>\$</b>   | <b>Fair<br/>Value<br/>\$</b> |
|--|--|----------------------|------------------------------|
| <b>Corporate Bonds (0.4%)</b>  |  |                      |                              |
| Delavaco Properties Inc. 7.000% Convertible Debentures July 31, 2018 | 226,000  | <u>236,538</u>       | <u>281,824</u>               |
|  |  | <u>\$ 236,538</u>    | <u>\$ 281,824</u>            |
| <b>Total Positions</b>   |  | <u>\$ 97,989,253</u> | <u>\$ 76,246,310</u>         |
| <b>Transaction costs, note 3</b>                                     |  | <u>\$ (169,217)</u>  | -                            |
| <b>Total Investments (98.8%)</b>                                     |  | <u>\$ 97,820,036</u> | 76,246,310                   |
| <b>Cash and Cash Equivalent (2.2%)</b>                               |  |                      | 1,680,530                    |
| <b>Other assets less liabilities (-1.0%)</b>                         |  |                      | <u>(786,517)</u>             |
| <b>Net assets (100.0%)</b>   |  |                      | <u>\$ 77,140,323</u>         |

# FRONT STREET GROWTH FUND

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

---

### 1. THE FUND

Front Street Growth Fund (formerly Front Street Small Cap Canadian Fund) (the "Fund") changed its name pursuant to a special resolution of the Fund passed on June 20, 2008. The Fund is an open-ended mutual fund trust which was created under the laws of the Province of British Columbia on July 26, 1985. The Fund is domiciled in Canada, and the address of its registered office is 33 Yonge Street, Suite 600, Toronto, Ontario, Canada, M5E 1G4.

The Fund is managed by Front Street Capital 2004 (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. RBC Investor Services Trust is the trustee (the "Trustee") and custodian of the Fund. Citigroup Fund Services Canada, Inc. provides unitholder recordkeeping services and fund accounting services.

The Fund's principal investment objective is to seek capital appreciation primarily through investment in equity securities of a diversified group of publicly traded companies and to a lesser extent in equity securities of a diversified group of private companies, subject to prescribed limits on illiquid investments.

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 units.

### 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). The Fund adopted IFRS in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. The accounting, estimation and valuation policies adopted on conversion to IFRS, as described below, have been applied consistently to all periods presented herein.

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

#### (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

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.

## FRONT STREET GROWTH FUND

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

---

#### 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:

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 unitholders of redeemable units 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 unitholders.

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.

(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.

## FRONT STREET GROWTH FUND

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

---

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

##### (b) Fair value measurement (Continued...):

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 units per unit and net asset value per unit, 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 units per unit for financial reporting purposes and net asset value for investor transactions is presented in note 12 (Reconciliation of Net Asset Value to IFRS Net Assets Attributable to Unitholders of Redeemable Units).

##### (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 GROWTH FUND

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

---

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

(d) Redeemable units

The Fund classifies redeemable units 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 units that do not have identical features and therefore, do not qualify as equity under IAS 32, Financial Instruments. The redeemable units, 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 unit price based on the Fund's valuation policies at each redemption date. The units 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) 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 Simplified Prospectus. These transactions involve the temporary exchange of securities for collateral with a commitment to redeliver the same securities on a future date. The value of cash or securities held as collateral must 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 revenue.



## FRONT STREET GROWTH FUND

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

---

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

(h) 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 and loss".

(i) Increase (decrease) in net assets attributable to unitholders of redeemable units from operations per unit

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

(j) Net assets attributable to unitholders of redeemable units per unit

The net assets attributable to unitholders of redeemable units per unit are calculated by dividing the net assets of a series of units by the total number of redeemable units of that series outstanding at the end of the period.

(k) 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.

(l) 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 GROWTH FUND

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

---

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

(m) Income taxes

The Fund presently qualifies as a mutual fund trust under the Income Tax Act (Canada) and, accordingly, is not taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund allocates to its unitholders sufficient net income and net realized capital gains so that it will not be subject to income taxes. Foreign income is subject to foreign withholding taxes.

