

Financial statements of

Front Street Hedge Fund

December 31, 2016

Front Street Hedge Fund

December 31, 2016

Table of contents

Independent Auditor's Report.....	1-2
Statement of financial position.....	3
Statement of comprehensive income	4
Statement of changes in net assets attributable to unitholders of redeemable units.....	5
Statement of cash flows	6
Schedule of investment portfolio	7-12
Notes to the financial statements	13-26

Independent Auditor's Report

To the Unitholders and Management of
Front Street Hedge Fund

We have audited the accompanying financial statements of Front Street Hedge Fund, which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders of redeemable units and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Front Street Hedge Fund as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
April 3, 2017

FRONT STREET HEDGE FUND

STATEMENTS OF FINANCIAL POSITION

As at December 31, 2016 and 2015

December 31, 2016

December 31, 2015

ASSETS

Current Assets

Financial assets at fair value through profit or loss*	\$	101,126,118	\$	110,783,956
Cash and cash equivalents		11,274,519		6,273,512
Receivable for investments sold		1,517,118		–
Dividends receivable		159,181		77,956
Interest and other receivables		32,810		–
	\$	114,109,746	\$	117,135,424

LIABILITIES

Current Liabilities

Financial liabilities at fair value through profit or loss*	\$	2,076,241	\$	3,181,388
Redemptions Payable		690,013		118,037
Performance fees payable (note 4)		853,013		–
Distributions payable		425,676		–
Management fees payable (note 4)		150,719		181,546
Income taxes payable		101,382		–
Accrued expenses		72,959		184,164
Dividends payable		12,116		10,176
Foreign exchange forward contracts at fair value through profit or loss		–		294,318
Liabilities before net assets attributable to unitholders of redeemable units		4,382,119		3,969,629
Net assets attributable to unitholders of redeemable units	\$	109,727,627	\$	113,165,795

Net assets attributable to unitholders of redeemable units

Series B	\$	53,764,422	\$	106,976,323
Series F	\$	55,963,205	\$	6,189,472
Number of redeemable units outstanding				
Series B		2,708,516		5,706,746
Series F		2,402,300		278,427
Net assets attributable to unitholders of redeemable units per unit				
Series B	\$	19.85	\$	18.75
Series F	\$	23.30	\$	22.23

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

Approved on behalf of LOGiQ Capital 2016, The Manager:



Joe Canavan
Chief Executive Officer and Director

See accompanying notes to the financial statements.

FRONT STREET HEDGE FUND

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

	2016	2015
Investment income		
Dividends income	\$ 1,394,296	\$ 1,547,148
Interest income for distribution purposes	359,214	222,320
Securities lending revenue	3	26,503
Net foreign currency (loss) gain on cash and other net assets	(477,974)	1,408,177
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss ("FVTPL")		
Net realized gain on financial assets and liabilities at FVTPL	9,922,906	5,246,407
Net realized loss on foreign exchange forward contracts	(1,018,195)	(780,305)
Change in unrealized appreciation (depreciation) on financial assets and liabilities at FVTPL	1,051,162	(539,915)
	<u>11,231,412</u>	<u>7,130,335</u>
Expenses (note 4)		
Management fees	2,178,508	2,530,883
Transaction costs	2,061,175	2,106,598
Performance fees	853,013	-
Compensatory dividends	204,374	42,218
Income taxes	101,382	-
Custodial fees	76,291	-
Audit fees	48,500	52,358
Operating costs	48,322	-
Legal fees	39,118	5,832
Security borrowing fees	28,236	-
Withholding taxes	11,065	76,175
Trustee fees	10,625	10,719
Securityholder reporting costs	3,596	-
	<u>5,664,205</u>	<u>4,824,783</u>
Increase in net assets attributable to unitholders of redeemable units	<u>\$ 5,567,207</u>	<u>\$ 2,305,552</u>
Increase in net assets attributable to unitholders of redeemable units		
Series B	\$ 3,548,476	\$ 1,960,655
Series F	\$ 2,018,731	\$ 344,897
Increase in net assets per unit attributable to unitholders of redeemable units		
Series B	\$ 0.75	\$ 0.34
Series F	\$ 2.10	\$ 1.06

See accompanying notes to the financial statements.

