

# **Annual Management Report of Fund Performance**

## **As at October 31, 2015**

### **Front Street Special Opportunities Class**

*This Annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements for Front Street Special Opportunities Class (the "Fund"), a class of shares of Front Street Mutual Funds Limited. The annual financials of the Fund are attached behind this report and you can 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, 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 investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the investment 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 contribute 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 Objective and Strategies**

The Fund's investment objective is to provide Fund securityholders capital appreciation through the investment in equity securities of companies whose product, service or management team the Manager believes can realize value and growth. The Manager may rely on "top down" fundamental research to identify equity securities of companies in a particular industry or sector, but portfolio diversification will be driven primarily from the Fund's investments, as opposed to targeting sector weights.

The Investment Advisor 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**

The risks associated with investing in the Fund are discussed in the Fund's simplified prospectus, which is available on SEDAR at [www.sedar.com](http://www.sedar.com) or by visiting our website at [www.frontstreetcapital.com](http://www.frontstreetcapital.com). In addition to the risks listed in the simplified prospectus, over the period the fund was also exposed to "concentration risks" and "risks of changes in royalty rates" (definitions can be found in pages A-2 to A-8 of the simplified prospectus).

### **Results of Operations**

During the year, energy and resource markets were challenged by various ongoing geopolitical issues, and the continued economic slowdown in China and the other "BRIC" (Brazil, Russia, India and China) nations. Energy markets were particularly weak in the face of a sharp drop in oil prices as the Organization of the Petroleum Exporting Countries (OPEC) chose not to reduce oil production in the face of oversupply and lack of demand.

For the year ended October 31, 2015, the Front Street Special Opportunities Class returned -37.7%. The Fund underperformed its benchmark, the S&P/TSX Composite Index.

During the year ended October 31, 2015, the Fund earned investment income of \$773,053 from dividends, interest and security lending revenue. There were net realized losses on the sale of investments of \$46,751,325 and an unrealized depreciation on the value of investments of \$37,602,497.

Operating expenses, excluding management fees and servicing fees, totalled \$833,038 during the year ended October 31, 2015.

The prospect of an Iran nuclear deal bringing greater oil production into an oversupplied market continued to weigh on oil prices, which detracted from the Fund's performance. Individual holdings that detracted from performance included RMP Energy Inc., Bankers Petroleum Ltd. and Chinook Energy Inc., which all proved to have a challenging year.

## **Recent Developments**

The Manager believes that, despite significantly lower oil prices, many of the Fund's holdings can be successful without a return to a \$100 per barrel price environment. As such, the Manager has positioned the Fund for oil prices to find a sustainable range, and for the companies held to be successful at that range.

### **Adoption of International Financial Reporting Standards (“IFRS”) in 2015**

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Fund has adopted IFRS effective November 1, 2014. IFRS 1 – First-time Adoption of International Financial Reporting Standards, requires first-time adopters to apply IFRS retrospectively as if IFRS had been in effect from the date of the Fund's transition. Accordingly, an opening IFRS statement of financial position as at November 1, 2013 has been prepared and the comparative information for the year ended October 31, 2014 has been restated based on IFRS. The Fund has consistently applied the same accounting policies throughout all periods presented.

Prior to the adoption of IFRS, the Fund presented its financial statements in accordance with previous Canadian Generally Accepted Accounting Principles (“previous CGAAP”). The impact of transition from previous CGAAP to IFRS on the Fund's reported financial position, financial performance and cash flows is disclosed in Notes to the annual financial statements.

## Related Party Transactions

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

|                 | 2015                | 2014                |
|-----------------|---------------------|---------------------|
| Management fees | <u>\$ 2,565,388</u> | <u>\$ 5,293,115</u> |
| Servicing fees  | <u>\$ 1,398,352</u> | <u>\$ 2,715,898</u> |
| Operating costs | <u>\$ 84,200</u>    | <u>\$ 169,691</u>   |

Management fees payable and other payables included in the accrued expenses were as follows:

|                         | October 31,<br>2015 | October 31,<br>2014 | November 1,<br>2013 |
|-------------------------|---------------------|---------------------|---------------------|
| Management fees payable | <u>\$ 163,861</u>   | <u>\$ 367,182</u>   | <u>\$ 410,876</u>   |
| Servicing fees payable  | \$ 91,291           | \$ 193,399          | \$ 219,587          |
| Operating costs payable | <u>-</u>            | <u>32,896</u>       | <u>9,817</u>        |
|                         | <u>\$ 91,291</u>    | <u>\$ 226,295</u>   | <u>\$ 229,404</u>   |