(n) 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 Trust 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 GROWTH FUND

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

---

#### 5. REDEEMABLE UNITS

Net assets attributable to holders of redeemable units consists of amounts paid for units, undistributed income, realized gains and losses and 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 units. Each unit is redeemable at the option of the unitholder in accordance with the Trust Agreement, and entitles the unitholder to a proportionate interest in the net assets of the Fund. The Fund has no restrictions or specified capital requirements on subscriptions or redemptions of units. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives.

The authorized capital of the Fund consists of an unlimited number of mutual fund units, available in three series. Redemption and commission fees vary according to each series of units as follows:

##### **Series A units**

Redemption fees payable to the Manager may be applicable upon the sale of units of this series based on the original cost amount and the time to disposition. A redemption fee of 5% applies to units of this series sold within the first year following acquisition. A redemption fee of 3% applies to units of this series sold within the second year following acquisition. A redemption fee of 1.5% applies to units of this series sold within the third year following acquisition. No redemption fee applies to units of this series sold after the third year following acquisition.

##### **Series B units**

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

##### **Series F units**

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

The Fund allocates income and expenses, and realized and unrealized capital gains and losses to each class of redeemable units outstanding based on the average class allocation for the period.

The following redeemable unit transactions took place during the periods ended June 30:

|  | 2015       | 2014       |
|--|------------|------------|
| Redeemable Units outstanding, beginning of the period: |            |            |
| Series A   | 8,077,716  | 11,707,876 |
| Series B   | 10,067,447 | 12,638,040 |
| Series F   | 1,698,031  | 3,096,221  |
| Redeemable Units issued during the period:             |            |            |
| Series A   | 155,563    | 230,963    |
| Series B   | 346,300    | 464,903    |
| Series F   | 205,455    | 288,212    |
| Redeemable Units redeemed during the period:           |            |            |
| Series A   | 1,564,843  | 2,067,311  |
| Series B   | 1,348,319  | 1,563,359  |
| Series F   | 207,266    | 1,447,071  |
| Redeemable Units outstanding, end of the period:       |            |            |
| Series A   | 6,668,436  | 9,871,528  |
| Series B   | 9,065,428  | 11,539,583 |
| Series F   | 1,696,220  | 1,937,362  |

## FRONT STREET GROWTH FUND

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

---

#### 6. MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee equal to 1/12 of 2% of the net asset value of the Fund calculated and paid at the end of each month in arrears for series A and B units and a monthly management fee equal to 1/12 of 1% of the net asset value of the Fund calculated and paid at the end of each month in arrears for series F units.

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, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to unitholders. As the Fund has more than one series of units, the unitholders 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 if the percentage gain in the net asset value of a series of the Fund (as adjusted for any prior return deficiencies) over the preceding calendar quarter or quarters since a performance fee was last payable exceed the percentage gain or loss of the benchmark (the "Benchmark") over the same period. The Benchmark for the Fund is the S&P/TSX Composite Index. The fee is equal to this excess return per unit multiplied by the number of units outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per unit of the Fund (including distributions) is greater than all previous values at the end of each previous calendar quarter. The starting reference point for the next calendar quarter's calculation will be based on the higher of either the Benchmark performance adjusted net asset value per unit or the adjusted actual net asset value per unit, both with respect to the previous quarter in which a performance fee was payable.

#### 7. TRANSACTION COSTS AND SOFT DOLLARS

The total brokerage commissions paid by the Fund with respect to security transactions for the period ended June 30, 2015 was \$97,291 (2014 - \$325,156).

There were no soft dollar amounts included in brokerage commissions.

