Financial Statements of

FRONT STREET STRATEGIC YIELD FUND LTD.

Years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Front Street Strategic Yield Fund Ltd.

We have audited the accompanying financial statements of Front Street Strategic Yield Fund Ltd., which comprise the statements of net assets as at December 31, 2012 and 2011, the statements of operations and changes in net assets for the years then ended, the statement of investments as at December 31, 2012, and notes, comprising 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 Canadian generally accepted accounting principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits 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 net assets of Front Street Strategic Yield Fund Ltd. as at December 31, 2012 and 2011, its results of operations and its changes in net assets for the years then ended, and its investments held as at December 31, 2012, in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 13 in the financial statements, which describes the fact that subject to approval by the shareholders, Front Street Strategic Yield Fund Ltd. intends to merge with Front Street U.S. MLP Income Fund Ltd. to form a new amalgamated corporation using the name Front Street U.S. MLP Income Fund Ltd.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 20, 2013
Toronto, Canada

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FRONT STREET STRATEGIC YIELD FUND LTD.

Statements of Net Assets

December 31, 2012 and 2011

	2012	2011
Assets		
Investments, at fair value (cost - $73,924,752; 2011 - $75,852,807)	$ 78,857,440	$ 80,723,029
Forward purchase and sale agreement (note 4)	–	11,281,920
Cash and cash equivalents	511,440	1,484,736
	79,368,880	93,489,685
Liabilities		
Forward purchase and sale agreement (note 4)	24,192,508	–
Accounts payable and accrued liabilities	238,109	328,508
Due to Front Street Capital 2004 (note 3)	–	202,576
Distribution payable	595,057	1,280,985
	25,025,674	1,812,069
Net assets representing shareholders' equity	$ 54,343,206	$ 91,677,616
Number of shares outstanding (note 5)	8,500,812	8,539,897
Net assets per share (note 6):		
Basic	$ 6.39	$ 10.74
Diluted	6.39	10.74

See accompanying notes to financial statements.

Approved by the Board of Directors:

Director

Gary P. Selke

Director

Normand G. Lamarche

FRONT STREET STRATEGIC YIELD FUND LTD.

Statements of Operations

Years ended December 31, 2012 and 2011

	2012	2011
Investment income:		
Dividends	$ –	$ 71,297
Interest	5,822	16,768
	5,822	88,065
Expenses:		
Administration fees	427,088	878,602
Trailer fee	355,537	341,887
Management fees (note 7)	366,189	360,329
Borrowing costs	232,283	218,863
Audit fees	34,235	79,535
Legal fees	21,281	97,292
Security holder reporting costs	9,716	2,929
Independent review committee	3,492	3,175
	1,449,821	1,982,612
Net investment loss	(1,443,999)	(1,894,547)
Realized and unrealized gain (loss) on forward purchase and sale agreement and investments:		
Net realized gain on sale of investments, including foreign exchange adjustments	4,221,794	2,687,813
Change in net unrealized appreciation (depreciation) of the value of forward purchase and sale agreement and investments	(35,411,962)	4,148,221
	(31,190,168)	6,836,034
Increase (decrease) in net assets from operations	$ (32,634,167)	$ 4,941,487
Increase (decrease) in net assets from operations per share (note 2)	$ (3.82)	$ 0.60

See accompanying notes to financial statements.

FRONT STREET STRATEGIC YIELD FUND LTD.

Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

	2012	2011
Net assets, beginning of year	$ 91,677,616	$ 79,028,235
Increase (decrease) in net assets from operations	(32,634,167)	4,941,487
Capital transactions:		
Gross proceeds from issuance of units	–	14,585,400
Proceeds from issuance of equity shares upon exercise of warrants	–	12,557,270
Distributions	(4,437,935)	(4,431,868)
Redemptions	(246,103)	(14,136,887)
Agents' fees	–	(583,416)
Issuance costs	(16,205)	(282,605)
	(4,700,243)	7,707,894
Net assets, end of year	$ 54,343,206	$ 91,677,616

See accompanying notes to financial statements.

FRONT STREET STRATEGIC YIELD FUND LTD.

