

## **FRONT STREET GROWTH FUND**

### **FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014**

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## MANAGEMENT REPORT

### Management's Responsibility for Financial Reporting

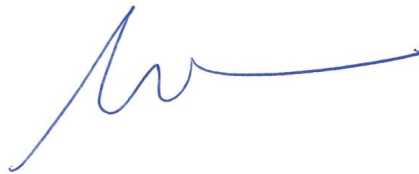
The accompanying financial statements of Front Street Growth Fund have been prepared by the management of Front Street Capital 2004, the Manager of the Fund, and approved by the management committee of the Manager. The Manager is responsible for the information and representations contained in these financial statements.

The Manager maintains processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies, which the Manager believes are appropriate for the Fund, are described in note 3 to the financial statements.

The management committee of the Manager is responsible for reviewing the financial statements, the adequacy of internal controls, the audit process and financial reporting with the Manager and the external auditors. The management committee of the Manager approves the audited financial statements for publication.

Segal LLP are the external auditors of Front Street Growth Fund. They are appointed by the Manager of the Fund. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out below.

On behalf of Management of Front Street Capital 2004,  
Manager of the Fund



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Gerard Ferguson  
Management Committee Member  
Front Street Capital 2004



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Susan Johnson  
Management Committee Member  
Front Street Capital 2004

Toronto, Ontario  
March 29, 2016

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Trustee and the Unitholders of Front Street Growth Fund (the "Fund")**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Front Street Growth Fund which comprise the statements of financial position as at December 31, 2015 and 2014, the statements of operations, statements of changes in net assets attributable to unitholders of redeemable units, and statements of cash flows for the years ended December 31, 2015 and 2014, 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained in our 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 financial position of Front Street Growth Fund as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
March 29, 2016

## FRONT STREET GROWTH FUND

### STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31, 2015 AND 2014

	2015	2014
<b>ASSETS</b>		
Financial assets at fair value through profit or loss*	\$ 39,562,210	\$ 88,157,731
Cash and cash equivalents	1,484,220	7,644,023
Receivables for investments sold	171,829	-
Dividends receivable	120,954	261,759
Subscriptions receivable	4,712	63,560
Interest and other receivable	<u>60</u>	<u>-</u>
	<u>\$ 41,343,985</u>	<u>\$ 96,127,073</u>
<b>LIABILITIES</b>		
Accrued expenses, note 8	\$ 222,670	\$ 357,356
Redemptions payable	114,159	136,676
Financial liabilities at fair value through profit or loss*	<u>-</u>	<u>4,252,710</u>
<b>Liabilities before net assets attributable to unitholders of redeemable units</b>	<u>336,829</u>	<u>4,746,742</u>
<b>Net assets attributable to unitholders of redeemable units</b>	<u>\$ 41,007,156</u>	<u>\$ 91,380,331</u>

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

See accompanying notes to the financial statements

# FRONT STREET GROWTH FUND

## STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31, 2015 AND 2014

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	2015	2014
<b>Net assets attributable to unitholders of redeemable units</b>		
Series A	\$ 15,556,934	\$ 36,916,289
Series B	\$ 21,715,171	\$ 45,991,710
Series F	\$ 3,735,051	\$ 8,472,332
<b>Number of redeemable units outstanding, note 5</b>		
Series A	5,619,120	8,077,716
Series B	7,846,043	10,067,447
Series F	1,223,665	1,698,031
<b>Net assets attributable to unitholders of redeemable units per unit</b>		
Series A	\$ 2.77	\$ 4.57
Series B	\$ 2.77	\$ 4.57
Series F	\$ 3.05	\$ 4.99

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



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Gerard Ferguson  
Management Committee Member



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Susan Johnson  
Management Committee Member