## FRONT STREET GROWTH FUND

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

---

#### 8. RELATED PARTY TRANSACTIONS

During the periods ended June 30, 2015 and 2014, fees paid to the Manager were as follows:

|                         | 2015              | 2014                |
|-------------------------|-------------------|---------------------|
| Management fees, note 6 | <u>\$ 860,829</u> | <u>\$ 1,789,309</u> |

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

|                         | June 30,<br>2015  | December 31,<br>2014 |
|-------------------------|-------------------|----------------------|
| Management fees payable | <u>\$ 141,807</u> | <u>\$ 180,942</u>    |

The following are redeemable units held by related parties of the Fund:

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Series B units held by the Partners of the Manager                                | 5,809            | 5,809                |
| Percentage of Series B units held by the Partners of the Manager                  | 0.06%            | 0.06%                |
| Series B units held by the relatives of the Partners of the Manager               | 3,386            | 11,836               |
| Percentage of Series B units held by the relatives of the Partners of the Manager | 0.04%            | 0.12%                |
| Series F units held by the Partners of the Manager                                | 39,606           | 39,606               |
| Percentage of Series F units held by the Partners of the Manager                  | 2.33%            | 2.33%                |
| Series F units held by the relatives of the Partners of the Manager               | 169,407          | 173,815              |
| Percentage of Series F units held by the relatives of the Partners of the Manager | 9.99%            | 10.24%               |

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 \$4,442 (June 30, 2014 - \$21,527) 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 unitholder transactions with the Fund, the consideration is the NAV available to all other unitholders on the trade date.

## FRONT STREET GROWTH FUND

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

---

#### 9. SECURITIES LENDING

The Fund lends portfolio securities from time to time in order to earn additional income. The Fund has entered into a securities lending program with its custodian, RBC Investor Services Trust. 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 period 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. As at June 30, 2015 and December 31, 2014, the aggregate fair values of the Fund's securities loaned and the collateral received were as follows:

|                              | June 30,<br>2015    | December 31,<br>2014 |
|------------------------------|---------------------|----------------------|
| Value of securities loaned   | <u>\$ 7,003,614</u> | <u>\$13,878,558</u>  |
| Value of collateral received | <u>\$ 7,143,688</u> | <u>\$14,156,131</u>  |

#### 10. DISTRIBUTION POLICY

The Fund intends to distribute all of its income for purposes of the Income Tax Act, including sufficient net realized capital gains (less applicable losses), on an annual basis, so that the Fund will not be liable for income tax. Distributions over the life of the Fund will be derived primarily from net realized capital gains and income from the Portfolio.

The Fund has \$771,049 in non-capital losses available to be applied against taxable income of future years which will expire in 2032.

The Fund has \$26,648,374 in net capital losses available to be applied against capital gains of future years. These losses do not expire.

#### 11. INDEMNIFICATION OF THE MANAGER

The Fund, pursuant to the Trust Agreement, will indemnify the Manager, its partners, directors, officers, employees and agents out of the Trust Property 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 Trust Agreement.

## FRONT STREET GROWTH FUND

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

---

#### 12. RECONCILIATION OF NET ASSET VALUE TO IFRS NET ASSETS ATTRIBUTABLE TO UNITHOLDERS OF REDEEMABLE UNITS

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 unit 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 annual financial statements present a reconciliation of Net asset value per unit to IFRS Net Assets Attributable to Unitholders of Redeemable Units.

As at June 30, 2015 and December 31, 2014, there are no variances between the IFRS NA per unit to net asset value per unit.

#### 13. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of financial assets and liabilities at FVTPL, cash and cash equivalents, dividends receivable, subscriptions receivable, interest receivable, receivable for investments sold, accrued expenses and redemptions payable. 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.

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. 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.

The Fund is exposed to financial risks, including market risk, currency risk, interest rate risk, credit risk, liquidity risk, cash flow risk and credit risk. The Fund's overall risk management program seeks to minimize potentially adverse effects of those risks on the Fund's financial performance. The Fund moderates financial risks through the careful selection of portfolio investments and other financial instruments within the parameters of the investment guidelines, strategies and objectives.

## FRONT STREET GROWTH FUND

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

---

#### 13. 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, 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 price or investment specific events.