FRONT STREET HEDGE FUND

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS OF REDEEMABLE UNITS

For the years ended December 31, 2016 and 2015

	2016	2015
Net assets attributable to unitholders of redeemable units, beginning of year		
Series B	\$ 106,976,323	\$ 111,106,582
Series F	6,189,472	10,656,088
	<u>113,165,795</u>	<u>121,762,670</u>
Increase in net assets attributable to unitholders of redeemable units		
Series B	3,548,476	1,960,655
Series F	2,018,731	344,897
	<u>5,567,207</u>	<u>2,305,552</u>
Redeemable unit transactions		
Proceeds from redeemable units issued		
Series B	612,221	-
Series F	49,516,035	465,165
	<u>50,128,256</u>	<u>465,165</u>
Redemption of redeemable units		
Series B	(57,372,598)	(6,090,914)
Series F	(1,335,357)	(5,276,678)
	<u>(58,707,955)</u>	<u>(11,367,592)</u>
Decrease in net assets from redeemable units transactions		
	<u>(8,579,699)</u>	<u>(10,902,427)</u>
Distributions to unitholders of redeemable units		
Capital gains		
Series B	-	-
Series F	(425,676)	-
	<u>(425,676)</u>	<u>-</u>
Net decrease in net assets attributable to unitholders of redeemable units		
	<u>(3,438,168)</u>	<u>(8,596,875)</u>
Net assets attributable to unitholders of redeemable units, end of year		
Series B	53,764,422	106,976,323
Series F	55,963,205	6,189,472
	<u>\$ 109,727,627</u>	<u>\$ 113,165,795</u>

See accompanying notes to financial statements.

FRONT STREET HEDGE FUND

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

	2016	2015
Cash flows from (used in) operating activities		
Increase in net assets attributable to unitholders of redeemable units from operations	\$ 5,567,207	\$ 2,305,552
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	477,974	(1,408,177)
Net realized (gain) on financial assets and liabilities at FVTPL	(9,922,906)	(5,246,407)
Net realized loss on foreign exchange forward contracts	1,018,195	780,305
Change in unrealized (appreciation) depreciation on financial assets and liabilities at FVTPL	(1,051,162)	539,915
(Increase) decrease in interest and other receivables	(32,810)	142,050
(Increase) decrease in dividends receivable	(81,225)	49,405
Increase (decrease) in dividends payable	1,940	5,691
Increase (decrease) in other payable and accrued liabilities	812,363	(35,047)
Purchases of financial assets and liabilities at FVTPL	(318,321,433)	(206,299,326)
Proceeds from sales of financial assets and liabilities at FVTPL	336,036,756	213,817,835
Proceeds from (to) settlement of foreign exchange forward contracts	(1,018,195)	—
Net cash from (used in) operating activities	<u>13,486,704</u>	<u>4,651,796</u>
Cash flows from (used in) financing activities		
Proceeds from redeemable units issued	50,128,256	1,133,991
Amount paid on redemption of redeemable units	(58,135,979)	(12,290,874)
Net cash from (used in) financing activities	<u>(8,007,723)</u>	<u>(11,156,883)</u>
Foreign currency (loss) gain on cash and other net assets	(477,974)	1,408,177
Net increase (decrease) in cash and cash equivalents	5,478,981	(6,505,087)
Cash and cash equivalents, beginning of year	6,273,512	11,370,422
Cash and cash equivalents, end of year	<u>\$ 11,274,519</u>	<u>\$ 6,273,512</u>
Cash and cash equivalents comprise:		
Cash at bank	11,274,519	6,273,512
	<u>\$ 11,274,519</u>	<u>\$ 6,273,512</u>
Interest received, net of withholding tax	\$ 326,404	\$ 364,370
Dividends received, net of withholding tax	\$ 1,302,006	\$ 1,565,294
Compensatory dividends paid	\$ (202,434)	\$ (36,527)

See accompanying notes to the financial statements.

