



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

**Annual Management Report of Fund Performance**

**&**

**Annual Financial Statements**

**DECEMBER 31, 2013**



## **Annual Management Report of Fund Performance As at December 31, 2013 Front Street Growth Fund**

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

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

### **Forward Looking Information**

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

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

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

## **Management Discussion of Fund Performance**

### **INVESTMENT OBJECTIVES AND STRATEGIES**

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

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

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

### **RISK**

Most of the Fund's assets will be invested in common shares and other equity securities. The Fund will therefore be subject to stock market risk. The Fund may also invest in foreign securities that may expose the Fund, to a limited extent, to the risk of investments in foreign securities and foreign currency risk. The Fund may invest in relatively illiquid securities that may expose the Fund to liquidity risk. The Fund may also be exposed to sector risk due to its investments being concentrated in a limited number of sectors. The Fund may also be exposed to the risks of selling securities short, the risks of investing in derivatives, and the risk associated with investing in securities of junior industrial, technology and natural resource companies.

Currency risk proved to have an effect on the Fund's returns, as the Canadian dollar traded in a wide range relative to the U.S. dollar, over the year. Currency risk impacted principally the Fund's investments that had revenue in U.S. dollars. Volatility in currency markets continues to be high, suggesting uncertainty going forward on this front.

Equity risk also affected Fund volatility. Market volatility was very high this year, as each recovery seemed to be met by a sell-off. Fears of political and economic events around the world influenced stock market direction.

Interest-rate risk was also a factor, as global central banks and bond and equity markets closely monitored the U.S. Federal Reserve's monetary policy activities and public communications for indications as to interest rate policy. We also saw sharply higher rates being priced into European bond issues, to compensate the risks inherent in their central banks.

Credit risk was another factor this past year. In the aftermath of the credit crisis banks are only now starting to lend, but with much higher fees attached. Many companies which are relying on debt to finance expansions have had to halt plans as the funds are not currently available.

The Fund has multiple risks associated with equity markets. Investors whose primary concern is preservation of capital should not be invested in this Fund. The Fund is suitable for investors seeking long-term growth with a tolerance for risk and volatility and a long-term investment horizon.

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

## **RESULTS OF OPERATIONS**

For the year ended December 31, 2013, the Fund returned approximately -5.7%, net of expenses.

The first half of 2013 was challenging for the TSX Energy Index, down -0.9%, before rebounding to finish the year +9.9%. The Materials Index was down 30.6% for 2013. Small-cap names, particularly those operating in foreign jurisdictions, were the hardest hit, as investors fled to the perceived safety and liquidity of larger-cap issuers.

It is difficult to find a period of time when the Canadian resource sector has been so out of favour. What comes to mind is the period post-Asian contagion, 1998-2000. In that period, a western-world economy was healthy and growing, and had absorbed emerging-nations issues of 1997 and 1998. Commodity prices had recovered, reflecting worldwide economic fundamentals, but the resource stocks remained out of favour, due to investors funneling monies into, what were perceived at the time, more exciting sectors. The technology sector comes to mind, taking cash-flow away from the resource sector.

Weakness in the Chinese economy during the year caused investors to exit resource markets as China has become the largest consumer of many commodities. We believe that much of the slowdown in their economy was manufactured through the Chinese government raising interest rates in a battle to combat high inflation. It appears that this goal was achieved, and with the worst economic news behind them, the government stated that stimulus is available should any economic weakness persist.

One trend we have been following has been the conversion of many resource companies to high dividend-paying corporations, particularly in the energy sector. These companies, with stable production levels, have decided they can get better valuations for their shares by slowing down their growth and returning part of their earnings to unitholders. Much like we saw during the days of the income trusts, these companies are being afforded higher valuations by the market. We expect increased M&A activity, as these companies use their more expensive paper to buy cheaper competitors.

During the year ended December 31, 2013, the Fund earned investment income of \$5.0 million from dividends and interest. There were net realized losses on the sale of investments of \$34.9 million and an unrealized appreciation on the value of investments of \$21.4 million.

Operating expenses, excluding management fees totalled \$1.1 million during the year ended December 31, 2013.

## **RECENT DEVELOPMENTS**

Share prices of Canadian resource stocks over the last two years are indicative of a crisis. This is not a crisis period. The world economy, while not perfect, has improved a great deal, and is now accelerating, underpinned by the world's largest economy, the U.S. The U.S. stock market is receiving cash flow that in recent years has come to Canada, particularly to Canadian resource stocks. We have always talked about being positioned for the volume story. Demand is on the rise due to the cheaper energy prices. The companies are in good financial shape, in what we perceive to be the trough period.

Recent accounting pronouncements that have been issued but are not yet effective, which have potential implications for the Fund, are as follows:

### International Financial Reporting Standards (“IFRS”)

Effective for its fiscal year commencing January 1, 2014, the Fund must adopt IFRS. In preparation thereof, the Manager continues to monitor and implement the Fund’s changeover plan and will continue to assess the impact on the implementation as new IFRS guidance become available from the International Accounting Standards Board (“IASB”).

The Manager has reviewed the current IFRS against the Fund’s current accounting policies and financial statement presentation under Canadian generally accepted accounting principles (“Canadian GAAP”), and the following areas of differences have been identified:

- a) IAS 32, Financial Instruments: Disclosure and Presentation and IFRS 9, Financial Instruments, require shareholders’ equity to be classified as liability unless certain criteria are met. The Fund’s shareholders’ equity meets the definition of a puttable instrument. The Manager has assessed the Fund’s shareholder structure and has determined the liability treatment is the most appropriate classification. IFRS 9 defines an investment entity and introduces exceptions to the consolidation requirements.
- b) IFRS 7, Financial Instruments: Disclosures requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity’s financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
- c) IFRS 13, Fair Value Measurements, that was released in May 2011 provides guidance on the fair value measurements and allows for the possible use of closing prices to value investments. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of closing market prices is appropriate in valuing investments. While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit or Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Fund’s financial statements.

The anticipated impact of IFRS on accounting policies and implementation decisions will predominantly be on the financial statement presentation and note disclosures in the Fund’s financial statements. The adoption of IFRS is not expected to have a significant impact on the calculation of NAV per share. In particular, the Fund will be required to present a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

The Fund’s changeover plan includes key activities in (a) preparation of financial statements, (b) information processing and record-keeping, (c) business policy assessment and (d) systems and controls. Based on the Manager’s current analysis, the Manager believes the changeover to IFRS will not materially affect the Fund’s existing business arrangements.