Statement of Investments

December 31, 2012

	Number of shares/units	Cost	Market value	Percentage of net assets
Long positions				
Energy:				
Athabasca Oil Corporation	510,391	$ 6,777,993	$ 5,323,378	9.79
Crew Energy Inc.	500,000	2,495,000	3,225,000	5.93
Legacy Oil + Gas Inc.	618,942	4,419,017	4,221,184	7.77
MEG Energy Corporation	175,000	6,720,000	5,323,500	9.80
		20,412,010	18,093,062	33.29
Materials:				
Canfor Corporation	376,291	3,617,008	6,231,379	11.47
New Gold Inc.	575,000	6,739,000	6,290,500	11.58
Tahoe Resources Inc.	430,000	7,396,000	7,817,400	14.38
		17,752,008	20,339,279	37.43
Health Care:				
Catamaran Corporation	167,006	5,998,856	7,762,439	14.28
Valeant Pharmaceuticals International Inc.	117,800	5,541,312	6,978,472	12.84
		11,540,168	14,740,911	27.12
Financials:				
Dundee Corporation 'A'	168,942	4,112,269	5,173,004	9.52
FirstService Corporation	194,098	5,213,472	5,434,744	10.00
		9,325,741	10,607,748	19.52
Information technology:				
CGI Group Inc. 'A'	335,456	6,947,519	7,688,652	14.15
Open Text Corporation	96,000	5,852,160	5,308,800	9.77
		12,799,679	12,997,452	23.92
Consumer discretionary:				
Martinrea International Inc.	269,299	2,095,146	2,078,988	3.83
Total investments		$ 73,924,752	78,857,440	145.11
Forward purchase and sale agreement			(24,192,508)	(44.52)
Cash and cash equivalents			511,440	0.94
Less liabilities			(833,166)	(1.53)
Net assets			$ 54,343,206	100.00

See accompanying notes to financial statements.

1. Organization of the Fund and nature of operations:

Front Street Strategic Yield Fund Ltd. (the "Fund") is an investment fund incorporated under the laws of Canada on March 26, 2010. Front Street Capital 2004 is the manager (the "Manager") of the Fund. Prior to December 3, 2012, Flatiron Capital Management Partners was the investment advisor to provide investment advisory service. Effective December 3, 2012, Front Street Investment Management Inc. and Sprott Asset Management were appointed co-investment advisors (the "Investment Advisor") to the Fund, and concurrently with such appointment, Flatiron Capital Management Partners was terminated as the Investment Advisor to the Fund.

The Fund is authorized to issue an unlimited number of transferable units ("units"), each of which consists of one equity share ("equity share") and one share purchase warrant ("warrant"). Each warrant entitled the holder to purchase one equity share at a subscription price of $10.00 on or before 5:00 p.m. (Toronto time) on June 30, 2011. Warrants not exercised by 5:00 p.m. (Toronto time) on June 30, 2011 became void.

The Fund is also authorized to issue 100 voting non-participating Class A shares (the "Class A Shares"), of which there are currently 100 Class A Shares outstanding. The Class A Shares are entitled to one vote per share, are redeemable and retractable at a price of $1.00 per share and rank prior to the equity shares. A trust established for the benefit of the shareholders owns all of the issued and outstanding Class A Shares.

The basic net asset value per equity share is calculated weekly by dividing the net asset value on a valuation date by the total number of equity shares issued and outstanding. The diluted net asset value per equity share is calculated by adding to the net assets of the Fund the product of the total number of warrants multiplied by $9.75 (the subscription price of the warrants of $10 less the warrants exercise fee of $0.25) and by adding the total number of outstanding warrants to the total number of equity shares issued and outstanding.

The Fund's investment objectives are:

(a) to provide shareholders with quarterly tax-advantaged cash distributions currently targeted to be $0.07 per equity share; and

(b) to maximize risk-adjusted returns to shareholders, consisting primarily of tax-advantaged distributions, while preserving capital.

1. Organization of the Fund and nature of operations (continued):

The Fund obtains exposure to a portfolio focused primarily on Canadian convertible debentures and Canadian warrants (the "Portfolio") held by Flatiron Strategic Yield Ltd. ("SY Ltd."), an exempted company incorporated with limited liability in the Cayman Islands that holds the Portfolio. The Portfolio is actively managed by the Investment Advisor, using interest yielding and hedging strategies designed to maximize risk-adjusted returns and preserve capital. Over the course of an economic cycle, the goal is to generate consistent tax-advantaged absolute returns on a quarterly basis with low volatility.

National Bank Correspondent Network is the custodian, and Citigroup Fund Services Canada, Inc. provides fund valuation and financial reporting services to the Fund.

2. Significant accounting policies:

Basis of presentation:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The following is a summary of the significant accounting policies followed by the Fund:

(a) Valuation of investments:

The Fund's investments are classified as held-for-trading and are presented at fair value. Securities listed upon a recognized public stock exchange are valued at their bid price on the valuation date.