FRONT STREET HEDGE FUND
SCHEDULE OF INVESTMENT PORTFOLIO
As at December 31, 2016

	Number of Shares/Units/ Par Value	Average Cost \$	Fair Value \$
Long Positions (92.2%)			
Equities			
Consumer Discretionary (4.0%)			
Aequus Pharmaceuticals Inc.	375,000	112,500	90,000
CanniMed Therapeutics Inc.	12,000	144,000	129,000
DHX Media Limited	20,000	148,755	141,000
Gildan Activewear Inc.	18,000	615,759	613,620
KB Home	10,100	219,241	214,396
Kew Media Group Inc. 'A' Restricted	50,000	500,000	497,500
Kew Media Group Inc., Warrants 30/06/2024	50,000	0	28,500
MTI Limited Partnership Series 3 'A' Restricted	379,800	32	0
Park Lawn Corporation	73,700	1,173,134	1,159,301
Qyou Media Inc. Restricted	324,000	162,000	162,000
Qyou Media Inc., Warrants January 09, 2018	324,000	0	0
Qyou Media Inc., Warrants January 15, 2018	162,000	0	0
Sleep Country Canada Holdings Inc.	23,900	562,449	687,842
The ONE Group Hospitality Inc.	162,000	871,338	482,870
Wow Unlimited Media Inc., Subscription Receipts	125,000	225,000	225,000
		4,734,208	4,431,029
Consumer Staples (2.5%)			
Costco Wholesale Corporation	2,000	383,764	429,943
Premium Brands Holdings Corporation	33,000	1,878,328	2,275,680
		2,262,092	2,705,623
Energy (30.7%)			
Advantage Oil & Gas Limited	250,000	2,179,933	2,280,000
Baytex Energy Corporation	89,000	502,573	583,840
Birchcliff Energy Limited	188,000	1,455,503	1,761,560
Canadian Natural Resources Limited	60,000	2,557,653	2,567,400
Cardinal Energy Limited	99,600	937,041	1,054,764
Crew Energy Inc.	143,000	1,036,709	1,073,930
Enbridge Inc.	7,000	399,840	395,500
Enerflex Limited	104,200	1,481,783	1,776,610
Keyera Corporation	100	3,953	4,046
Lite Access Technologies Inc. Subscription Receipts	148,000	170,200	267,110

FRONT STREET HEDGE FUND
SCHEDULE OF INVESTMENT PORTFOLIO
As at December 31, 2016

	Number of Shares/Units/ Par Value	Average Cost \$	Fair Value \$
NuVista Energy Limited	223,000	1,565,418	1,547,620
Parex Resources Inc.	68,300	1,149,253	1,154,270
Parkland Fuel Corp Subscription Receipts	62,500	1,531,250	1,722,963
Precision Drilling Corporation	115,000	811,427	841,800
Raging River Exploration Inc.	196,600	2,045,728	2,076,096
Secure Energy Services Inc.	173,600	1,462,724	2,032,856
Spartan Energy Corporation	525,000	1,620,342	1,748,250
TORC Oil & Gas Limited	251,000	1,981,776	2,075,770
Tourmaline Oil Corporation	51,000	1,835,486	1,831,410
TransCanada Corporation	65,000	3,695,478	3,935,100
Trican Well Service Limited	27,000	118,690	124,200
Trinidad Drilling Limited	282,500	786,104	943,550
Whitecap Resources Inc.	150,000	1,496,769	1,824,000
		30,825,633	33,622,645
Financials (23.3%)			
Altus Group Limited	105,500	2,247,724	3,266,280
Bank of Montreal	24,300	2,258,153	2,346,651
Citigroup Inc.	8,200	605,997	654,308
Committed Capital Acquisition Corp II	40,800	258,774	243,772
Committed Capital Acquisition Corp II, Warrants April 16, 2019	85,800	0	1,267
Manulife Financial Corporation	120,000	2,526,200	2,869,200
Royal Bank of Canada	47,000	3,745,322	4,270,890
Sun Life Financial Inc.	79,000	3,282,590	4,072,450
The Bank of Nova Scotia	53,800	3,624,954	4,022,088
The Toronto-Dominion Bank	57,500	3,322,672	3,807,650
		21,872,386	25,554,556
Health Care (0.7%)			
HLS Therapeutics Inc. Restricted	63,800	717,982	479,702
HLS Therapeutics Inc. Restricted, Warrants August 11, 2020	3,146	0	0
Kalytera Therapeutics Inc. Subscription Receipts	750,000	300,000	300,000
Nobilis Health Corporation, Warrants May 13, 2017	900	0	16
Theratechnologies Inc., Warrants August 6, 2017	10,250	0	6,611
		1,017,982	786,329