**RELATED PARTY-TRANSACTIONS**

During the years ended December 31, 2013 and 2012, fees paid to the Manager were as follows:

	2013	2012
Management fees	<u>\$ 4,128,625</u>	<u>\$ 6,018,608</u>

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

	2013	2012
Management fees payable	<u>\$ 308,765</u>	<u>\$ 485,229</u>

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

	2013	2012
Series B units held by Partners of the Manager	135,707	286,114
Percentage of Series B units held by Partners of the Manager	1.07%	1.56%
Series B units held by relatives of Partners of the Manager	12,744	16,261
Percentage of Series B units held by relatives of Partners of the Manager	0.10%	0.09%
Series F units held by Partners of the Manager	41,543	41,543
Percentage of Series F units held by Partners of the Manager	1.34%	0.89%
Series F units held by relatives of Partners of the Manager	182,888	185,259
Percentage of Series F units held by relatives of Partners of the Manager	5.91%	3.99%

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, 2013, Tuscarora Capital Inc., a company under common control to the Manager, received \$11,774 (2012 - \$158) in commissions on portfolio transactions for the Fund.

Management fees and performance fees are measured at the exchange amount of consideration prescribed by the offering documents of the Fund. When related parties enter unitholder transactions with the Fund, the exchange amount of consideration is the transactional NAV available to all other unitholders on the trade date. In the case of brokerage commissions, the exchange amount of consideration is that which is negotiated by the related parties.



# FRONT STREET Growth Fund

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five financial years. This information is derived from the Fund's audited annual financial statements.

### Series A

#### The Fund's Net Assets per Unit <sup>(1)</sup>

	December 31 2013 \$	December 31 2012 \$	December 31 2011 \$	December 31 2010 \$	December 31 2009 \$
<b>Net assets, beginning of the year</b>	6.44	7.96	10.14	6.98	3.05
<b>Increase (decrease) from operations:</b>					
Total revenue	0.16	0.12	0.12	0.07	0.04
Total expenses	(0.17)	(0.19)	(0.26)	(0.85)	(0.11)
Realized gains (losses) for the year	1.08	(0.39)	0.27	1.80	0.49
Unrealized gains (losses) for the year	0.66	(1.09)	(2.50)	2.16	3.51
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.43)</b>	<b>(1.55)</b>	<b>(2.37)</b>	<b>3.18</b>	<b>3.93</b>
<b>Distributions to Unitholders:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
<b>Total distributions to Unitholders <sup>(3)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net assets, end of the year</b>	<b>6.06</b>	<b>6.44</b>	<b>7.96</b>	<b>10.14</b>	<b>6.98</b>

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differ from the net asset value per unit calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements.]
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the average number of units outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

### Ratios and Supplemental Data

Total net asset value (000's) <sup>(1)</sup>	\$71,608	\$103,359	\$130,716	\$138,101	\$88,760
Number of units outstanding <sup>(1)</sup>	11,707,876	15,936,692	16,272,621	13,531,055	12,580,413
Management expense ratio <sup>(2)</sup>	2.54%	2.57%	2.65%	10.77%	2.46%
Management expense ratio before waivers or absorptions	2.54%	2.57%	2.65%	10.77%	2.46%
Trading expense ratio <sup>(3)</sup>	0.25%	0.22%	0.26%	0.29%	0.46%
Portfolio turnover rate <sup>(4)</sup>	29.37%	46.02%	54.82%	70.29%	89.37%
Net asset value per unit	\$6.12	\$6.49	\$8.03	\$10.21	\$7.06

- (1) This information is provided as at end of the year shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs) for the stated year end and is expressed as an annualized percentage of daily average net asset value during the year.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net net asset value during the year.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.



# FRONT STREET Growth Fund

**Series B**  
**The Fund's Net Assets per Unit <sup>(1)</sup>**

	December 31 2013 \$	December 31 2012 \$	December 31 2011 \$	December 31 2010 \$	December 31 2009 \$
<b>Net assets, beginning of the year</b>	6.44	7.95	10.13	6.98	3.05
<b>Increase (decrease) from operations:</b>					
Total revenue	0.15	0.12	0.12	0.07	0.04
Total expenses	(0.17)	(0.18)	(0.26)	(0.83)	(0.11)
Realized gains (losses) for the year	(1.06)	(0.38)	0.32	1.78	0.49
Unrealized gains (losses) for the year	0.65	(1.12)	(2.60)	2.05	3.52
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.43)</b>	<b>(1.56)</b>	<b>(2.42)</b>	<b>3.07</b>	<b>3.94</b>
<b>Distributions to Unitholders:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
<b>Total distributions to Unitholders <sup>(3)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net assets, end of the year</b>	<b>6.06</b>	<b>6.44</b>	<b>7.95</b>	<b>10.13</b>	<b>6.98</b>

(1) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differ from the net asset value per unit calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements.]

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the average number of units outstanding over the financial year.

(3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

**Ratios and Supplemental Data**

Total net asset value (000's) <sup>(1)</sup>	\$77,258	\$118,961	\$171,117	\$194,261	\$130,009
Number of units outstanding <sup>(1)</sup>	12,638,040	18,352,079	21,316,936	19,038,235	18,426,847
Management expense ratio <sup>(2)</sup>	2.54%	2.55%	2.63%	10.54%	2.45%
Management expense ratio before waivers or absorptions	2.54%	2.55%	2.63%	10.54%	2.45%
Trading expense ratio <sup>(3)</sup>	0.25%	0.22%	0.26%	0.29%	0.46%
Portfolio turnover rate <sup>(4)</sup>	29.37%	46.02%	54.82%	70.29%	89.37%
Net asset value per unit	\$6.11	\$6.48	\$8.03	\$10.20	\$7.06

(1) This information is provided as at end of the year shown.

(2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.