(b) Financial instruments - disclosures:

The Fund uses a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair values of financial instruments. The fair values for the three levels are based on:

- Level 1 - unadjusted quoted prices in active markets for identical instruments;
- Level 2 - models using inputs other than quoted prices that are observable for the instruments; and
- Level 3 - models using inputs that are not based on observable market data.

2. Significant accounting policies (continued):

These disclosures are included in note 11.

Section 14.2 of National Instrument 81-106 - Investment Fund Continuous Disclosure, issued by the Canadian Securities Administrators (the "CSA"), requires that the net asset value (the "NAV") of an investment fund reported in its financial statements be calculated in accordance with Canadian GAAP (the "GAAP NAV"). Effective September 8, 2008, the CSA granted relief to investment funds from complying with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), for the purposes of calculating and reporting NAV for purposes other than financial reporting. Therefore, on a daily basis, and for purposes of issuing and redeeming units, investment funds are permitted to calculate the NAV using the last traded price for securities traded in active markets (the "Transactional NAV"). The CSA requires investment funds, in annual financial statements, to provide a reconciliation between the two NAVs.

A reconciliation between the Transactional NAV per share and the GAAP NAV per share has been provided in note 6.

(c) Investment transactions and income recognition:

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date. Realized gains and losses from investment transactions are calculated on an average cost basis.

(d) Income taxes:

The Fund is taxed as a mutual fund corporation under the Income Tax Act (Canada). As a mutual fund corporation, the Fund is entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. Also, as a mutual fund corporation, the Fund maintains a capital gains dividend account in respect of capital gains realized by the Fund and from which it may elect to pay dividends which will be treated as capital gains in the hands of the shareholders of the Fund.

(e) NAV per share:

The NAV per share is calculated by dividing the net assets by the total number of shares outstanding at the end of the year.

2. Significant accounting policies (continued):

(f) Forward purchase and sale agreement:

The forward purchase and sale agreement ("Forward Agreement") is valued at an amount equal to the gain or loss that would be realized if the position was to be closed out and in accordance with its terms, in which case, fair value would be based on the current market value of the underlying interests. On cash settlement, the fair value of the Forward Agreement would equal the difference between market value of the securities held by the Fund (the "Common Share Portfolio") and the NAV of SY Ltd. as calculated for purposes other than financial reporting.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates.

(h) Related party transactions:

All related party transactions are considered to be in the normal course of business and are measured at the exchange amount, as established between the parties.

(i) Increase in net assets resulting from operations per share:

Increase in net assets resulting from operations per share is based on the increase in net assets from operations divided by the average number of shares outstanding during the year.

(j) Cash and cash equivalents:

Cash and cash equivalents comprise cash on deposit and cash equivalents and is deemed to be held-for-trading carried at fair value.

2. Significant accounting policies (continued):

(k) Other assets and liabilities:

Accounts receivable relating to units issued are designated as loans and receivables and recorded at amortized cost. Accounts payable and accrued liabilities, due to Front Street Capital 2004 and distributions payable are designated as financial liabilities and recorded at amortized cost.

3. Related party transactions:

Amounts due to the Manager represent costs relating to issuance of shares in 2011 which were paid for on behalf of the Fund.

4. Forward purchase and sale agreement:

To provide the Fund with the means to meet its investment objectives, the Fund invested the net proceeds of its initial public offering in the Common Share Portfolio and entered into a Forward Agreement with TD Global Finance ("TDGF" or the "Counterparty"), a subsidiary of the TD Bank Financial Group, which has a credit rating of AA– according to Dominion Bond Rating Service Ltd. The Counterparty has agreed to pay the Fund on or about the termination date as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of the units of SY Ltd.

The Fund will partially settle the Forward Agreement prior to the termination date in order to fund redemptions, expenses of the Fund and distributions. The obligations of TDGF under the Forward Agreement are guaranteed by the Toronto-Dominion Bank and TD Securities Inc.

At December 31, 2012, the fair value of the Forward Agreement is an unfavourable $24,192,508 (2011 - favourable $11,281,920), representing the NAV of SY Ltd. (calculated for purposes other than financial reporting) less the Common Share Portfolio. The Common Share Portfolio is pledged as collateral under the Forward Agreement.