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Investment income</b>		
Dividends	\$ 2,256,770	\$ 3,578,305
Interest income for distribution purposes	31,718	152,757
Security lending revenue, note 9	-	13,468
Foreign currency gain on cash and cash equivalents and other net assets	48,296	34,285
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss ("FVTPL")		
Net realized loss on financial assets and liabilities at FVTPL	(23,660,070)	(2,398,048)
Change in unrealized depreciation on financial assets and liabilities at FVTPL	<u>(7,663,351)</u>	<u>(25,860,992)</u>
	<u>(28,986,637)</u>	<u>(24,480,225)</u>
<b>Expenses</b>		
Management fees, notes 6 and 8	1,309,115	3,249,952
Administration fees	217,668	393,644
Transaction costs, note 7	130,584	490,120
Legal fees	45,488	40,142
Audit fees	34,000	23,000
Custodial fees	30,268	46,553
Unitholder reporting costs	8,842	20,894
Independent review committee	6,839	12,251
Compensatory dividends	4,122	82,038
Insurance fees	<u>3,252</u>	<u>-</u>
	<u>1,790,178</u>	<u>4,358,594</u>
<b>Decrease in net assets attributable to unitholders of redeemable units from operations</b>	<u>\$ (30,776,815)</u>	<u>\$ (28,838,819)</u>
<b>Decrease in net assets attributable to unitholders of redeemable units from operations</b>		
Series A	\$ (11,667,238)	\$ (11,248,024)
Series B	\$ (15,869,040)	\$ (15,466,300)
Series F	\$ (3,240,537)	\$ (2,124,495)
<b>Decrease in net assets attributable to unitholders of redeemable units from operations per unit</b>		
Series A	\$ (1.73)	\$ (1.14)
Series B	\$ (1.75)	\$ (1.35)
Series F	\$ (2.02)	\$ (1.07)

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS OF REDEEMABLE SHARES FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Net assets attributable to unitholders of redeemable units, beginning of year</b>		
Series A	\$ 36,916,289	\$ 71,615,761
Series B	45,991,710	77,266,436
Series F	<u>8,472,332</u>	<u>20,446,580</u>
	<u>91,380,331</u>	<u>169,328,777</u>
<b>Decrease in net assets attributable to unitholders of redeemable units from operations</b>		
Series A	(11,667,238)	(11,248,024)
Series B	(15,869,040)	(15,466,300)
Series F	<u>(3,240,537)</u>	<u>(2,124,495)</u>
	<u>(30,776,815)</u>	<u>(28,838,819)</u>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued		
Series A	1,098,151	2,516,019
Series B	2,107,933	5,821,557
Series F	<u>1,362,006</u>	<u>4,687,617</u>
	<u>4,568,090</u>	<u>13,025,193</u>
Redemption of redeemable units		
Series A	(10,790,268)	(25,967,467)
Series B	(10,515,432)	(21,629,983)
Series F	<u>(2,858,750)</u>	<u>(14,537,370)</u>
	<u>(24,164,450)</u>	<u>(62,134,820)</u>
<b>Net decrease from redeemable unit transactions</b>	<u>(19,596,360)</u>	<u>(49,109,627)</u>
<b>Decrease in net assets attributable to unitholders of redeemable units</b>	<u>(50,373,175)</u>	<u>(77,948,446)</u>
<b>Net assets attributable to unitholders of redeemable units, end of year</b>		
Series A	15,556,934	36,916,289
Series B	21,715,171	45,991,710
Series F	<u>3,735,051</u>	<u>8,472,332</u>
	<u>\$ 41,007,156</u>	<u>\$ 91,380,331</u>

See accompanying notes to the financial statements



## FRONT STREET GROWTH FUND

### STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
<b>Cash flows from operating activities</b>		
Decrease in net assets attributable to unitholders of redeemable units from operations	\$ (30,776,815)	\$ (28,838,819)
Adjustments for:		
Foreign currency gain on cash and other net assets	(48,296)	(34,285)
Net realized loss on financial assets and liabilities at FVTPL	23,660,070	2,398,048
Change in unrealized depreciation on financial assets and liabilities at FVTPL	7,663,351	25,860,992
Decrease (increase) in interest and other receivable	(60)	37,146
Decrease in dividends receivable	140,805	6,373
Decrease in accrued expenses	(134,686)	(163,258)
Purchase of financial assets and liabilities at FVTPL	(18,051,946)	(74,928,117)
Proceeds from sales of financial assets and liabilities at FVTPL	<u>30,899,507</u>	<u>127,902,227</u>
<b>Net cash generated by operating activities</b>	<u>13,351,930</u>	<u>52,240,307</u>
<b>Cash flows from financing activities</b>		
Proceeds from redeemable units issued	4,626,938	12,980,827
Amounts paid on redemption of redeemable units	<u>(24,186,967)</u>	<u>(62,831,255)</u>
<b>Net cash used by financing activities</b>	<u>(19,560,029)</u>	<u>(49,850,428)</u>
Net change in cash and cash equivalents	(6,208,099)	2,389,879
Foreign currency gain on cash and other net assets	48,296	34,285
Cash and cash equivalents, beginning of year	<u>7,644,023</u>	<u>5,219,859</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,484,220</u>	<u>\$ 7,644,023</u>
<b>Cash and cash equivalents comprise:</b>		
Cash at bank	<u>\$ 1,484,220</u>	<u>\$ 7,644,023</u>
Interest received, net of withholding tax	\$ 31,658	\$ 189,903
Dividends received, net of withholding tax	\$ 2,397,575	\$ 3,584,678
Compensatory dividends paid	\$ (4,122)	\$ (82,038)