FRONT STREET HEDGE FUND
SCHEDULE OF INVESTMENT PORTFOLIO
As at December 31, 2016

	Number of Shares/Units/ Par Value	Average Cost \$	Fair Value \$
Industrials (9.6%)			
Air Canada	133,500	1,692,105	1,824,945
Canadian National Railway Company	15,000	1,352,028	1,355,400
Hardwoods Distribution Inc. Subscription Receipts	80,000	1,160,000	1,430,400
Savaria Corporation	144,756	651,578	1,573,498
Savaria Corporation, Warrants April 15, 2017	26,500	0	175,430
SNC-Lavalin Group Inc.	43,000	2,388,852	2,484,970
Trilliant Holdings Inc. Restricted	2,191,988	1,925,881	21,920
Walker Innovation Inc.	150,000	424,982	77,518
Waste Connections Inc.	14,300	1,417,233	1,506,362
		11,012,659	10,450,443
Information Technology (6.8%)			
Breaking Data Corporation	1,062,700	256,253	374,867
Breaking Data Corporation, Warrants October 31 2018	1,111,100	0	310,736
CGI Group Inc. 'A'	29,000	1,623,076	1,868,760
Dealnet Capital Corporation, Warrants February 18 2017	150,000	0	0
eStation Network Services Inc.	1,180,531	0	5,903
iON Worldwide Inc. Restricted	160,000	196,952	214,824
Kinaxis Inc.	19,100	251,554	1,193,750
Microsoft Corporation	10,000	809,463	834,323
The Descartes Systems Group Inc.	87,805	691,117	2,513,857
TIO Networks Corporation	63,300	73,637	179,772
VersaPay Corporation Restricted, Warrants May 07, 2017	55,000	0	1,650
		3,902,052	7,498,442
Materials (8.1%)			
B2Gold Corporation	106,800	331,827	340,692
Barrick Gold Corporation	20,000	469,689	431,729
CCL Industries Inc. 'B'	1,100	292,723	290,180
Copper Mountain Mining Corporation, Warrants 03/08/2019	122,500	0	62,475
Detour Gold Corporation	20,000	321,380	365,800
First Quantum Minerals Limited	147,000	1,848,381	1,962,450

FRONT STREET HEDGE FUND
SCHEDULE OF INVESTMENT PORTFOLIO
As at December 31, 2016

	Number of Shares/Units/ Par Value	Average Cost \$	Fair Value \$
Interfor Corporation	171,300	2,259,368	2,574,639
Intertape Polymer Group Inc.	50,000	709,829	1,259,000
Methanex Corporation	7,900	0	0
Nevsun Resources Limited	101,900	442,251	422,885
Newcastle Gold Limited	591,000	477,765	431,430
Orla Mining Limited	481,400	839,302	601,750
Primero Mining Corporation, Warrants June 25, 2018	108,000	21,600	14,040
Tahoe Resources Inc.	13,200	155,746	166,980
Torex Gold Resources Inc.	200	3,507	4,158
		8,173,368	8,928,208
Utilities (1.9%)			
Brookfield Infrastructure Partners L.P.	31,800	1,265,249	1,428,456
Brookfield Infrastructure Partners LP	15,000	644,784	674,077
		1,910,033	2,102,533
Total Equities		85,710,413	96,079,808
Corporate Bonds (4.6%)			
Cooltech Corporation Convertible 1.00% May 19, 2017	120,000	156,330	161,118
Estrella International Energy Services Limited Convertible Restricted 12% December 31, 2017	1,067,464	1,067,464	426,986
Gran Columbia Gold Corporation Sr. Convertible Callable 1.00% August 11, 2018	1,088,491	1,335,198	891,492
Gran Tierra Energy Inc. Convertible 5.00% April 01, 2021	1,000,000	1,315,950	1,580,131
HLS Therapeutics Inc. Term Loan August 11, 2021	466,381	580,190	596,583
Kelt Exploration Limited Convertible 5.00% May 31, 2021	1,000,000	1,000,000	1,390,000
		5,455,132	5,046,310
Total Long Positions (92.2%)		91,165,545	101,126,118