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

As at June 30, 2015

| Currency             | Financial instruments at FVTPL | Cash and cash equivalents | Total               | Percentage of Net Assets |
|----------------------|--------------------------------|---------------------------|---------------------|--------------------------|
| United States Dollar | \$ 1,449,627                   | \$ 267,394                | \$ 1,717,021        | 2.22%                    |
| Brazilian Real       | <u>145,511</u>                 | <u>-</u>                  | <u>145,511</u>      | <u>0.19%</u>             |
|                      | <u>\$ 1,595,138</u>            | <u>\$ 267,394</u>         | <u>\$ 1,862,532</u> | <u>2.41%</u>             |

Ass at December 31, 2014

| Currency             | Financial instruments at FVTPL | Cash and cash equivalents | Total               | Percentage of Net Assets |
|----------------------|--------------------------------|---------------------------|---------------------|--------------------------|
| United States Dollar | \$ 2,452,956                   | \$ 251,841                | \$ 2,704,797        | 2.96%                    |
| Brazilian Real       | <u>179,279</u>                 | <u>-</u>                  | <u>179,279</u>      | <u>0.20%</u>             |
|                      | <u>\$ 2,632,235</u>            | <u>\$ 251,841</u>         | <u>\$ 2,884,076</u> | <u>3.16%</u>             |



## FRONT STREET GROWTH FUND

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

---

#### 13. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued...)

##### 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 there were investments in corporate bonds representing 0.4% (December 31, 2014 – 0.3%) of the investments owned, maturing in 2018. The remaining portion of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

June 30, 2015

| Financial assets               | Floating Rate<br>Financial<br>Instruments | Fixed Rate<br>Financial<br>Instruments | Non-interest<br>Bearing | Total                |
|--------------------------------|---|--|-------------------------|----------------------|
| Financial assets at FVTPL      | \$ -                                      | \$ 281,824                             | \$ 75,964,486           | \$ 76,246,310        |
| Cash and cash equivalents      | 1,680,530                                 | -                                      | -                       | 1,680,530            |
| Loans and receivables          | <u>-</u>                                  | <u>-</u>                               | <u>177,731</u>          | <u>177,731</u>       |
| Total                          | <u>\$ 1,680,530</u>                       | <u>\$ 281,824</u>                      | <u>\$ 76,142,217</u>    | <u>\$ 78,104,571</u> |
| Financial liabilities          |   |  |                         |                      |
| Financial liabilities at FVTPL | \$ -                                      | \$ -                                   | \$ -                    | \$ -                 |
| Other financial liabilities    | <u>-</u>                                  | <u>-</u>                               | <u>964,248</u>          | <u>964,248</u>       |
| Total                          | <u>\$ -</u>                               | <u>\$ -</u>                            | <u>\$ 964,248</u>       | <u>\$ 964,248</u>    |
| IFRS NA                        |   |  |                         | <u>\$ 77,140,323</u> |

## FRONT STREET GROWTH FUND

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

---

#### 13. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued...)

##### iii) Interest rate risk (Continued...)

As at December 31, 2014

| Financial assets               | Floating Rate<br>Financial<br>Instruments | Fixed Rate<br>Financial<br>Instruments | Non-interest<br>Bearing | Total                |
|--------------------------------|---|--|-------------------------|----------------------|
| Financial assets at FVTPL      | \$ -                                      | \$ 250,679                             | \$ 87,907,052           | \$ 88,157,731        |
| Cash and cash equivalents      | 7,644,023                                 | -                                      | -                       | 7,644,023            |
| Loans and receivables          | <u>-</u>                                  | <u>-</u>                               | <u>325,319</u>          | <u>325,319</u>       |
| Total                          | <u>\$ 7,644,023</u>                       | <u>\$ 250,679</u>                      | <u>\$ 88,232,371</u>    | <u>\$ 96,127,073</u> |
| Financial liabilities          |   |  |                         |                      |
| Financial liabilities at FVTPL | \$ -                                      | \$ -                                   | \$ 4,252,710            | \$ 4,252,710         |
| Other financial liabilities    | <u>-</u>                                  | <u>-</u>                               | <u>494,032</u>          | <u>494,032</u>       |
| Total                          | <u>\$ -</u>                               | <u>\$ -</u>                            | <u>\$ 4,746,742</u>     | <u>\$ 4,746,742</u>  |
| IFRS NA                        |   |  |                         | <u>\$ 91,380,331</u> |