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### SCHEDULE OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2015 AND 2014

	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
<b>Long positions (96.5%)</b>			
<b>Equities</b>			
<b>Energy (83.6%)</b>			
Advantage Oil & Gas Limited	503,077	\$ 2,210,695	\$ 3,536,631
ARC Resources Limited	156,000	4,477,444	2,605,200
Baytex Energy Corporation	146,700	2,291,416	657,216
Bonterra Energy Corporation	53,074	2,141,763	912,873
Crescent Point Energy Corporation	145,100	5,625,168	2,339,012
Crew Energy Inc.	715,134	7,564,793	2,896,293
Journey Energy Inc.	194,038	2,328,456	269,713
Painted Pony Petroleum Limited	299,050	2,404,480	1,040,694
Petro Rio SA	88,500	2,637,887	75,835
PHX Energy Services Corporation	957,729	8,605,280	2,260,240
Precision Drilling Corporation	684,266	6,141,362	3,742,935
Sintana Energy Inc.	1,684,965	193,771	210,621
Surge Energy Inc.	216,200	635,614	456,182
Tidewater Midstream and Infrastructure Limited	1,326,200	1,790,370	1,909,728
Torc Oil & Gas Limited	650,560	8,486,403	3,350,384
Tourmaline Oil Corporation	110,603	3,153,448	2,471,977
Trinidad Drilling Limited	1,128,263	3,136,571	2,391,917
Whitecap Resources Inc.	346,853	<u>3,883,799</u>	<u>3,145,957</u>
		<u>\$ 67,708,720</u>	<u>\$ 34,273,408</u>
<b>Financial (2.1%)</b>			
Delavaco Residential Properties Corporation	2,464,434	<u>\$ 2,866,226</u>	<u>\$ 852,509</u>
<b>Industrial (0.0%)</b>			
Trilliant Energy Services Inc.	671,939	<u>\$ 488,570</u>	<u>\$ 13,439</u>
<b>Materials (10.0%)</b>			
Conifex Timber, Inc.	539,395	\$ 4,272,746	\$ 1,240,608
Tolima Gold Inc.	7,154,000	72,040	35,770
West Fraser Timber Company Limited	33,800	1,729,205	1,775,514
Wildcat Silver Corporation	3,256,141	<u>3,815,175</u>	<u>1,058,246</u>
		<u>\$ 9,889,166</u>	<u>\$ 4,110,138</u>
<b>Total Equities (95.7%)</b>		<u>\$ 80,952,682</u>	<u>\$ 39,249,494</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### SCHEDULE OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2015 AND 2014

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	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
<b>Corporate Bonds (0.8%)</b>			
Delavaco Properties Inc. 7.00% July 31, 2018	226,000	<u>\$ 236,538</u>	<u>\$ 312,716</u>
<b>Total Long Positions</b>		<u>\$ 81,189,220</u>	<u>\$ 39,562,210</u>
<b>Transaction costs, note 3</b>		<u>\$ (138,397)</u>	-
<b>Total Investments (96.5%)</b>		<u>\$ 81,050,823</u>	39,562,210
<b>Cash and cash equivalents (3.6%)</b>			1,484,220
<b>Other assets less liabilities (-0.1%)</b>			<u>(39,274)</u>
<b>Net assets (100.0%)</b>			<u>\$ 41,007,156</u>

See accompanying notes to the financial statements

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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### 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. Front Street Capital 2004 assumed the portfolio management and investment advisory services from Front Street Investment Management Inc. on October 16, 2015. RBC Investor Services Trust is (the "Trustee") and custodian of the Fund. Citigroup Fund Services Canada, Inc. provides unitholder recordkeeping services and fund accounting services. Effective November 13, 2015, CIBC Mellon replaced RBC Investor Services Trust as the custodian of the Fund and replaced Citigroup Fund Services Canada, Inc. to provide 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").

