

**FRONT STREET GROWTH FUND**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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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 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 22, 2013

## **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, 2012 and 2011, 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, 2012 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.



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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 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, 2012 and 2011, and its operations and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*Segal LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
March 22, 2013

# FRONT STREET GROWTH FUND

## STATEMENTS OF NET ASSETS AS AT DECEMBER 31, 2012 AND 2011

	2012	2011
<b>ASSETS</b>		
Investments, at fair value (cost - \$293,367,120; 2011 - \$317,150,465)	\$ 261,199,786	\$ 333,063,985
Cash and cash equivalents	3,664,528	8,183,898
Amounts receivable relating to accrued income	504,697	1,109,591
Accounts receivable relating to portfolio assets sold	369,845	1,690,000
Accounts receivable relating to units issued	<u>284,536</u>	<u>433,910</u>
	<u>\$ 266,023,392</u>	<u>\$ 344,481,384</u>
<b>LIABILITIES</b>		
Obligations from portfolio assets sold short, at fair value	\$ 12,120,390	\$ 8,601,228
Accrued expenses	856,990	889,026
Accounts payable relating to units redeemed	<u>213,590</u>	<u>352,112</u>
	<u>13,190,970</u>	<u>9,842,366</u>
<b>Net assets representing unitholders' equity</b>	<u>\$ 252,832,422</u>	<u>\$ 334,639,018</u>
<b>Net assets applicable to outstanding units allocated as follows:</b>		
Net assets, Series A	\$ 102,679,486	\$ 129,499,681
Units outstanding, Series A, note 3	15,936,692	16,272,621
Net assets per unit, Series A	<u>\$ 6.44</u>	<u>\$ 7.96</u>
Net assets, Series B	\$ 118,179,310	\$ 169,523,789
Units outstanding, Series B, note 3	18,352,079	21,316,936
Net assets per unit, Series B	<u>\$ 6.44</u>	<u>\$ 7.95</u>
Net assets, Series F	\$ 31,973,626	\$ 35,615,548
Units outstanding, Series F, note 3	4,646,786	4,237,731
Net assets per unit, Series F	<u>\$ 6.88</u>	<u>\$ 8.40</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, 2012 AND 2011