# FRONT STREET Growth Fund

## Series F

### The Fund's Net Assets per Unit <sup>(1)</sup>

	December 31 2013	December 31 2012	December 31 2011	December 31 2010	December 31 2009
	\$	\$	\$	\$	\$
<b>Net assets, beginning of the year</b>	6.88	8.40	10.57	7.23	3.15
<b>Increase (decrease) from operations:</b>					
Total revenue	0.16	0.13	0.12	0.07	0.05
Total expenses	(0.11)	(0.11)	(0.15)	(0.80)	(0.12)
Realized gains (losses) for the year	(1.11)	(0.40)	0.29	1.85	0.51
Unrealized gains (losses) for the year	0.62	(1.19)	(2.69)	2.18	3.56
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	(0.44)	(1.57)	(2.43)	3.30	4.00
<b>Distributions to Unitholders:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
<b>Total distributions to Unitholders <sup>(3)</sup></b>	—	—	—	—	—
<b>Net assets, end of the year</b>	6.54	6.88	8.40	10.57	7.23

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differ from the net asset value per unit calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements.]
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the average number of units outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

### Ratios and Supplemental Data

Total net asset value (000's) <sup>(1)</sup>	\$20,444	\$32,185	\$35,950	\$38,703	\$24,038
Number of units outstanding <sup>(1)</sup>	3,096,221	4,646,786	4,237,731	3,636,859	3,289,635
Management expense ratio <sup>(2)</sup>	1.45%	1.46%	1.50%	9.91%	2.29%
Management expense ratio before waivers or absorptions	1.45%	1.46%	1.50%	9.91%	2.29%
Trading expense ratio <sup>(3)</sup>	0.25%	0.22%	0.26%	0.29%	0.46%
Portfolio turnover rate <sup>(4)</sup>	29.37%	46.02%	54.82%	70.29%	89.37%
Net asset value per unit	\$6.60	\$6.93	\$8.48	\$10.64	\$7.31

- (1) This information is provided as at end of the year shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## MANAGEMENT AND PERFORMANCE FEES

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

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees, custodial fees, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to unitholders. As the Fund has more than one series of units, the unitholders of each series bear their pro rata share of those expenses which are common to the operation of all series, as well as those expenses which are attributable solely to that series.

The Manager uses the management fees to pay for sales and trailing commissions to registered dealers.

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

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

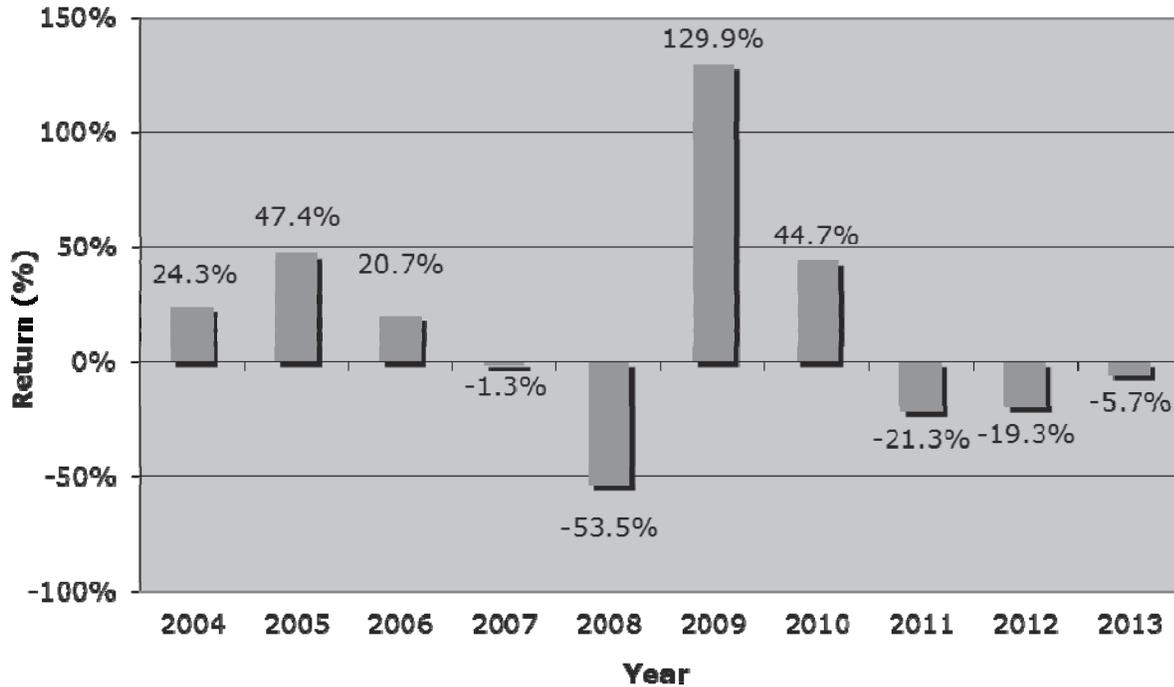
## PAST PERFORMANCE

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

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

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

**YEAR-BY-YEAR RETURNS**



**ANNUAL COMPOUND RETURNS**

The following table shows the Fund's historical annual compound total return for the past ten, five, three and one year periods ended December 31, 2013, as compared to the performance of the S&P/TSX Composite Index.

	Past 10 Years	Past 5 Years	Past 3 Years	Past Year December 31, 2013
Front Street Growth Fund <sup>(1)</sup>	7.28%	14.78%	-15.70%	-5.69%
S&P/TSX Composite Index	5.18%	8.67%	0.44%	9.55%

(1) Prior to July 23, 1999, the advisor to the Fund was MOF Management Ltd. On June 20, 2008, the Fund's name was changed from Front Street Small Cap Canadian Fund to Front Street Growth Fund. The returns indicated are for Series B of the Fund.

The S&P/TSX Composite Index is a float market capitalization that tracks the performance of some of the largest and most widely held Canadian stocks listed on the Toronto Stock Exchange (TSX). Prior to May 1, 2002, this index was called the TSE 300 Composite Index.