FRONT STREET HEDGE FUND
SCHEDULE OF INVESTMENT PORTFOLIO
As at December 31, 2016

	Number of Shares/Units/ Par Value	Average Cost \$	Fair Value \$
Short Positions (-1.9%)			
Equities			
Energy (-1.6%)			
Parkland Fuel Corporation	(62,500)	(1,904,612)	(1,758,125)
		(1,904,612)	(1,758,125)
Purchased Call Options (-0.1%)			
CGI Group Inc., Call 64, 20/01/2017	(250)	(31,500)	(32,500)
First Quantum Minerals Limited, Call 15, 20/01/2017	(200)	(8,800)	(7,000)
Kinaxis Inc., Call 64, 17/02/2017	(85)	(12,495)	(14,875)
Royal Bank of Canada, Call 92, 20/01/2017	(250)	(31,250)	(15,000)
The Descartes Systems Group Inc., Call 28, 20/01/2017	(265)	(17,358)	(15,900)
TransCanada Corporation, Call 62, 20/01/2017	(175)	(8,400)	(8,750)
		(109,803)	(94,025)
Written Put Options (-0.2%)			
Alibaba Group Holding Limited, Put 92.5, 20/01/2017	(50)	(30,160)	(36,587)
Alimentation Couche-Tard Inc., Put 60, 20/01/2017	(200)	(34,400)	(12,600)
B2Gold Corporation, Put 3, 20/01/2017	(150)	(4,200)	(4,875)
Barrick Gold Corporation, Put 16, 20/01/2017	(252)	(21,443)	(24,361)
Barrick Gold Corporation, Put 20, 20/01/2017	(125)	(21,750)	(4,000)
Crew Energy Inc., Put 7, 20/01/2017	(1,000)	(25,250)	(25,000)
Detour Gold Corporation, Put 15, 20/01/2017	(200)	(13,800)	(12,400)
Kinross Gold Corporation, Put 3.5, 20/01/2017	(200)	(12,813)	(12,218)
NuVista Energy Limited, Put 7, 20/01/2017	(400)	(19,200)	(11,000)
Tahoe Resources Inc., Put 13, 20/01/2017	(296)	(15,688)	(14,800)
Tahoe Resources Inc., Put 14, 20/01/2017	(250)	(56,750)	(56,250)
Torex Gold Resources Inc., Put 17, 20/01/2017	(250)	(9,500)	(10,000)
		(264,954)	(224,091)
Total Written Call Options (-0.3%)		(374,757)	(318,116)

FRONT STREET HEDGE FUND
SCHEDULE OF INVESTMENT PORTFOLIO
As at December 31, 2016

	Number of Shares/Units/ Par Value	Average Cost \$	Fair Value \$
Total Short Positions (-1.9%)		(2,279,369)	(2,076,241)
Transaction costs		(319,683)	
Total Investments, net long and short (90.3%)		88,566,493	99,049,877
Other assets, less liabilities (9.7%)			10,677,750
Total Net assets (100.0%)			109,727,627

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

1. Establishment of the investment fund and nature of operations

Front Street Hedge Fund (the "Fund") is an investment fund created under the laws of the Province of Ontario pursuant to a Trust Agreement dated September 30, 2003 which was amended and restated on January 31, 2005, May 1, 2009, January 29, 2010 and December 1, 2013 (the "Trust Agreement"). The Fund was formerly known as Front Street Canadian Hedge. Valiant Trust Company (Canada), a trust company incorporated under the laws of Canada, which is authorized under the laws of the Province of Ontario to carry on the business of a trust company, is the trustee of the Fund (the "Trustee"). CIBC Mellon is the custodian and provides unitholder recordkeeping services and fund accounting services. LOGiQ Capital 2016 (formerly Front Street Capital 2004), an Ontario general partnership, is the manager of the Fund (the "Manager") pursuant to the Trust Agreement. The Fund is domiciled in Canada, and the address of its registered office is 77 King Street West Suite 2110, Toronto, Ontario, Canada, M5K 1G8.

On December 8, 2016, Front Street Capital 2004 ("FSC 2004"), together with Aston Hill Financial Inc. ("Aston Hill") and Tuscarora Capital Inc. ("TCI"), an entity under common control with the Manager, completed a transaction whereby Aston Hill would acquire all of the equity interests in FSC 2004 and TCI, and the companies would combine their respective operations. As part of the transaction, Aston Hill also changed its name to LOGiQ Asset Management Inc. Effective December 20, 2016, the Manager was renamed LOGiQ Capital 2016.