## FRONT STREET GROWTH FUND

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

#### 13. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued...)

##### iv) Liquidity risk

As at December 31, 2014

| Financial assets               | 0 - 12<br>months    | 1 - 3<br>years | 3 - 5<br>years    | Beyond<br>5 years | Indefinite<br>maturity | Total                |
|--------------------------------|---------------------|----------------|-------------------|-------------------|------------------------|----------------------|
| Financial assets at FVTPL      | \$ -                | \$ -           | \$ 250,679        | \$ -              | \$ 87,907,052          | \$ 88,157,731        |
| Cash and cash equivalents      | 7,644,023           | -              | -                 | -                 | -                      | 7,644,023            |
| Loans and receivables          | <u>325,319</u>      | <u>-</u>       | <u>-</u>          | <u>-</u>          | <u>-</u>               | <u>325,319</u>       |
| Total                          | <u>\$ 7,969,342</u> | <u>\$ -</u>    | <u>\$ 250,679</u> | <u>\$ -</u>       | <u>\$ 87,907,052</u>   | <u>\$ 96,127,073</u> |
| Financial liabilities          |                     |                |                   |                   |                        |                      |
| Financial liabilities at FVTPL | \$ -                | \$ -           | \$ -              | \$ -              | \$ 4,252,710           | \$ 4,252,710         |
| Other financial liabilities    | <u>494,032</u>      | <u>-</u>       | <u>-</u>          | <u>-</u>          | <u>-</u>               | <u>494,032</u>       |
| Total                          | <u>\$ 494,032</u>   | <u>\$ -</u>    | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 4,252,710</u>    | <u>\$ 4,746,742</u>  |
| IFRS NA                        |                     |                |                   |                   |                        | <u>\$ 91,380,331</u> |

Certain of the Fund's investments are in private securities which are thinly traded. As at June 30, 2015, the fair value of such assets was 0.4% (December 31, 2014 – 4.3%) of the total net assets.

##### 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 GROWTH FUND

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

---

#### 13. 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 amounts due from brokers and derivatives. 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.

To partially mitigate credit risk with respect to its securities lending the Fund receive collateral against the securities loaned (note 9). As at June 30, 2015, the Fund loaned securities with an aggregate fair value of \$7,003,614 (December 31, 2014 - \$13,878,558) and received collateral with an aggregate fair value of \$7,143,688 (December 31, 2014 - \$14,156,131).

As at June 30, 2015, the Fund had \$281,824 (December 31, 2014 - \$250,679) in debt instruments with the following credit ratings obtained from Standard and Poor's Moody's or DBRS:

| Debt instruments by credit rating | Percentage of net assets |                     |
|-----------------------------------|--------------------------|---------------------|
|                                   | June 30<br>2015          | December 31<br>2014 |
| Not available or not rated        | 0.4%                     | 0.3%                |

## FRONT STREET GROWTH FUND

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

---

#### 13. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued...)

##### 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,<br>2015 | December 31,<br>2014 |
|-------------------------------|------------------|----------------------|
| Energy                        | 83.6%            | 84.4%                |
| Materials                     | 10.2%            | 9.3%                 |
| Telecommunications            | 3.1%             | -                    |
| Financials                    | 1.5%             | 2.4%                 |
| Utilities                     | 0.0%             | 0.1%                 |
| Corporate Bonds               | 0.4%             | 0.3%                 |
| Energy                        | -                | (4.7)%               |
| Cash and cash equivalents     | 2.2%             | 8.4%                 |
| Other assets less liabilities | <u>(1.0)%</u>    | <u>(0.2)%</u>        |
| Total                         | <u>100.0%</u>    | <u>100.0%</u>        |

#### 14. CAPITAL MANAGEMENT

The Fund considers financial instruments in the form of Redeemable units 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 unitholders; 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 Prospectus.