**Summary of Investment Portfolio as at December 31, 2013**

*Portfolio by Category*

	<b>Percentage of Transactional Net Asset Value</b>
<b>Long positions in equities</b>	
Energy	84.79%
Materials	9.65%
Cash and cash equivalents	3.23%
Corporate Bonds	3.11%
Industrials	2.70%
Financials	0.59%
Utilities	0.15%
<b>Total long positions in equities</b>	104.22%
<b>Short positions in equities</b>	
Energy	-3.47%
<b>Excess of liabilities over other assets</b>	-0.75%
	100.00%

*Top 25 Holdings*

	<b>Percentage of Transactional Net Asset Value</b>
<b>Long Positions</b>	
PHX Energy Services Corporation	9.09%
CanElson Drilling Inc.	8.65%
Whitecap Resources Inc.	8.03%
Laricina Energy	7.91%
Tourmaline Oil Corporation	7.73%
Precision Drilling Corporation	7.45%
Bellatrix Exploration Limited	6.74%
Crew Energy Inc.	6.07%
Savanna Energy Services Corporation	4.76%
Ensign Energy Services Inc.	4.32%
Pine Cliff Energy Limited	3.17%
HudBay Minerals Inc.	3.13%
Mullen Group Limited	2.68%
Capstone Mining Corporation	2.54%
Athabasca Oil Corporation	2.33%
ARC Resources Limited	2.26%
Conifex Timber Inc.	1.96%
Athabasca Oil Corporation*	1.94%
Horizon North Logistics Inc.	1.59%
Delavaco Properties Inc.*	1.16%
Northwest Upgrading Inc.	1.10%
Nuvista Energy Limited	1.09%
Painted Pony Petroleum Limited	0.93%
Wildcat Silver Corporation	0.66%
<b>Short Position</b>	
EnCana Corporation	-3.47%
	93.82%
<b>TOTAL TRANSACTIONAL NET ASSET VALUE (000)</b>	<b>\$169,310</b>

\*Debt Instruments

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

**FRONT STREET GROWTH FUND**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**INDEX**

	Page
Management Report	1
Independent Auditor's Report	2 - 3
Statements of Net Assets	4
Statements of Operations	5
Statements of Changes in Net Assets	6 - 7
Statement of Investment Portfolio	8 - 11
Notes to the Financial Statements	12 - 26

## 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 Canadian generally accepted accounting principles 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 2 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



Gary P. Selke  
Management Committee Member  
Front Street Capital 2004



Normand G. Lamarche  
Management Committee Member  
Front Street Capital 2004

Toronto, Ontario  
March 24, 2014



**SEGAL LLP**  
**Chartered Professional Accountants**  
An independent member of DFK International

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segallp.com

## **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 net assets as at December 31, 2013 and 2012, the statements of operations and the statements of changes in net assets for the years then ended, the statement of investment portfolio as at December 31, 2013 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 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.

### **Auditor's Responsibility**

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

Independent Auditor's Report  
Page 2

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Front Street Growth Fund as at December 31, 2013 and 2012, and its operations and changes in net assets for the years then ended, and the investment portfolio as at December 31, 2013 in accordance with Canadian generally accepted accounting principles.

*Segal LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
March 24, 2014

# FRONT STREET GROWTH FUND

## STATEMENTS OF NET ASSETS AS AT DECEMBER 31, 2013 AND 2012

	2013	2012
<b>ASSETS</b>		
Investments, at fair value (cost - \$179,855,122; 2012 - \$293,367,120)	\$ 169,514,259	\$ 261,199,786
Cash and cash equivalents	5,219,859	3,664,528
Amounts receivable relating to accrued income	305,278	504,697
Accounts receivable relating to units issued	19,194	284,536
Accounts receivable relating to portfolio assets sold	<u>-</u>	<u>369,845</u>
	<u>\$ 175,058,590</u>	<u>\$ 266,023,392</u>
<b>LIABILITIES</b>		
Obligations from portfolio assets sold short, at fair value	\$ 5,884,800	\$ 12,120,390
Accounts payable relating to units redeemed	833,111	213,590
Accrued expenses	<u>520,614</u>	<u>856,990</u>
	<u>7,238,525</u>	<u>13,190,970</u>
<b>Net assets representing unitholders' equity</b>	<u>\$ 167,820,065</u>	<u>\$ 252,832,422</u>
<b>Net assets applicable to outstanding units allocated as follows:</b>		
Net assets, Series A	\$ 70,977,476	\$ 102,679,486
Units outstanding, Series A, note 3	11,707,876	15,936,692
Net assets per unit, Series A	<u>\$ 6.06</u>	<u>\$ 6.44</u>
Net assets, Series B	\$ 76,578,012	\$ 118,179,310
Units outstanding, Series B, note 3	12,638,040	18,352,079
Net assets per unit, Series B	<u>\$ 6.06</u>	<u>\$ 6.44</u>
Net assets, Series F	\$ 20,264,577	\$ 31,973,626
Units outstanding, Series F, note 3	3,096,221	4,646,786
Net assets per unit, Series F	<u>\$ 6.54</u>	<u>\$ 6.88</u>