5. Shares issued and outstanding:

The following share transactions took place during the year ended December 31, 2012:

	Number of non-voting participating shares (equity shares)	Number of warrants	Number of voting non-participating shares (Class A Shares)
Balance, beginning of year	8,539,897	–	100
Issued	–	–	–
Issued from exercise of warrants	–	–	–
Redeemed	(39,085)	–	–
Warrants expired	–	–	–
Balance, end of year	8,500,812	–	100

The following share transactions took place during the year ended December 31, 2011:

	Number of non-voting participating shares (equity shares)	Number of warrants	Number of voting non-participating shares (Class A Shares)
Balance, beginning of year	7,316,130	6,923,870	100
Issued	1,314,000	–	–
Issued from exercise of warrants	1,255,727	(1,255,727)	–
Redeemed	(1,345,960)	–	–
Warrants expired	–	(5,668,143)	–
Balance, end of year	8,539,897	–	100

6. Reconciliation of Transactional NAV to GAAP NAV per share:

2012	Transactional	Section 3855 adjustment	GAAP
Net assets	$ 54,586,993	$ (243,787)	$ 54,343,206
NAV per share	6.42	(0.03)	6.39

2011	Transactional	Section 3855 adjustment	GAAP
Net assets	$ 91,915,144	$ (237,528)	$ 91,677,616
NAV per share	10.76	(0.02)	10.74

7. Management fees and other expenses:

Pursuant to an agreement (the "Management Agreement"), the Manager is responsible for managing and directing the business, operations and affairs of the Fund and providing or arranging for required general and administrative services to the Fund.

Pursuant to the Management Agreement, the Fund will pay to the Manager a management fee equal to 0.375% per annum of the NAV of the Fund calculated and payable monthly in arrears. The Fund will also reimburse the Manager for the service fee, which is the fee paid by the Manager to brokers, dealers or advisors for each equity share held by their respective clients equal to the aggregate of 0.40% annually of the NAV of the equity shares (calculated quarterly and paid as soon as practicable after the end of each calendar quarter), plus any applicable taxes.

7. Management fees and other expenses (continued):

The Fund will pay to the Counterparty a Forward Agreement fee equal to 0.45% per annum of the NAV of the Portfolio plus an additional fee, which may vary, based on the value of the Common Share Portfolio, calculated and payable monthly in arrears (the "additional fee"). The additional fee is intended to compensate the Counterparty for the costs of hedging its exposure under the Forward Agreement, if it chooses to do so, and will be approximately equal to the fees that would be charged to, and costs that would be incurred by, the Counterparty for borrowing securities matching the securities in the Common Share Portfolio or otherwise hedging its exposure under the Forward Agreement. The fee is payable whether or not the counterparty actually hedges its exposure. The Forward Agreement fee and the additional fee are recorded in the statement of operations in administration fees and borrowing costs, respectively.

The Fund will pay all of its administrative, marketing and operating expenses; such expenses will include administration fees, prime broker fees, expenses relating to investment transactions, legal, audit and valuation fees, listing fees, reporting costs, registrar and transfer agency costs, warrant agent costs, printing and mailing costs, prorated fees or expenses relating to the Investment Review Committee, costs and expenses relating to the issue of equity shares or the exercise of warrants, and costs to be incurred in connection with the Fund's continuous public filing obligations.

8. Redemption rights:

(a) Annual redemptions:

Commencing in 2011, equity shares may be redeemed by the holder on the last day in November (the "Annual Redemption Date") in each year. Equity shares properly surrendered for redemption at least 20 business days prior to the Annual Redemption Date will be redeemed on such Annual Redemption Date and the shareholder will receive payment within 20 days of the Annual Redemption Date, subject to the Fund's right to suspend redemptions.

8. Redemption rights (continued):

Redeeming shareholders will be entitled to receive a redemption price per equity share equal to the redemption net assets per equity share on the Annual Redemption Date, less any costs associated with the redemption, including commissions and other such costs, if any, related to the partial settlement of the Forward Agreement to fund such redemption. By virtue of the Forward Agreement, the NAV per equity share will be dependent in part upon the performance of the Portfolio. The NAV per equity share will vary depending on a number of factors. Any unpaid distribution payable on or before the Annual Redemption Date in respect of equity shares tendered for redemption on such Annual Redemption Date will also be paid on the same day as the redemption proceeds are paid.

(b) Monthly redemptions:

Equity shares may be redeemed at the option of shareholders on a monthly redemption date (the "Monthly Redemption Date"), subject to certain conditions and, in order to effect such a redemption, the equity shares must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last business day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the redemption payment date, subject to the Manager's right to suspend redemptions in certain circumstances. Shareholders surrendering an equity share for redemption, other than in respect to the Annual Redemption Date, will receive a redemption price equal to the lesser of: (i) 95% of the weighted average trading price on the Toronto Stock Exchange for the 15 trading days immediately preceding such Monthly Redemption Date of an equity share, and (ii) 100% of the closing market price of an equity share on the applicable Monthly Redemption Date, less in each case any costs associated with the redemption.