	2012	2011
<b>Investment income</b>		
Dividends	\$ 4,085,633	\$ 3,128,916
Interest	1,081,558	1,825,769
Less: Foreign withholding taxes	<u>(109,193)</u>	<u>(98,495)</u>
	<u>5,057,998</u>	<u>4,856,190</u>
<b>Expenses</b>		
Management fees, notes 4 and 6	6,018,608	8,756,544
Administration fees	987,910	1,247,291
Unitholder reporting costs	72,707	46,999
Legal fees	72,633	56,891
Custodial fees	63,898	78,766
Audit fees	29,500	63,100
Independent review committee	<u>12,253</u>	<u>15,233</u>
	<u>7,257,509</u>	<u>10,264,824</u>
<b>Net investment loss for the year</b>	<u>(2,199,511)</u>	<u>(5,408,634)</u>
<b>Realized and unrealized gains (losses) on investments</b>		
Net realized gain (loss) on the sale of investments	(15,000,427)	14,206,078
Transaction costs, notes 5 and 6	(630,251)	(1,047,892)
Change in the unrealized depreciation of the value of investments	<u>(45,829,721)</u>	<u>(108,298,030)</u>
<b>Net loss on investments for the year</b>	<u>(61,460,399)</u>	<u>(95,139,844)</u>
<b>Net decrease in net assets from operations for the year</b>	<u>\$ (63,659,910)</u>	<u>\$ (100,548,478)</u>
Decrease in net assets from operations applicable to outstanding units allocated as follows:		
Decrease in net assets from operations, Series A	\$ (25,364,984)	\$ (36,873,222)
Decrease in net assets from operations per unit, Series A	<u>\$ (1.55)</u>	<u>\$ (2.37)</u>
Decrease in net assets from operations, Series B	\$ (31,322,429)	\$ (53,557,031)
Decrease in net assets from operations per unit, Series B	<u>\$ (1.56)</u>	<u>\$ (2.42)</u>
Decrease in net assets from operations, Series F	\$ (6,972,497)	\$ (10,118,225)
Decrease in net assets from operations per unit, Series F	<u>\$ (1.57)</u>	<u>\$ (2.43)</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
<b>Series A</b>		
Net assets, beginning of year	<u>\$ 129,499,681</u>	<u>\$ 137,146,688</u>
Net decrease in net assets from operations	<u>(25,364,984)</u>	<u>(36,873,222)</u>
<b>Unitholder transactions</b>		
Capital contributions	13,628,560	53,567,544
Redemptions	<u>(15,083,771)</u>	<u>(24,341,329)</u>
	<u>(1,455,211)</u>	<u>29,226,215</u>
Net decrease in net assets for the year	<u>(26,820,195)</u>	<u>(7,647,007)</u>
Net assets, end of year	<u>\$ 102,679,486</u>	<u>\$ 129,499,681</u>
<b>Series B</b>		
Net assets, beginning of year	<u>\$ 169,523,789</u>	<u>\$ 192,918,591</u>
Net decrease in net assets from operations	<u>(31,322,429)</u>	<u>(53,557,031)</u>
<b>Unitholder transactions</b>		
Capital contributions	13,669,405	84,940,743
Redemptions	<u>(33,691,455)</u>	<u>(54,778,514)</u>
	<u>(20,022,050)</u>	<u>30,162,229</u>
Net decrease net assets for the year	<u>(51,344,479)</u>	<u>(23,394,802)</u>
Net assets, end of year	<u>\$ 118,179,310</u>	<u>\$ 169,523,789</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
<b>Series F</b>		
Net assets, beginning of year	\$ 35,615,548	\$ 38,435,573
Net decrease in net assets from operations	<u>(6,972,497)</u>	<u>(10,118,225)</u>
<b>Unitholder transactions</b>		
Capital contributions	10,026,624	18,066,979
Redemptions	<u>(6,696,049)</u>	<u>(10,768,779)</u>
	<u>3,330,575</u>	<u>7,298,200</u>
Net decrease in net assets for the year	<u>(3,641,922)</u>	<u>(2,820,025)</u>
Net assets, end of year	<u>\$ 31,973,626</u>	<u>\$ 35,615,548</u>
<b>Total</b>		
Net assets, beginning of year	\$ 334,639,018	\$ 368,500,852
Net decrease in net assets from operations	<u>(63,659,910)</u>	<u>(100,548,478)</u>
<b>Unitholder transactions</b>		
Capital contributions	37,324,589	156,575,266
Redemptions	<u>(55,471,275)</u>	<u>(89,888,622)</u>
	<u>(18,146,686)</u>	<u>66,686,644</u>
Net decrease in net assets for the year	<u>(81,806,596)</u>	<u>(33,861,834)</u>
Net assets, end of year	<u>\$ 252,832,422</u>	<u>\$ 334,639,018</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Long positions (103.3%)</b>			
<b>Domestic (85.4%)</b>			
<b>Energy (73.3%)</b>			
Angle Energy Inc.	3,911,669	\$ 26,982,698	\$ 13,925,542
Athabasca Oil Corporation	608,679	7,272,674	6,348,522
Calfrac Well Services Limited	286,616	6,899,663	7,128,140
Calmena Energy Services Inc.	12,763,377	2,693,073	1,786,873
CanElson Drilling Inc.	3,829,391	13,435,001	18,457,665
Crew Energy Inc.	1,697,594	17,981,962	10,949,481
Ensign Energy Services Inc.	1,038,914	17,353,128	15,905,773
Gasfrac Energy Services Inc.	1,667,822	12,210,418	2,535,089
Laricina Energy Limited	765,804	12,909,120	22,974,121
Madalena Ventures Inc.	3,628,900	1,052,481	1,378,982
Manitok Energy Inc.	345,800	717,477	1,020,110
Mullen Group Limited	157,818	3,660,153	3,296,818
Nuvista Energy Limited	882,927	4,228,606	5,165,123
P1 Energy Corporation	583,033	1,749,099	320,668
Pacific Coal Resources Limited Warrants March 14, 2016	700,000	-	3,500
PHX Energy Services Corporation	1,754,445	16,824,189	15,947,905
Precision Drilling Corporation	251,638	2,010,751	2,060,915
Sintana Energy Inc.	1,069,900	117,779	181,883
Southern Pacific Resource Corporation	8,432,352	11,529,155	10,624,764
Spartan Oil Corporation	158,100	694,104	828,444
Surge Energy Inc.	339,540	2,341,139	1,860,679
Tourmaline Oil Corporation	486,100	13,859,397	15,132,293
Trican Well Service Limited	401,891	5,814,589	5,268,791
Whitecap Resources Inc.	2,207,586	14,116,839	19,073,543
Xinergy Limited	3,917,247	10,727,339	3,172,970
		<u>\$ 207,180,834</u>	<u>\$ 185,348,594</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Materials (8.8%)</b>			
Banro Corporation Warrants March 2, 2017	148,800	\$ 266,628	\$ 92,307
Barisan Gold Corporation Warrants September 26, 2013	140,438	-	-
Capstone Mining Corporation	1,508,489	4,496,826	3,620,374
Conifex Timber Inc.	272,190	2,236,420	1,878,111
Dalradian Resources Inc.	1,662,800	1,843,324	2,544,084
Golden Predator Corporation	3,222,700	2,165,654	1,095,718
HudBay Minerals Inc.	429,735	4,305,945	4,297,350
Lithium Americas Corporation	3,686,640	6,263,907	3,207,377
Sirocco Mining Inc.	3,523,600	4,228,320	2,360,812
Touchtone Gold Limited	3,703,703	1,598,185	481,481
Wildcat Silver Corporation	3,281,100	<u>3,863,877</u>	<u>2,624,880</u>
		<u>\$ 31,269,086</u>	<u>\$ 22,202,494</u>
<b>Industrial (2.6%)</b>			
Northwest Upgrading Inc.	3,112,500	<u>\$ 5,072,013</u>	<u>\$ 6,536,250</u>
<b>Utilities (0.3%)</b>			
GWR Global Water Resources Corporation	157,578	\$ 1,182,458	\$ 312,004
Trilliant Inc.	671,939	<u>488,570</u>	<u>403,163</u>
		<u>\$ 1,671,028</u>	<u>\$ 715,167</u>
<b>Financial Services (0.4%)</b>			
Delavaco Properties Inc.	1,000,000	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
<b>Total Domestic</b>		<u>\$ 246,192,961</u>	<u>\$ 215,802,505</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2012