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



Gary P. Selke  
Management Committee Member



Normand G. Lamarche  
Management Committee Member

See accompanying notes to the financial statements

# FRONT STREET GROWTH FUND

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Investment income</b>		
Dividends	\$ 4,025,968	\$ 4,085,633
Interest	972,845	1,081,558
Less: Foreign withholding taxes	<u>(48,372)</u>	<u>(109,193)</u>
	<u>4,950,441</u>	<u>5,057,998</u>
<b>Expenses</b>		
Management fees, notes 4 and 6	4,128,625	6,018,608
Administration fees	935,987	987,910
Custodial fees	54,342	63,898
Audit fees	36,500	29,500
Unitholder reporting costs	32,613	72,707
Legal fees	28,942	72,633
Independent review committee	<u>12,697</u>	<u>12,253</u>
	<u>5,229,706</u>	<u>7,257,509</u>
<b>Net investment loss for the year</b>	<u>(279,265)</u>	<u>(2,199,511)</u>
<b>Realized and unrealized gains (losses) on investments</b>		
Net realized loss on the sale of investments	(34,859,609)	(15,000,427)
Transaction costs, notes 5 and 6	(504,860)	(630,251)
Change in the unrealized appreciation (depreciation) of the value of investments	<u>21,400,671</u>	<u>(45,829,721)</u>
<b>Net loss on investments for the year</b>	<u>(13,963,798)</u>	<u>(61,460,399)</u>
<b>Net decrease in net assets from operations for the year</b>	<u>\$ (14,243,063)</u>	<u>\$ (63,659,910)</u>
Decrease in net assets from operations applicable to outstanding units allocated as follows:		
Decrease in net assets from operations, Series A	\$ (5,976,537)	\$ (25,364,984)
Decrease in net assets from operations per unit, Series A	<u>\$ (0.43)</u>	<u>\$ (1.55)</u>
Decrease in net assets from operations, Series B	\$ (6,578,156)	\$ (31,322,429)
Decrease in net assets from operations per unit, Series B	<u>\$ (0.43)</u>	<u>\$ (1.56)</u>
Decrease in net assets from operations, Series F	\$ (1,688,370)	\$ (6,972,497)
Decrease in net assets from operations per unit, Series F	<u>\$ (0.44)</u>	<u>\$ (1.57)</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Series A</b>		
Net assets, beginning of year	<u>\$ 102,679,486</u>	<u>\$ 129,499,681</u>
Net decrease in net assets from operations	<u>(5,976,537)</u>	<u>(25,364,984)</u>
<b>Unitholder transactions</b>		
Capital contributions	2,668,445	13,628,560
Redemptions	<u>(28,393,918)</u>	<u>(15,083,771)</u>
	<u>(25,725,473)</u>	<u>(1,455,211)</u>
Net decrease in net assets for the year	<u>(31,702,010)</u>	<u>(26,820,195)</u>
Net assets, end of year	<u>\$ 70,977,476</u>	<u>\$ 102,679,486</u>
<b>Series B</b>		
Net assets, beginning of year	<u>\$ 118,179,310</u>	<u>\$ 169,523,789</u>
Net decrease in net assets from operations	<u>(6,578,156)</u>	<u>(31,322,429)</u>
<b>Unitholder transactions</b>		
Capital contributions	3,810,410	13,669,405
Redemptions	<u>(38,833,552)</u>	<u>(33,691,455)</u>
	<u>(35,023,142)</u>	<u>(20,022,050)</u>
Net decrease net assets for the year	<u>(41,601,298)</u>	<u>(51,344,479)</u>
Net assets, end of year	<u>\$ 76,578,012</u>	<u>\$ 118,179,310</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>Series F</b>		
Net assets, beginning of year	\$ 31,973,626	\$ 35,615,548
Net decrease in net assets from operations	<u>(1,688,370)</u>	<u>(6,972,497)</u>
<b>Unitholder transactions</b>		
Capital contributions	3,809,819	10,026,624
Redemptions	<u>(13,830,498)</u>	<u>(6,696,049)</u>
	<u>(10,020,679)</u>	<u>3,330,575</u>
Net decrease in net assets for the year	<u>(11,709,049)</u>	<u>(3,641,922)</u>
Net assets, end of year	<u>\$ 20,264,577</u>	<u>\$ 31,973,626</u>
<b>Total</b>		
Net assets, beginning of year	\$ 252,832,422	\$ 334,639,018
Net decrease in net assets from operations	<u>(14,243,063)</u>	<u>(63,659,910)</u>
<b>Unitholder transactions</b>		
Capital contributions	10,288,674	37,324,589
Redemptions	<u>(81,057,968)</u>	<u>(55,471,275)</u>
	<u>(70,769,294)</u>	<u>(18,146,686)</u>
Net decrease in net assets for the year	<u>(85,012,357)</u>	<u>(81,806,596)</u>
Net assets, end of year	<u>\$ 167,820,065</u>	<u>\$ 252,832,422</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2013

	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
<b>Long positions (101.0%)</b>			
<b>Energy (84.8%)</b>			
ARC Resources Limited	129,200	\$ 3,727,634	\$ 3,813,984
Athabasca Oil Corporation	608,847	7,273,784	3,939,240
Bellatrix Exploration Limited	1,461,673	11,079,481	11,357,199
CanElson Drilling Inc.	2,185,348	8,276,877	14,445,150
Crew Energy Inc.	1,611,710	17,048,905	10,186,007
Ensign Energy Services Inc.	437,668	7,310,431	7,282,796
HRT Participacoes em Petroleo SA	885,000	2,637,887	362,545
Laricina Energy Limited	765,804	12,909,119	13,401,570
Madalena Energy Inc.	900,651	261,214	612,443
Mullen Group Limited	159,832	3,705,971	4,512,057
Nuvista Energy Limited	258,094	1,449,384	1,837,629
Pacific Coal Resources Limited Warrants March 14, 2016	100,000	-	11,934
Painted Pony Petroleum Limited	226,250	1,513,472	1,570,175
PHX Energy Services Corporation	1,227,991	11,772,865	15,165,689
Pine Cliff Energy Limited	5,155,765	4,883,353	5,001,092
Precision Drilling Corporation	1,268,566	11,385,519	12,596,860
Savanna Energy Services Corporation	948,059	6,843,133	8,039,540
Sintana Energy Inc.	6,402,816	1,033,459	480,212
Tourmaline Oil Corporation	293,003	8,353,929	13,082,584
Verano Energy Limited	583,033	1,749,099	128,267
Whitecap Resources Inc.	1,075,178	7,155,702	13,568,746
Xinergy Limited	3,510,041	<u>9,555,279</u>	<u>895,060</u>
		<u>\$ 139,926,497</u>	<u>\$ 142,290,779</u>
<b>Financial (0.6%)</b>			
Delavaco Properties Inc.	1,000,000	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
<b>Industrial (2.7%)</b>			
North West Upgrading Inc.	3,112,500	\$ 5,072,013	\$ 1,867,500
Horizon North Logistics Inc.	271,300	<u>2,469,741</u>	<u>2,685,870</u>
		<u>\$ 7,541,754</u>	<u>\$ 4,553,370</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2013

	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
<b>Materials (9.6%)</b>			
Americas Bullion Royalty Corporation	3,246,864	\$ 2,168,584	\$ 194,812
Banro Corporation Warrants March 2, 2017	148,800	266,628	6,631
Capstone Mining Corporation	1,433,792	4,260,588	4,287,038
Conifex Timber Inc.	376,195	2,944,697	3,208,943
Continental Gold Limited	263,557	1,254,824	885,552
Dalradian Resources Inc.	1,674,613	1,849,871	1,055,006
HudBay Minerals Inc.	606,060	6,252,999	5,290,904
Mirabela Nickel Limited	8,272,305	2,731,709	124,085
Wildcat Silver Corporation	3,305,741	<u>3,873,291</u>	<u>1,107,423</u>
		<u>\$ 25,603,191</u>	<u>\$ 16,160,394</u>
<b>Utilities (0.2%)</b>			
Trilliant Inc.	671,939	<u>\$ 488,570</u>	<u>\$ 248,618</u>
<b>Total Equities (97.9%)</b>		<u>\$ 174,560,012</u>	<u>\$ 164,253,161</u>
<b>Corporate Bonds (3.1%)</b>			
Athabasca Oil Corporation 7.500% November 19, 2017	3,463,000	\$ 3,460,160	\$ 3,292,828
Delavaco Properties Inc. Convertible Debentures 9.000% December 20, 2014	1,635,000	1,611,044	1,738,585
Delavaco Properties Inc. Convertible Debentures 7.000% July 31, 2018	216,000	<u>223,906</u>	<u>229,685</u>
		<u>\$ 5,295,110</u>	<u>\$ 5,261,098</u>
<b>Total Long Positions</b>		<u>\$ 179,855,122</u>	<u>\$ 169,514,259</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2013