9. Distributions:

The Fund intends to pay quarterly cash distributions on all equity shares in an amount equal to $0.07 per equity share. The Fund pays quarterly tax-efficient distributions to shareholders of record on the last Business Day of each quarter. Distributions are paid no later than the 15th day of the following month.

10. Risk management:

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests.

(a) 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.

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, 2012 and 2011, the Fund had no significant debt instruments. The net assets of the Fund include the Forward Agreement with an unfavourable fair value of $24,192,508 at December 31, 2012 (2011 - favourable fair value of $11,281,920). No allowance has been recorded in respect of counterparty credit risk on the Forward Agreement.

(b) Liquidity risk:

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

The Fund's exposure to liquidity risk is concentrated in the quarterly cash redemptions of units. The Fund primarily invests in securities that are traded in active markets and can be readily disposed of.

10. Risk management (continued):

(c) Market price risk:

Market price risk is the risk that the market 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 Investment Advisor of the Fund moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Fund's investment objectives and strategy. Except for securities sold short, maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from securities sold short can be unlimited. The Fund's overall market positions are monitored on a regular basis by the Investment Advisor. Financial instruments held by the Fund are susceptible to market price risk arising from uncertainties about future prices of the financial instruments.

The Fund's net assets are 100% dependent on the net asset value of SY Ltd. As at December 31, 2012, if the NAV of SY Ltd. had been 1% higher with all other variables held constant, the net assets of the Fund would have been $540,087 (2011 - $917,425) higher. Consequently, if the NAV of SY Ltd. had been 1% lower with all other variables held constant, the net assets of the Fund would have been $540,087 (2011 - $917,425) lower.

(d) 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) that are denominated in currencies other than the Canadian dollar, which represents the functional currency of the Fund.

As at December 31, 2012, the Fund had no investments in foreign currencies and had $2,246 of United States dollar-denominated cash (2011 - $6,258).

11. Classification of financial instruments - fair value measurements:

The following tables summarize the levels within the fair value hierarchy in which the fair value measurements of the Fund's investments fall as of December 31:

2012	Level 1	Level 2	Total
Investments	$ 78,857,440	$ –	$ 78,857,440
Forward Agreement	–	(24,192,508)	(24,192,508)
	$ 78,857,440	$ (24,192,508)	$ 54,664,932

There were no Level 3 securities as at December 31, 2012. There were no significant transfers between the levels during the year.

2011	Level 1	Level 2	Total
Investments	$ 80,723,029	$ –	$ 80,723,029
Forward Agreement	–	11,281,920	11,281,920
	$ 80,723,029	$ 11,281,920	$ 92,004,949

There were no Level 3 securities as at December 31, 2011. There were no significant transfers between the levels during the year.

12. Future accounting standards:

International Financial Reporting Standards ("IFRS"):

At the December 12, 2011 meeting, the Canadian Accounting Standards Board ("AcSB") decided to extend the mandatory IFRS changeover date for Canadian investment companies by an additional year. This is the third such deferral for investment companies. Accordingly, the new mandatory IFRS changeover date for these entities is January 1, 2014.

12. Future accounting standards (continued):

The Fund has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training. In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement ("IFRS 13"), which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRS require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires that valuation be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in the elimination of the difference between the Net Assets per unit and NAV per share at the financial statement reporting dates.

Based on the Fund's current assessment of the differences between Canadian GAAP and IFRS, other than the impact due to IFRS 13 noted above, it is not expected that there will be any other impact on the Fund's NAV per share or Net Assets per share. Management has presently determined that the impact of IFRS on the financial statements will be limited to additional note disclosures and potential modifications to presentation, including shareholders' equity. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

13. Subsequent events:

On February 12, 2013, Front Street U.S. MLP Income Fund Ltd. and the Fund, through their common Manager, have each announced a special meeting of shareholders to be held on April 9, 2013. At the meetings, shareholders will be asked to consider the proposed merger of Front Street U.S. MLP Income Fund Ltd. and the Fund (together, the "Funds"). Under the proposed merger, the Funds would merge to form a new amalgamated corporation using the name of the "continuing investment fund", Front Street U.S. MLP Income Fund Ltd.

The co-investment advisory agreement among the Manager, Front Street Investment Management Inc. and Sprott Asset Management was terminated on February 15, 2013, following which Front Street Investment Management Inc. remained as the sole investment advisor to the Fund.