	Number of Shares / Units	Cost \$	Market Value \$
<b>Global (13.9%)</b>			
<b>Australia (3.5%)</b>			
Mirabela Nickel Limited	8,588,000	\$ 2,835,959	\$ 4,208,120
Western Areas NL	1,100,000	<u>5,743,945</u>	<u>4,798,875</u>
		<u>\$ 8,579,904</u>	<u>\$ 9,006,995</u>
<b>Bermuda (2.5%)</b>			
Continental Gold Limited	717,887	<u>\$ 6,282,281</u>	<u>\$ 6,288,690</u>
<b>Brazil (0.9%)</b>			
HRT Participacoes em Petroleo SA	885,000	\$ 2,637,887	\$ 2,033,386
HRT Participacoes em Petroleo SA Warrants December 7, 2013	8,850	<u>-</u>	<u>244,709</u>
		<u>\$ 2,637,887</u>	<u>\$ 2,278,095</u>
<b>United States (7.0%)</b>			
Huntsman Corporation	43,000	\$ 533,270	\$ 679,647
The Dow Chemical Company	447,736	13,969,421	14,398,561
United States Steel Corporation	107,400	<u>3,142,841</u>	<u>2,548,978</u>
		<u>\$ 17,645,532</u>	<u>\$ 17,627,186</u>
<b>Total Global</b>		<u>\$ 35,145,604</u>	<u>\$ 35,200,966</u>
<b>Corporate Bonds (4.0%)</b>			
Athabasca Oil Corporation 7.500% November 19, 2017	3,392,000	\$ 3,392,000	\$ 3,399,496
Banro Corporation 10.000% March 1, 2017	3,100,000	2,830,121	2,667,283
Delavaco Properties Inc. Convertible Debentures 7.500% December 20, 2014	1,635,000	1,611,044	1,626,332
Xinergy Corporation 9.250% May 15, 2019	4,338,872	<u>4,195,390</u>	<u>2,503,204</u>
<b>Total Corporate Bonds</b>		<u>\$ 12,028,555</u>	<u>\$ 10,196,315</u>
<b>Total Long Positions</b>		<u>\$ 293,367,120</u>	<u>\$ 261,199,786</u>