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

|  | October 31,<br>2015 | October 31,<br>2014 | November 1,<br>2013 |
|--|---------------------|---------------------|---------------------|
| Series F shares held by the Partners and the Officers of the Manager               | 9,230.47            | 210,882.98          | 2,873.77            |
| Percentage of Series F shares held by the Partners and Officers of the Manager     | 0.25%               | 3.41%               | 0.05%               |
| Series F shares held by the relatives of the Partners of the Manager               | -                   | 13,751.71           | 14,882.88           |
| Percentage of Series F shares held by the relatives of the Partners of the Manager | -%                  | 0.22%               | 0.25%               |
| Series Y shares held by the Partners of the Manager                                | 1,632,265.32        | 1,632,265.32        | 1,649,999.99        |
| Percentage of Series Y shares held by the Partners of the Manager                  | 19.55%              | 16.69%              | 14.67%              |
| Series Y shares held by the relatives of the Partners of the Manager               | 1,630,980.13        | 1,664,156.28        | 1,687,686.48        |
| Percentage of Series Y shares held by the relatives of the Partners of the Manager | 19.54%              | 17.02%              | 15.01%              |

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 October 31, 2015, Tuscarora Capital Inc., a company under common control to the Manager, received \$14,821 (2014 - \$94,099) in commissions on portfolio transactions for the Fund.

Management fees, servicing fees, operating costs and performance fees are measured at the consideration prescribed by the offering documents of the Fund. When related parties enter shareholder transactions with the Fund, the consideration is the transactional NAV available to all other shareholders on the trade date.

## 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 Redeemable Share <sup>(1)</sup>

|  | October 31<br>2015<br>\$ | October 31<br>2014<br>\$ | October 31<br>2013<br>\$ | October 31<br>2012<br>\$ | October 31<br>2011<br>\$ |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Net assets, beginning of the year</b>                             | 6.38                     | 6.69                     | 7.13                     | 8.85                     | 9.91                     |
| <b>Increase (decrease) from operations:</b>                          |                          |                          |                          |                          |                          |
| Total revenue  | 0.02                     | 0.03                     | 0.05                     | 0.04                     | 0.03                     |
| Total expenses   | (0.17)                   | (0.27)                   | (0.20)                   | (0.23)                   | (0.43)                   |
| Realized gains (losses) for the year                                 | (1.31)                   | 0.40                     | (0.22)                   | (0.98)                   | 0.52                     |
| Unrealized gains (losses) for the year                               | (1.02)                   | (0.27)                   | (0.21)                   | (0.62)                   | (2.26)                   |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>      | <b>(2.48)</b>            | <b>(0.11)</b>            | <b>(0.58)</b>            | <b>(1.79)</b>            | <b>(2.14)</b>            |
| <b>Distributions to redeemable Shareholders:</b>                     |                          |                          |                          |                          |                          |
| From income (excluding dividends)                                    | —                        | —                        | —                        | —                        | —                        |
| From dividends   | —                        | —                        | —                        | —                        | —                        |
| From capital gains   | —                        | —                        | —                        | —                        | —                        |
| Return of capital  | —                        | —                        | —                        | —                        | —                        |
| <b>Total distributions to redeemable Shareholders <sup>(3)</sup></b> | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 |
| <b>Net assets, end of the year</b>                                   | <b>3.97</b>              | <b>6.38</b>              | <b>6.64</b>              | <b>7.13</b>              | <b>8.85</b>              |

- (1) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements and is prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.
- (2) Net assets and distributions are based on the actual number of redeemable shares outstanding at the relevant time. The increase (decrease) from operations is based on the average number of redeemable shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional redeemable shares of the Fund or both.