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

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

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

2. Summary of significant accounting policies

Basis of presentation

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

These financial statements are prepared on a historical cost basis, except for assets and liabilities at fair value through profit or loss, which are presented at fair value.

These financial statements were authorized for issue by the Manager on April 3, 2017.

Financial instruments

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

2. Summary of significant accounting policies (Continued)

Recognition, derecognition and measurement

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

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership

When the Fund purchases an option or warrant, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. When options and warrants are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a realized gain or loss and is presented in the statements of comprehensive income within net realized gains (losses) on financial assets and liabilities at fair value through profit or loss.

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

Cash and cash equivalents

Cash and cash equivalents is comprised of cash at financial institutions.

Valuation of investments and derivatives

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

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

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

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

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

2. Summary of significant accounting policies (Continued)

Impairment of financial assets

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

Cost of investments

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where the Fund currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Payable for investments purchased/Receivable for investments sold

Amounts receivable for investments sold and amounts payable for investments purchased that have been contracted are recorded on the statement of financial position at the amount to be received or delivered.

Other financial assets and liabilities

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

Transaction costs

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

Investment transactions and income

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

2. Summary of significant accounting policies (Continued)

Foreign currency translation

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

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

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

Redeemable units and net assets attributable to unitholders of redeemable units

The Fund issues multiple series of redeemable units, which are redeemable at the unitholder's option and do not have identical rights. Such units are classified as financial liabilities and can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value ("NAV") attributable to the unit series. The Fund's NAV per unit is calculated by dividing the net assets attributable to the unitholders of each class of redeemable units with the total number of outstanding redeemable units for each respective series.

The increase (decrease) in net assets attributable to unitholders of redeemable units per unit is calculated by dividing the increase (decrease) in net assets attributable to unitholders of redeemable units by the weighted average number of redeemable units outstanding during the year.

Future accounting standards

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

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

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

New standards adopted

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

2. Summary of significant accounting policies (Continued)

New standards adopted (continued)

The Fund has applied these amendments for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the Fund's financial position and financial performance.

Regarding the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or the financial position of the Fund.

3. Critical accounting estimates and judgments

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

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

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

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

4. Expenses

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

Management fees

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

Performance fee

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

5. Units of the Fund

Authorized

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

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

	December 31, 2016	
	Series B	Series F
Balance, beginning of year	5,706,746	278,427
Subscriptions	33,927	2,181,993
Redeemed		
	<u>(3,032,157)</u>	<u>(58,120)</u>
Balance, end of year	<u>2,708,516</u>	<u>2,402,300</u>
	December 31, 2015	
	Series B	Series F
Balance, beginning of year	6,027,422	490,360
Subscriptions	-	20,704
Redeemed		
	<u>(320,676)</u>	<u>(232,637)</u>
Balance, end of year	<u>5,706,746</u>	<u>278,427</u>

Capital disclosure

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

6. Risk management

Management of financial instrument risks

In the normal course of business, the Fund is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The value of investments within the Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Fund. The level of risk depends on the Fund's investment objectives and the type of securities it invests in.

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

6. Risk management (Continued)

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

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

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31, 2016, the Fund had 5.09% (December 31, 2015 – 2.13%) of investments in debt instruments on which credit ratings are not available.

Liquidity risk

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

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

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

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

Interest rate risk

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

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

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at December 31, 2016, there were 5.09% (December 31, 2015 – 2.13%) of investments owned which are held in bonds. The remaining portion of the Fund's assets are substantially non-interest bearing equity investments and the exposure to interest rate changes is minimal.

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

6. Risk management (Continued)

Other price risk

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

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

As at December 31, 2016, 80.8% (December 31, 2015 – 90.0%) of the Fund's net assets were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately \$8.9 million (December 31, 2015 - \$10.2 million) respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

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

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

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

The tables below summarize the Fund's exposure to currency risk due to concentration of assets in foreign currencies as at December 31, 2016 and 2015:

December 31, 2016

Currency	Portfolio Holdings	Cash	Foreign exchange forward contracts	Net exposure	% of Net Assets
	\$	\$	\$	\$	\$
United States Dollar	7,463,159	478,339	-	7,941,498	7.24%
Total	7,463,159	478,339	-	7,941,498	7.24%

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

6. Risk management (Continued)

Currency risk (continued)

December 31, 2015

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

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

As at December 31, 2016, if the Canadian dollar had strengthened or weakened by 5 percent in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$378,167 (December 31, 2015 - \$1,436,722). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

7. Classification of financial instruments - fair value measurements

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

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

The following tables summarize the inputs used as of as of December 31, 2016 and 2015 in valuing the Fund's financial assets and liabilities at FVTPL.