These financial statements have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective as at December 31, 2015, the Fund's annual reporting date.

These financial statements were authorized for issue by the Manager on March 29, 2016.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

#### 3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies described below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

**Classification of financial instruments**

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

**Financial assets and liabilities at fair value through profit or loss**

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

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

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

##### (a) Financial instruments (Continued...)

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

The Fund recognizes financial instruments at fair value upon initial recognition. Transaction costs include brokerage commissions incurred in the purchase and sale of portfolio investments in which the Fund invests. All such costs are expensed in the period incurred and presented in the statements of comprehensive income. Purchases and sales of financial assets are recognized at their trade date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL), including certain investments in debt securities which have been designated at FVTPL. The Fund's obligation for net assets attributable to 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.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

(b) Fair value measurement:

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. The fair value of financial instruments traded in active markets should be measured based on a price within the bid and ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The Fund has determined the closing sale price to be most reflective of fair value unless this price is outside the bid-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).

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

(c) Cash and cash equivalents

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

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



## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

(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.

(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 or 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 year.

(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 year.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

(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.

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

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

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

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

(n) 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.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

(o) Future changes in accounting standards:

IFRS 9 was issued in November 2009 with an implementation date of annual periods beginning on or after January 1, 2018. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Valuation of investments

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

(b) Other judgments, estimates and assumptions

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

(c) Assessment as investment entity

The Manager has concluded that the Fund meets the characteristics of an investment entity, in that it has more than one investment and is managed in accordance with the 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 DECEMBER 31, 2015 AND 2014

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#### 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 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 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 year.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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#### 5. REDEEMABLE UNITS (Continued...)

The following redeemable unit transactions took place during the years ended December 31:

	2015	2014
Redeemable Units outstanding, beginning of the year:		
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 year:		
Series A	277,769	374,615
Series B	523,840	874,585
Series F	305,924	730,331
Redeemable Units redeemed during the year:		
Series A	2,736,365	4,004,775
Series B	2,745,244	3,445,178
Series F	780,290	2,128,521
Redeemable Units outstanding, end of the year:		
Series A	5,619,120	8,077,716
Series B	7,846,043	10,067,447
Series F	1,223,665	1,698,031

#### 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.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

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 year ended December 31, 2015 was \$130,584 (2014 - \$490,120).

There were no soft dollar amounts included in brokerage commissions.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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#### 8. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2015 and 2014, fees paid to the Manager were as follows:

	2015	2014
Management fees, note 6	<u>\$ 1,309,115</u>	<u>\$ 3,249,952</u>

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

	2015	2014
Management fees payable	<u>\$ 74,285</u>	<u>\$ 180,942</u>

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

	2015	2014
Series B units held by the Partners of the Manager	5,810	5,809
Percentage of Series B units held by the Partners of the Manager	0.07%	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	3.24%	2.33%
Series F units held by the relatives of the Partners of the Manager	159,081	173,815
Percentage of Series F units held by the relatives of the Partners of the Manager	13.00%	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 year ended December 31, 2015, Tuscarora Capital Inc., a company under common control to the Manager, received \$7,134 (2014 - \$25,043) 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 DECEMBER 31, 2015 AND 2014

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#### 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 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. As at December 31, 2015 and December 31, 2014, the aggregate fair values of the Fund's securities loaned and the collateral received were as follows:

	2015	2014
Value of securities loaned	\$ <u>          -</u>	\$ <u>13,878,558</u>
Value of collateral received	\$ <u>          -</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 \$714,929 in non-capital losses available to be applied against taxable income of future years which will expire in 2032.