See accompanying notes to the financial statements

## FRONT STREET GROWTH FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2012

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	Number of Shares / Units	Cost \$	Fair Value \$
<b>Short Positions (-4.8%)</b>			
<b>Domestic (-4.8%)</b>			
<b>Energy (-4.8%)</b>			
EnCana Corporation	(616,500)	<u>\$ (12,770,166)</u>	<u>\$ (12,120,390)</u>
<b>Total Short Positions</b>		<u>\$ (12,770,166)</u>	<u>\$ (12,120,390)</u>
<b>Transaction costs</b>		<u>\$ (643,905)</u>	-
<b>Total Investments (98.5%)</b>		<u>\$ 279,953,049</u>	249,079,396
<b>Cash and cash equivalents (1.5%)</b>			3,664,528
<b>Other assets less other liabilities (0.0%)</b>			<u>88,498</u>
<b>Net assets (100.0%)</b>			<u>\$ 252,832,422</u>

See accompanying notes to the financial statements

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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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 protection 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 portfolio assets sold and accounts receivable relating to units issued are classified as loans and receivables. Accrued expenses, accounts payable relating to units redeemed, bank indebtedness, performance fees payable, and liabilities for portfolio assets purchased 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 CICA 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, 2012 AND 2011

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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, 2012 AND 2011

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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 invests 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 CICA 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 CICA 3862, Financial Instruments - Disclosures. CICA 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, 2012 AND 2011

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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 Statement 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. 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, 2012 AND 2011

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#### 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 shares 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 CICA 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

CICA 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, 2012 AND 2011

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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, requires shareholders' equity to be classified as liability unless certain criteria are met.
- (b) 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 is monitoring these developments and will assess the impact of any changes in accounting policies or financial statement presentation as necessary to determine an appropriate approach.

The anticipated impact of IFRS on accounting policies and implementation decisions will be on the financial statement presentation and note disclosures in the Fund's financial statements. In particular, the Fund will be required to present a statement of shareholders' equity and 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.

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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### 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.

The following unit transactions took place during the year:

	2012	2011
Units outstanding, beginning of the year:		
Series A	16,272,621	13,531,055
Series B	21,316,936	19,038,235
Series F	4,237,731	3,636,859
Units issued during the year:		
Series A	1,854,807	5,269,461
Series B	1,893,649	8,177,389
Series F	1,337,176	1,720,022
Units redeemed during the year:		
Series A	2,190,736	2,527,895
Series B	4,858,506	5,898,688
Series F	928,121	1,119,150
Units outstanding, end 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

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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#### 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.

#### 5. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended December 31, 2012 was \$630,251 (2011 - \$1,047,892).

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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#### 6. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011, fees paid to the Manager were as follows:

	2012	2011
Management fees, note 4	<u>\$ 6,018,608</u>	<u>\$ 8,756,544</u>

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

	2012	2011
Management fees payable	<u>\$ 485,229</u>	<u>\$ 588,142</u>

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

	2012	2011
Series B units held by Partners of the Manager	286,114	522,772
Percentage of Series B units held by Partners of the Manager	1.56%	2.45%
Series B units held by relatives of Partners of the Manager	16,261	16,261
Percentage of Series B units held by relatives of Partners of the Manager	0.09%	0.08%
Series F units held by Partners of the Manager	41,543	41,543
Percentage of Series F units held by Partners of the Manager	0.89%	0.98%
Series F units held by relatives of Partners of the Manager	185,259	193,068
Percentage of Series F units held by relatives of Partners of the Manager	3.99%	4.56%

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, 2012, Tuscarora Capital Inc., a company under common control to the Manager, received \$158 (2011 - \$9,040) 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, 2012 AND 2011

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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 - ADOPTION OF NEW ACCOUNTING POLICY - FINANCIAL INSTRUMENTS

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, 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
Total	\$ 254,504,854	\$ (1,672,432)	\$ 252,832,422		

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

#### 9. RECONCILIATION OF NET ASSET VALUE - ADOPTION OF NEW ACCOUNTING POLICY - FINANCIAL INSTRUMENTS (Continued...)

As at December 31, 2011

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per Unit	GAAP NA per Unit
Series A	\$ 130,716,333	\$ (1,216,652)	\$ 129,499,681	\$ 8.03	\$ 7.96
Series B	171,116,843	(1,593,054)	169,523,789	8.03	7.95
Series F	35,949,589	(334,041)	35,615,548	8.48	8.40
Total	<u>\$ 337,782,765</u>	<u>\$ (3,143,747)</u>	<u>\$ 334,639,018</u>		