December 31, 2016				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Equities – long	91,273,173	3,922,286	884,349	96,079,808
Bonds – long	-	3,861,623	1,184,687	5,046,310
	91,273,173	7,783,909	2,069,036	101,126,118
Liabilities				
Equities – short	(1,758,125)	-	-	(1,758,125)
Options – short	(305,898)	(12,218)	-	(318,116)
	(2,064,023)	(12,218)	-	(2,076,241)

December 31, 2015				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Equities – long	105,071,540	2,165,582	1,257,615	108,494,737
Bonds – long	-	1,170,383	1,118,836	2,289,219
	105,071,540	3,335,965	2,376,451	110,783,956
Liabilities				
Equities – short	(2,211,582)	-	-	(2,211,582)
Options – short	(969,806)	-	-	(969,806)
Currency forward contracts	-	(294,318)	-	(294,318)
	(3,181,388)	(294,318)	-	(3,475,706)

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

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

The changes in investments measured at fair value using significant level 3 inputs are reflected below for the years ended December 31, 2016 and 2015:

December 31, 2016

	Beginning balance January 1, 2016 (FV)	Net purchases and sales	Net transfers in (out)	Realized gains and losses, net	Change in unrealized gains and losses, net	Ending balance December 31, 2016 (FV)
	\$	\$	\$	\$	\$	\$
Assets						
Equities	1,257,615	-	-	(2,126,719)	1,753,453	884,349
Bonds	1,118,836	117,148	-	(131,746)	80,449	1,184,687
	2,376,451	117,148	-	(2,258,465)	1,833,902	2,069,036

During the year ended December 31, 2016, there were no transfers from Level 3 to Level 1 or 2. There were no significant transfers between Level 1 and 2.

December 31, 2015

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

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

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

The significant unobservable inputs and valuation techniques used to determine the fair value measurement categorized in level 3 for years ended December 31, 2016 and 2015 are indicated below:

	Valuation Technique	Significant Unobservable Inputs	December 31, 2016 (\$)
Equities	Private company book value	Financial statements of private company	376,824
	Comparable company multiples	Financial statements of comparable company	507,525
Total			884,349
Bonds	Discounted cash flow	Discount rate	1,184,687
Total			1,184,687

	Valuation Technique	Significant Unobservable Inputs	December 31, 2015 (\$)
Equities	Private company book value	Financial statements of private company	1,185,938
	Comparable company multiples	Financial statements of comparable company	71,677
Total			1,257,615
Bonds*	Discounted cash flow	Discount rate	1,118,836
Total			1,118,836

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

8. Income taxes

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and accordingly, is not subject to tax on its net taxable income for the tax year which ends in December, including net realized capital gains, which is paid or payable to its unitholders during the year. The Fund distributed a sufficient amount of its income and net realized capital gains so that the Fund is not subject to income tax. The Fund may be subject to alternative minimum tax.

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

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

Front Street Hedge Fund

Notes to the financial statements

December 31, 2016

9. Securities Lending

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

A reconciliation of the gross amount generated from the securities lending transactions to the security lending income to the Fund for the years ended December 31, 2016 and 2015 is as follows:

Securities lending income	2016	2015
Gross securities lending income	\$ 6	\$ 26,503
Agent fees - The Bank of New York Mellon Corp.	<u>\$ (3)</u>	<u>\$ (26,503)</u>
Securities lending income to the Fund		
before tax reclaims (withholding taxes)	\$ 3	\$ 26,503
Tax reclaims (withholding taxes)	<u>\$ -</u>	<u>\$ -</u>
Net securities lending income	\$ 3	\$ 26,503

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

10. Filing exemption

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

11. Comparative Information

Operating Costs reported in the 2015 statement of comprehensive income have been reclassified to Transaction Costs to reflect the transaction costs on options, as presented in the current year. Additionally, the adjustments under operating activities in the statement of cash flows for the year ended December 31, 2015 have been reclassified to be comparable with the current year's presentation. The impact of these reclassifications on net assets attributable to unitholders of redeemable units is \$nil.