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	Number of Shares/Units /Par Value	Cost \$	Fair Value \$
<b>Short Positions (-3.5%)</b>			
<b>Energy (-3.5%)</b>			
EnCana Corporation	(306,500)	<u>\$ (6,348,833)</u>	<u>\$ (5,884,800)</u>
<b>Total Short Positions</b>		<u>\$ (6,348,833)</u>	<u>\$ (5,884,800)</u>
<b>Transaction costs, note 2</b>		<u>\$ (403,848)</u>	-
<b>Total Investments (97.5%)</b>		<u>\$ 173,102,441</u>	163,629,459
<b>Cash and cash equivalents (3.1%)</b>			5,219,859
<b>Other assets less liabilities (-0.6%)</b>			<u>(1,029,253)</u>
<b>Net assets (100.0%)</b>			<u>\$ 167,820,065</u>

See accompanying notes to the financial statements

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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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 managed by Front Street Capital 2004 (the "Manager"). Front Street Investment Management Inc. (the "Investment Advisor") has been retained by the Manager, on behalf of the Fund, to provide investment advisory and portfolio management services to the Fund. RBC Investor Services Trust is the trustee (the "Trustee") and custodian of the Fund. Citigroup Fund Services Canada, Inc. provides unitholder recordkeeping services and fund accounting services.

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

The Fund is not a mutual fund for securities law purposes. As a result, certain of the protections provided to investors in mutual funds under such laws are not available to investors in the units.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Financial instruments

Investments, at fair value, and obligations from portfolio assets sold short, at fair value have been classified as held for trading. Amounts receivable relating to accrued income, accounts receivable relating to units issued, accounts receivable relating to portfolio assets sold are classified as loans and receivables. Accounts payable relating to units redeemed and accrued expenses are classified as other financial liabilities.

The Canadian Securities Administrators adopted changes to National Instrument 81-106 on Investment Fund Continuous Disclosure. These changes are essentially aimed at modifying the requirements pertaining to the calculation of the unit value due to the inclusion of Section 3855, Financial Instruments - Recognition and Measurement of the CPA Canada Handbook. These changes allow the Fund to report two distinct net asset values: one for the financial statements, which is calculated in accordance with Canadian GAAP (called "net assets") and another for all other purposes, such as unit pricing (called "net asset value"). A reconciliation between the net assets per unit and the net asset value per unit is required (see note 9) as well as description of the differences between the valuation principles and practices used by the Manager to calculate the net asset value and those prescribed by Canadian GAAP.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

##### b) Valuation of investments (continued...)

i) Investments listed on an exchange are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The difference between this amount and cost is shown as the change in the unrealized appreciation (depreciation) of the value of investments. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques to be used in the determination of fair value. When current market prices or quotations are not readily available, valuations are established using specific procedures in order to estimate what the fair value would be, in an arms length transaction, motivated by normal business considerations. Valuation techniques principally include the use of the last publicly traded price, the issuance price of the securities at the date of the most recent financing of the entity or a price established by the Manager in accordance with its fair value policy.

ii) Investments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided in paragraphs (i) above less a discount of 2% per month up to four months.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been established had a ready market existed for these investments.

iii) Trust units are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The cost of the trust units is reduced on an annual basis by distributions from the trust and increased by the annual income allocated to the units by the trust.

iv) Investments in mutual funds or pooled funds are valued based on the net asset value per unit at the close of the trading on the financial statement date.

v) The Fund values its investments in limited partnerships at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The Fund calculates the cost value of its investment in limited partnerships using the equity method. Under this method, the limited partnership investments are recorded at cost plus the Fund's pro rata share in undistributed earnings since acquisition.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

##### b) Valuation of investments (continued...)

- vi) The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities which are sold short are valued at the last ask price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter a short sale, the Fund may need to borrow the security for delivery to the buyer.

While the transaction is open, the Fund will also incur a liability for any paid dividends or interest which are due to the lender of the security.

- vii) The Fund may invest in derivatives which represent financial instruments which may require little or no initial investment and which are settled in the future. These investments are commonly referred to as options, forwards or futures contracts. Futures contracts listed upon a principal exchange are valued at their last bid price (for long contracts) and last ask price (for short contracts) at the financial statement date. Contracts with no available bid and ask prices are valued at the fair value as determined by the Manager.

##### c) Financial instruments disclosure and presentation and fair value measurements

The Fund adopted CPA Canada Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation. These standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Fund has managed those risks. See note 10 for additional details.

The Fund adopted the amendments to CPA Canada 3862, Financial Instruments - Disclosures. CPA Canada 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on the inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

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

See note 12 for additional details.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

d) Transaction costs

Portfolio transaction costs are expensed and are included in "Transaction costs" in the Statements of Operations. 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 Statement of Investment Portfolio includes only those transaction costs incurred on the acquisition of portfolio investments.

e) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks and highly liquid short-term investments with original terms to maturity of less than three months.

f) Bank indebtedness

Bank indebtedness is the balance of a margin account representing cash loans with the brokers which are secured by the underlying investments owned by the Fund. Bank indebtedness is shown net of cash and cash equivalents since both the margin account and cash and cash equivalents are maintained with the same custodian.

g) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Realized and unrealized gains and losses from such transactions are calculated using the weighted average cost of the securities on disposition.

Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date.

h) 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 gains so that it will not be subject to income taxes. Foreign income is subject to foreign withholding taxes.

i) Foreign currency translation

Income, expenses and investment transactions in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the dates of such transactions. Assets and liabilities in foreign currencies are translated into Canadian dollars at the closing exchange rates on each valuation day.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

---

#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

j) Net increase (decrease) in net assets from operations per unit

Net increase (decrease) in net assets from operations per unit are based on the increase (decrease) in net assets from operations attributable to each series of units divided by the average number of units outstanding of that series during the year.

k) Net assets per unit

The net assets per unit are calculated by dividing the net assets of a series of units by the total number of units of the series outstanding at the end of the year.

l) Capital disclosures

The Fund has adopted CPA Canada Handbook Section 1535, Capital Disclosures, which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. See note 11 for additional details.

m) General standards on financial statement presentation

CPA Canada Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The Manager of the Fund has made this assessment and concluded that there are currently no material uncertainties that cast doubt on the Fund's ability to continue as a going concern.

n) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting year. Significant estimates include the fair value of the Fund's investments in private companies and the fair value of the Fund's investments in corporate warrants which are not traded in active markets. Actual results may differ from those estimates.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

##### o) Future accounting pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, which have potential implications for the Fund, are as follows:

##### International financial reporting standards ("IFRS")

Effective for its fiscal year commencing January 1, 2014, the Fund must adopt IFRS. In preparation thereof, the Manager continues to monitor and implement the Fund's changeover plan and will continue to assess the impact on the implementation as new IFRS guidance become available from the International Accounting Standards Board ("IASB").