The Fund has \$39,767,777 in allowable capital losses available to be applied against taxable 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 DECEMBER 31, 2015 AND 2014

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#### 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 December 31, 2015 and 2014, there is no variance 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 and other 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 December 31, 2015 and groups the securities by asset type, sector and/or market segment. The investment portfolio is comprised primarily of issuers in the energy sector. The Manager will maintain a mix of debt instruments, equities and cash that represents its view of the most optimal combination of these investments based on economic outlook, market conditions and the relative value of these investments. Significant risks that are relevant to the Fund are discussed below.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

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.

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 December 31, 2015

Currency	Financial instruments at FVTPL	Cash and cash equivalents	Total	Percentage of Net Assets
United States Dollar	\$ 1,165,225	\$ 308,851	\$ 1,474,076	3.59 %
Brazilian Real	<u>75,835</u>	<u>-</u>	<u>75,835</u>	<u>0.18 %</u>
	<u>\$ 1,241,060</u>	<u>\$ 308,851</u>	<u>\$ 1,549,911</u>	<u>3.77 %</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 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 December 31, 2015, there were investments in corporate bonds representing 0.8% (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.

As at December 31, 2015

Financial assets	Floating Rate Financial Instruments	Fixed Rate Financial Instruments	Non-interest Bearing	Total
Financial assets at FVTPL	\$ -	\$ 312,716	\$ 39,249,494	\$ 39,562,210
Cash and cash equivalents	1,484,220	-	-	1,484,220
Loans and receivables	<u>-</u>	<u>-</u>	<u>297,555</u>	<u>297,555</u>
Total	<u>\$ 1,484,220</u>	<u>\$ 312,716</u>	<u>\$ 39,547,049</u>	<u>\$ 41,343,985</u>
Financial liabilities				
Other financial liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,829</u>	<u>\$ 336,829</u>
IFRS NA				<u>\$ 41,007,156</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

##### iv) Liquidity risk

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

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

As at December 31, 2015

Financial assets	0 - 12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Financial assets at FVTPL	\$ -	\$ 312,716	\$ -	\$ -	\$ 39,249,494	\$ 39,562,210
Cash and cash equivalents	1,484,220	-	-	-	-	1,484,220
Loans and receivables	<u>297,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,555</u>
Total	<u>\$ 1,781,775</u>	<u>\$ 312,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,249,494</u>	<u>\$ 41,343,985</u>
Financial liabilities						
Other financial liabilities	<u>\$ 336,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,829</u>
IFRS NA						<u>\$ 41,007,156</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at December 31, 2015, the fair value of such assets was 0.8% (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 DECEMBER 31, 2015 AND 2014

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### 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 investment in bond and 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 Statements 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 December 31, 2015, the Fund loaned securities with an aggregate fair value of \$Nil (2014 - \$13,878,558) and received collateral with an aggregate fair value of \$Nil (2014 - \$14,156,131).

As at December 31, 2015, the Fund had \$312,716 (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	
	2015	2014
Not available or not rated	0.8 %	0.3 %

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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#### 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:

	December 31, 2015
Energy	83.6 %
Materials	10.0 %
Financial	2.1 %
Corporate Bonds	0.8 %
Industrial	0.0 %
Cash and cash equivalents	3.6 %
Other assets less liabilities	<u>(0.1)%</u>
Total	<u><u>100.0 %</u></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.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 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 at December 31, 2015 in valuing the Fund's financial assets and liabilities at FVTPL.

As at December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	<u>\$ 39,200,285</u>	<u>\$ 35,770</u>	<u>\$ 326,155</u>	<u>\$ 39,562,210</u>
Financial liabilities at FVTPL	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Financial assets at FVTPL Equities	Financial assets at FVTPL Bonds
Balance at December 31, 2014	\$ 3,666,473	\$ 250,679
Purchases	(72,752)	12,632
Gains (losses)		
Realized loss	(12,836,368)	-
Unrealized gain	<u>9,256,086</u>	<u>49,405</u>
Balance at December 31, 2015	<u>\$ 13,439</u>	<u>\$ 312,716</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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#### 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.



## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

##### Valuation techniques and framework (Continued...)

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

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 December 31, 2015.

As at December 31, 2015	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
Delavaco Properties Inc. Convertible Debentures 7.000% July 31, 2018	226,000	\$ 236,538	\$ 312,716
Trilliant Energy Services Inc.	671,939	<u>488,570</u>	<u>13,439</u>
		<u>\$ 725,108</u>	<u>\$ 326,155</u>