#### 10. FINANCIAL INSTRUMENTS

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

As at December 31,

	2012	2011
<b>Assets</b>		
Held for trading	\$ 261,199,786	\$ 333,063,985
Cash and cash equivalents	3,664,528	8,183,898
Loans and receivables	<u>1,159,078</u>	<u>3,233,501</u>
Total Assets	<u>\$ 266,023,392</u>	<u>\$ 344,481,384</u>
<b>Liabilities</b>		
Held for trading	\$ 12,120,390	\$ 8,601,228
Other financial liabilities at amortized cost	<u>1,070,580</u>	<u>1,241,138</u>
Total liabilities	<u>\$ 13,190,970</u>	<u>\$ 9,842,366</u>
Net Assets	<u>\$ 252,832,422</u>	<u>\$ 334,639,018</u>

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 portfolio assets sold, accounts receivable relating to units issued, obligations from portfolio assets sold short, at fair value, accrued expenses and accounts payable relating to units redeemed. 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, 2012 AND 2011

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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, 2012, 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	\$ 24,516,312	\$ 142,230	\$ 24,658,542	9.8%
Brazilian Real	2,278,095	-	2,278,095	0.9%
Australian Dollar	<u>9,006,995</u>	<u>-</u>	<u>9,006,995</u>	<u>3.6%</u>
	<u>\$ 35,801,402</u>	<u>\$ 142,230</u>	<u>\$ 35,943,632</u>	<u>14.3%</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

#### 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, 2012, there were investments in short-term investments representing Nil% (2011 - 1.2%) of the investments owned, all maturing in less than 30 days. As at December 31, 2012, there were investments in corporate bonds representing 4.0% (2011 - 3.3%) of the investments owned, with maturities ranging from 2014 to 2019. 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	\$ -	\$ 10,196,315	\$ 251,003,471	\$ 261,199,786
Cash and cash equivalents	3,664,528	-	-	3,664,528
Other receivables	-	-	1,159,078	1,159,078
Total	<u>\$ 3,664,528</u>	<u>\$ 10,196,315</u>	<u>\$ 252,162,549</u>	<u>\$ 266,023,392</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 12,120,390	\$ 12,120,390
Other financial liabilities	-	-	1,070,580	1,070,580
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,190,970</u>	<u>\$ 13,190,970</u>
GAAP NA				<u>\$ 252,832,422</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

#### 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.

	0 - 12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Financial assets						
Held for Trading	\$ 244,709	\$ 1,626,332	\$ 6,162,586	\$ 2,503,204	\$ 250,662,955	\$ 261,199,786
Cash and cash equivalents	3,664,528	-	-	-	-	3,664,528
Other receivables	<u>1,159,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,159,078</u>
Total	<u>\$ 5,068,315</u>	<u>\$ 1,626,332</u>	<u>\$ 6,162,586</u>	<u>\$ 2,503,204</u>	<u>\$ 250,662,955</u>	<u>\$ 266,023,392</u>
Financial liabilities						
Held for Trading	\$ -	\$ -	\$ -	\$ -	\$ 12,120,390	\$ 12,120,390
Other financial liabilities	<u>1,070,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,070,580</u>
Total	<u>\$ 1,070,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,120,390</u>	<u>\$ 13,190,970</u>
GAAP NA						<u>\$ 252,832,422</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at December 31, 2012, the fair value of such assets was 13.0% (2011 - 12.3%) 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, 2012 AND 2011

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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, 2012, the Fund had \$10,196,315 (2011 - \$11,017,295) 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	1.3%
Not available or not rated	2.7%

#### 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 2011.

The Fund does not have any externally imposed capital requirements.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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#### 12. FAIR VALUE HIERARCHY

The following is a summary of the inputs used as of December 31, 2012 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, 2012	Level 1	Level 2	Level 3	Total
Investments, at fair value	<u>\$ 219,432,253</u>	<u>\$ 8,907,000</u>	<u>\$ 32,860,533</u>	<u>\$ 261,199,786</u>
Liabilities at fair value as at December 31, 2012				
Obligations from portfolio assets sold short, at fair value	<u>\$ 12,120,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,120,390</u>

During the year ended December 31, 2012 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, 2011	\$ 36,057,325	\$ 5,084,763
Purchases	1,000,000	1,611,044
Sales	-	(4,967,652)
Realized gains	-	(38,856)
Unrealized gains	<u>(5,823,124)</u>	<u>(62,967)</u>
Balance at December 31, 2012	<u>\$ 31,234,201</u>	<u>\$ 1,626,332</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 \$8,222,332 in net capital losses available to be applied against capital gains of future years. These losses do not expire.