The Manager has reviewed the current IFRS against the Fund's current accounting policies and financial statement presentation under Canadian generally accepted accounting principles ("Canadian GAAP"), and the following areas of differences have been identified:

- (a) IAS 32, Financial Instruments: Disclosure and Presentation and IFRS 9, Financial Instruments, require shareholders' equity to be classified as liability unless certain criteria are met. The Fund's shareholders' equity meets the definition of a puttable instrument. The Manager has assessed the Fund's shareholder structure and has determined the liability treatment is the most appropriate classification. IFRS 9 defines an investment entity and introduces exceptions to the consolidation requirements.
- (b) IFRS 7, Financial Instruments: Disclosures requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
- (c) IFRS 13, Fair Value Measurements, that was released in May 2011 provides guidance on the fair value measurements and allows for the possible use of closing prices to value investments. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of closing market prices is appropriate in valuing investments. While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit and Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Fund's financial statements.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

##### o) Future accounting pronouncements (Continued...)

The anticipated impact of IFRS on accounting policies and implementation decisions will predominantly be on the financial statement presentation and note disclosures in the Fund's financial statements. The adoption of IFRS is not expected to have a significant impact on the calculation of NAV per share. In particular, the Fund will be required to present a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

The Fund's changeover plan includes key activities in (a) preparation of financial statements, (b) information processing and record-keeping, (c) business policy assessment and (d) systems and controls. Based on the Manager's current analysis, the Manager believes the changeover to IFRS will not materially affect the Fund's existing business arrangements.

#### 3. UNITS ISSUED AND OUTSTANDING

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 units outstanding based on the average class allocation for the year.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 3. UNITS ISSUED AND OUTSTANDING (Continued...)

The following unit transactions took place during the year:

	2013	2012
Units outstanding, beginning of the year:		
Series A	15,936,692	16,272,621
Series B	18,352,079	21,316,936
Series F	4,646,786	4,237,731
Units issued during the year:		
Series A	430,351	1,854,807
Series B	621,217	1,893,649
Series F	568,242	1,337,176
Units redeemed during the year:		
Series A	4,659,167	2,190,736
Series B	6,335,256	4,858,506
Series F	2,118,807	928,121
Units outstanding, end of the year:		
Series A	11,707,876	15,936,692
Series B	12,638,040	18,352,079
Series F	3,096,221	4,646,786

#### 4. MANAGEMENT AND PERFORMANCE FEES

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

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees, custodial fees, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to unitholders. As the Fund has more than one series of units, the unitholders of each series bear their pro rata share of those expenses which are common to the operation of all series, as well as those expenses which are attributable solely to that series.

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

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 5. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended December 31, 2013 was \$504,860 (2012 - \$630,251).

#### 6. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2013 and 2012, fees paid to the Manager were as follows:

	2013	2012
Management fees, note 4	<u>\$ 4,128,625</u>	<u>\$ 6,018,608</u>

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

	2013	2012
Management fees payable	<u>\$ 308,765</u>	<u>\$ 485,229</u>

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

	2013	2012
Series B units held by Partners of the Manager	135,707	286,114
Percentage of Series B units held by Partners of the Manager	1.07%	1.56%
Series B units held by relatives of Partners of the Manager	12,744	16,261
Percentage of Series B units held by relatives of Partners of the Manager	0.10%	0.09%
Series F units held by Partners of the Manager	41,543	41,543
Percentage of Series F units held by Partners of the Manager	1.34%	0.89%
Series F units held by relatives of Partners of the Manager	182,888	185,259
Percentage of Series F units held by relatives of Partners of the Manager	5.91%	3.99%

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, 2013, Tuscarora Capital Inc., a company under common control to the Manager, received \$11,774 (2012 - \$158) in commissions on portfolio transactions for the Fund.

Management fees and performance fees are measured at the exchange amount of consideration prescribed by the offering documents of the Fund. When related parties enter unitholder transactions with the Fund, the exchange amount of consideration is the transactional NAV available to all other unitholders on the trade date. In the case of brokerage commissions, the exchange amount of consideration is that which is negotiated by the related parties.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 7. 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.

#### 8. 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.

#### 9. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS FOR FINANCIAL STATEMENTS

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the transactional net asset value ("NAV") and net assets calculated using Canadian generally accepted accounting principles ("GAAP NA") of an investment fund is required. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold) to be used in the fair valuation of investments, rather than the use of closing trade prices currently used for the purpose of determining transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques (see note 2) rather than the use of valuation techniques in general practice in the investment funds industry.

These changes account for the difference between transactional NAV and GAAP NA. The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

As at December 31, 2013

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per Unit	GAAP NA per Unit
Series A	\$ 71,607,906	\$ (630,430)	\$ 70,977,476	\$ 6.12	\$ 6.06
Series B	77,257,965	(679,953)	76,578,012	6.11	6.06
Series F	20,444,340	(179,763)	20,264,577	6.60	6.54
Total	\$ 169,310,211	\$ (1,490,146)	\$ 167,820,065		

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

#### 9. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS FOR FINANCIAL STATEMENTS (Continued...)

As at December 31, 2012

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per Unit	GAAP NA per Unit
Series A	\$ 103,358,785	\$ (679,299)	\$ 102,679,486	\$ 6.49	\$ 6.44
Series B	118,961,302	(781,992)	118,179,310	6.48	6.44
Series F	32,184,767	(211,141)	31,973,626	6.93	6.88
<b>Total</b>	<b>\$ 254,504,854</b>	<b>\$ (1,672,432)</b>	<b>\$ 252,832,422</b>		

#### 10. FINANCIAL INSTRUMENTS

The Fund's assets and liabilities classified in accordance with CPA Canada Handbook Section 3855 are as follows:

As at December 31,

	2013	2012
<b>Assets</b>		
Held for trading	\$ 169,514,259	\$ 261,199,786
Cash and cash equivalents	5,219,859	3,664,528
Loans and receivables	<u>324,472</u>	<u>1,159,078</u>
<b>Total Assets</b>	<b><u>\$ 175,058,590</u></b>	<b><u>\$ 266,023,392</u></b>
<b>Liabilities</b>		
Held for trading	\$ 5,884,800	\$ 12,120,390
Other financial liabilities at amortized cost	<u>1,353,725</u>	<u>1,070,580</u>
<b>Total liabilities</b>	<b><u>\$ 7,238,525</u></b>	<b><u>\$ 13,190,970</u></b>
<b>Net Assets</b>	<b><u>\$ 167,820,065</u></b>	<b><u>\$ 252,832,422</u></b>

The Fund's financial instruments consist of investments at fair value, cash and cash equivalents, amounts receivable relating to accrued income, accounts receivable relating to units issued, accounts receivable relating to portfolio assets sold, obligations from portfolio assets sold short, at fair value, accounts payable relating to units redeemed and accrued expenses. It is the Manager's opinion that due to the short term nature of these financial instruments, the Fund is not exposed to significant market price, currency, interest rate, liquidity, cash flow and credit risks arising from these financial instruments except as described below. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### Risk management

The Investment Advisor 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 Fund's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The Statement of Investment Portfolio presents the securities held by the Fund as at December 31, 2013, and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

##### i) Market price risk

Market price risk, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument, 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:

Currency	Investments, at fair value	Cash and cash equivalents	Total	Percentage of GAAP NA
United States Dollar	\$ 1,974,900	\$ 469,706	\$ 2,444,606	1.5%
Brazilian Real	362,545	-	362,545	0.2%
Australian Dollar	<u>124,085</u>	<u>-</u>	<u>124,085</u>	<u>0.1%</u>
	<u>\$ 2,461,530</u>	<u>\$ 469,706</u>	<u>\$ 2,931,236</u>	<u>1.8%</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 10. 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, 2013, there were investments in corporate bonds representing 3.1% (2012 - 4.0%) of the investments owned, with maturities ranging from 2014 to 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.

Financial assets	Floating Rate Financial Instruments	Fixed Rate Financial Instruments	Non-interest Bearing	Total
Held for trading	\$ -	\$ 5,261,098	\$ 164,253,161	\$ 169,514,259
Cash and cash equivalents	5,219,859	-	-	5,219,859
Other receivables	-	-	324,472	324,472
Total	<u>\$ 5,219,859</u>	<u>\$ 5,261,098</u>	<u>\$ 164,577,633</u>	<u>\$ 175,058,590</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 5,884,800	\$ 5,884,800
Other financial liabilities	-	-	1,353,725	1,353,725
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,238,525</u>	<u>\$ 7,238,525</u>
GAAP NA				<u>\$ 167,820,065</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

#### 10. 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.

Financial assets	0 - 12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Held for Trading	\$ 1,738,585	\$ 11,934	\$ 3,529,144	\$ -	\$ 164,234,596	\$ 169,514,259
Cash and cash equivalents	5,219,859	-	-	-	-	5,219,859
Other receivables	<u>324,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>324,472</u>
Total	<u>\$ 7,282,916</u>	<u>\$ 11,934</u>	<u>\$ 3,529,144</u>	<u>\$ -</u>	<u>\$ 164,234,596</u>	<u>\$ 175,058,590</u>
Financial liabilities						
Held for Trading	\$ -	\$ -	\$ -	\$ -	\$ 5,884,800	\$ 5,884,800
Other financial liabilities	<u>1,353,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,353,725</u>
Total	<u>\$ 1,353,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,884,800</u>	<u>\$ 7,238,525</u>
GAAP NA						<u>\$ 167,820,065</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at December 31, 2013, the fair value of such assets was 11.1% (2012 - 13.0%) 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, 2013 AND 2012

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### vi) Credit risk

The Fund is exposed to credit risk arising from its transactions with its counterparties and brokers, related to securities purchases and sales. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Financial assets which potentially expose the Fund to credit risk consist principally of amounts due from brokers and derivatives. The Fund seeks to mitigate its exposure to credit risk by placing its cash, and transacting its securities activity with large financial institutions. The Fund may also invest in corporate bonds. Until the bonds are sold or mature, the Fund is exposed to credit risk relating to whether the bond issuer will meet its obligations when they come due. The extent of the Fund's exposure to credit risk in respect of these financial assets is reflected in their carrying value as recorded in the Fund's Statement of Net Assets.

As at December 31, 2013, the Fund had \$5,261,098 (2012 - \$10,196,315) in long term debt instruments with the following credit ratings obtained from Standard and Poor's, Moody's or DBRS:

Debt instruments by credit rating	Percentage of GAAP NA
B	2.0%
Not available or not rated	1.1%

#### 11. CAPITAL MANAGEMENT

The Manager considers the Fund's capital to consist of the issued units and the net assets attributable to participating unitholders.

The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, policies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet participating unitholder redemptions. The Fund's overall strategy for managing capital remains unchanged from 2012.

The Fund does not have any externally imposed capital requirements.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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#### 12. FAIR VALUE HIERARCHY

The following is a summary of the inputs used as of December 31, 2013 in valuing the Fund's investments and derivatives carried at fair values as discussed in note 2(c):

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Assets at fair value as at December 31, 2013	Level 1	Level 2	Level 3	Total
Investments, at fair value	<u>\$ 147,464,557</u>	<u>\$ 3,435,477</u>	<u>\$ 18,614,225</u>	<u>\$ 169,514,259</u>
Liabilities at fair value as at December 31, 2013				
Obligations from portfolio assets sold short, at fair value	<u>\$ 5,884,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,884,800</u>

During the year ended December 31, 2013 reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Investments, at Fair Value Equities	Investments, at Fair Value Bonds
Balance at January 1, 2013	\$ 31,234,201	\$ 1,626,332
Purchases	-	223,906
Realized gains	-	-
Unrealized gains (losses)	<u>(14,588,246)</u>	<u>118,032</u>
Balance at December 31, 2013	<u>\$ 16,645,955</u>	<u>\$ 1,968,270</u>

#### 13. INCOME TAX LOSS CARRYFORWARD

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

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









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