### Ratios and Supplemental Data

|   |           |           |            |            |            |
|---|-----------|-----------|------------|------------|------------|
| Total net asset value (000's) <sup>(1)</sup>                          | \$27,573  | \$60,408  | \$78,438   | \$98,701   | \$99,061   |
| Number of redeemable shares outstanding <sup>(1)</sup>                | 6,942,639 | 9,474,363 | 11,732,520 | 13,763,999 | 11,120,549 |
| Management expense ratio <sup>(2)</sup>                               | 3.08%     | 3.06%     | 3.05%      | 3.05%      | 4.15%      |
| Management expense ratio before waivers or absorptions <sup>(2)</sup> | 3.08%     | 3.06%     | 3.05%      | 3.05%      | 4.15%      |
| Trading expense ratio <sup>(3)</sup>                                  | 0.32%     | 0.33%     | 0.40%      | 0.34%      | 0.24%      |
| Portfolio turnover rate <sup>(4)</sup>                                | 15.00%    | 46.73%    | 50.92%     | 47.70%     | 32.82%     |
| Net asset value per redeemable share <sup>(5)</sup>                   | \$3.97    | \$6.38    | \$6.69     | \$7.17     | \$8.91     |

- (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.
- (5) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.

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

|  | October 31<br>2015<br>\$ | October 31<br>2014<br>\$ | October 31<br>2013<br>\$ | October 31<br>2012<br>\$ | October 31<br>2011<br>\$ |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Net assets, beginning of the year</b>                             | 6.37                     | 6.68                     | 7.12                     | 8.85                     | 9.90                     |
| <b>Increase (decrease) from operations:</b>                          |                          |                          |                          |                          |                          |
| Total revenue  | 0.02                     | 0.03                     | 0.05                     | 0.04                     | 0.03                     |
| Total expenses   | (0.17)                   | (0.27)                   | (0.20)                   | (0.23)                   | (0.43)                   |
| Realized gains (losses) for the year                                 | (1.33)                   | 0.40                     | (0.21)                   | (1.01)                   | 0.53                     |
| Unrealized gains (losses) for the year                               | (0.96)                   | (0.29)                   | (0.24)                   | (0.61)                   | (2.18)                   |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>      | <b>(2.44)</b>            | <b>(0.13)</b>            | <b>(0.60)</b>            | <b>(1.81)</b>            | <b>(2.05)</b>            |
| <b>Distributions to redeemable Shareholders:</b>                     |                          |                          |                          |                          |                          |
| From income (excluding dividends)                                    | —                        | —                        | —                        | —                        | —                        |
| From dividends   | —                        | —                        | —                        | —                        | —                        |
| From capital gains   | —                        | —                        | —                        | —                        | —                        |
| Return of capital  | —                        | —                        | —                        | —                        | —                        |
| <b>Total distributions to redeemable Shareholders <sup>(3)</sup></b> | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 |
| <b>Net assets, end of the year</b>                                   | <b>3.97</b>              | <b>6.37</b>              | <b>6.63</b>              | <b>7.12</b>              | <b>8.85</b>              |

- (1) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements and is prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.
- (2) Net assets and distributions are based on the actual number of redeemable shares outstanding at the relevant time. The increase (decrease) from operations is based on the average number of redeemable shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional redeemable shares of the Fund or both.

**Ratios and Supplemental Data**

|   |           |            |            |            |            |
|---|-----------|------------|------------|------------|------------|
| Total net asset value (000's) <sup>(1)</sup>                          | \$37,981  | \$72,888   | \$89,329   | \$121,668  | \$148,345  |
| Number of redeemable shares outstanding <sup>(1)</sup>                | 9,566,248 | 11,434,196 | 13,366,728 | 16,976,892 | 16,664,913 |
| Management expense ratio <sup>(2)</sup>                               | 3.06%     | 3.05%      | 3.03%      | 3.03%      | 4.21%      |
| Management expense ratio before waivers or absorptions <sup>(2)</sup> | 3.06%     | 3.05%      | 3.03%      | 3.03%      | 4.21%      |
| Trading expense ratio <sup>(3)</sup>                                  | 0.32%     | 0.33%      | 0.40%      | 0.34%      | 0.24%      |
| Portfolio turnover rate <sup>(4)</sup>                                | 15.00%    | 46.73%     | 50.92%     | 47.70%     | 32.82%     |
| Net asset value per redeemable share <sup>(5)</sup>                   | \$3.97    | \$6.37     | \$6.68     | \$7.17     | \$8.90     |

- (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.
- (5) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.