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

## FRONT STREET GROWTH FUND

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

---

#### 15. 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 and December 31, 2014 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>\$ 73,536,074</u>  | <u>\$ 2,414,973</u> | <u>\$ 295,263</u>   | <u>\$ 76,246,310</u>  |
| Financial liabilities at FVTPL | <u>\$ -</u>           | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>           |
| As at December 31, 2014        |                       |                     |                     |                       |
|                                | Level 1               | Level 2             | Level 3             | Total                 |
| Financial assets at FVTPL      | <u>\$ 84,240,579</u>  | <u>\$ -</u>         | <u>\$ 3,917,152</u> | <u>\$ 88,157,731</u>  |
| Financial liabilities at FVTPL | <u>\$ (4,252,710)</u> | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ (4,252,710)</u> |

## FRONT STREET GROWTH FUND

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

---

#### 15. FAIR VALUE HIERARCHY (Continued...)

The following table reconciles opening balances to closing balances for fair value measurements in Level 3 of the fair value hierarchy:

|                            | Financial assets<br>at FVTPL<br>Equities | Financial assets<br>at FVTPL<br>Bonds |
|----------------------------|--|---------------------------------------|
| Balance at January 1, 2015 | \$ 3,666,473                             | \$ 250,679                            |
| Purchases                  | -  | 12,632                                |
| Proceeds from sale         | (72,752)                                 | -                                     |
| Realized losses            | (12,836,368)                             | -                                     |
| Unrealized gains           | <u>9,256,086</u>                         | <u>18,513</u>                         |
| Balance at June 30, 2015   | <u>\$ 13,439</u>                         | <u>\$ 281,824</u>                     |

|                              | Financial assets<br>at FVTPL<br>Equities | Financial assets<br>at FVTPL<br>Bonds |
|------------------------------|--|---------------------------------------|
| Balance at January 1, 2014   | 16,645,955                               | 1,968,270                             |
| Proceeds from sales          | (2,553,871)                              | -                                     |
| Transfers out                | (1,000,000)                              | (1,611,044)                           |
| Realized loss                | (4,267,241)                              | -                                     |
| Unrealized loss              | <u>(5,158,370)</u>                       | <u>(106,547)</u>                      |
| Balance at December 31, 2014 | <u>\$ 3,666,473</u>                      | <u>\$ 250,679</u>                     |

The transfer out during the year ended December 31, 2014 represented equities and debt instruments held by the Fund were converted to common shares which have quoted prices in active markets.



## FRONT STREET GROWTH FUND

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

---

#### 15. 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 judgement and estimation in the determination of fair value. Management judgement 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 GROWTH FUND

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

---

#### 15. FAIR VALUE HIERARCHY (Continued...)

##### Valuation techniques and framework (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.

The tables below summarize the level 3 financial assets at FVTPL valued based on the aforementioned valuation techniques as at June 30, 2015 and December 31, 2014.

| As at June 30, 2015   | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$           | Fair<br>Value<br>\$ |
|---|---|----------------------|---------------------|
| Delavaco Properties Inc.<br>Convertible Debentures 7.000% July 31, 2018 | 226,000                                 | \$ 236,538           | \$ 281,824          |
| Trilliant Inc.  | 671,939                                 | <u>488,570</u>       | <u>13,439</u>       |
|   |   | <u>\$ 725,108</u>    | <u>\$ 295,263</u>   |
| As at December 31, 2014   | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$           | Fair<br>Value<br>\$ |
| Delavaco Properties Inc.<br>Convertible Debentures 7.000% July 31, 2018 | 216,000                                 | \$ 223,906           | \$ 250,679          |
| Laricina Energy Limited   | 765,804                                 | 12,909,120           | 3,599,279           |
| Trilliant Inc.  | 671,939                                 | <u>488,570</u>       | <u>67,194</u>       |
|   |   | <u>\$ 13,621,596</u> | <u>\$ 3,917,152</u> |