**Series F**
**The Fund's Net Assets per Redeemable Share <sup>(1)</sup>**

|  | October 31<br>2015<br>\$ | October 31<br>2014<br>\$ | October 31<br>2013<br>\$ | October 31<br>2012<br>\$ | October 31<br>2011<br>\$ |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Net assets, beginning of the year</b>                             | 6.92                     | 7.18                     | 7.58                     | 9.32                     | 10.32                    |
| <b>Increase (decrease) from operations:</b>                          |                          |                          |                          |                          |                          |
| Total revenue  | 0.02                     | 0.03                     | 0.05                     | 0.04                     | 0.03                     |
| Total expenses   | (0.13)                   | (0.21)                   | (0.14)                   | (0.16)                   | (0.37)                   |
| Realized gains (losses) for the year                                 | (1.37)                   | 0.44                     | (0.24)                   | (1.06)                   | 0.57                     |
| Unrealized gains (losses) for the year                               | (1.63)                   | (0.55)                   | (0.21)                   | (0.63)                   | (1.73)                   |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>      | <b>(3.11)</b>            | <b>(0.29)</b>            | <b>(0.54)</b>            | <b>(1.81)</b>            | <b>(1.50)</b>            |
| <b>Distributions to redeemable Shareholders:</b>                     |                          |                          |                          |                          |                          |
| From income (excluding dividends)                                    | —                        | —                        | —                        | —                        | —                        |
| From dividends   | —                        | —                        | —                        | —                        | —                        |
| From capital gains   | —                        | —                        | —                        | —                        | —                        |
| Return of capital  | —                        | —                        | —                        | —                        | —                        |
| <b>Total distributions to redeemable Shareholders <sup>(3)</sup></b> | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 |
| <b>Net assets, end of the year</b>                                   | <b>4.35</b>              | <b>6.92</b>              | <b>7.13</b>              | <b>7.58</b>              | <b>9.32</b>              |

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- (2) Net assets and distributions are based on the actual number of redeemable shares outstanding at the relevant time. The increase (decrease) from operations is based on the average number of redeemable shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional redeemable shares of the Fund or both.

**Ratios and Supplemental Data**

|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Total net asset value (000's) <sup>(1)</sup>                          | \$16,099  | \$42,781  | \$43,146  | \$56,431  | \$64,099  |
| Number of redeemable shares outstanding <sup>(1)</sup>                | 3,698,574 | 6,186,050 | 6,009,766 | 7,401,198 | 6,835,684 |
| Management expense ratio <sup>(2)</sup>                               | 2.05%     | 2.07%     | 2.05%     | 2.05%     | 3.37%     |
| Management expense ratio before waivers or absorptions <sup>(2)</sup> | 2.05%     | 2.07%     | 2.05%     | 2.05%     | 3.37%     |
| Trading expense ratio <sup>(3)</sup>                                  | 0.32%     | 0.33%     | 0.40%     | 0.34%     | 0.24%     |
| Portfolio turnover rate <sup>(4)</sup>                                | 15.00%    | 46.73%    | 50.92%    | 47.70%    | 32.82%    |
| Net asset value per redeemable share <sup>(5)</sup>                   | \$4.35    | \$6.92    | \$7.18    | \$7.62    | \$9.38    |

- (1) This information is provided as at end of the year shown.
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- (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.
- (5) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.

**Series X**
**The Fund's Net Assets per Redeemable Share <sup>(1)</sup>**

|  | October 31<br>2015<br>\$ | October 31<br>2014<br>\$ | October 31<br>2013<br>\$ | October 31<br>2012<br>\$ | October 31<br>2011<br>\$ |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Net assets, beginning of the year</b>                             | 6.63                     | 6.91                     | 7.32                     | 9.05                     | 10.04                    |
| <b>Increase (decrease) from operations:</b>                          |                          |                          |                          |                          |                          |
| Total revenue  | 0.02                     | 0.03                     | 0.05                     | 0.04                     | 0.02                     |
| Total expenses   | (0.15)                   | (0.23)                   | (0.17)                   | (0.20)                   | (0.44)                   |
| Realized gains (losses) for the year                                 | (1.36)                   | 0.41                     | (0.17)                   | (1.11)                   | 0.58                     |
| Unrealized gains (losses) for the year                               | (1.11)                   | (0.06)                   | (0.43)                   | (0.54)                   | (0.97)                   |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>      | <b>(2.60)</b>            | <b>0.15</b>              | <b>(0.72)</b>            | <b>(1.81)</b>            | <b>(0.81)</b>            |
| <b>Distributions to redeemable Shareholders:</b>                     |                          |                          |                          |                          |                          |
| From income (excluding dividends)                                    | —                        | —                        | —                        | —                        | —                        |
| From dividends   | —                        | —                        | —                        | —                        | —                        |
| From capital gains   | —                        | —                        | —                        | —                        | —                        |
| Return of capital  | —                        | —                        | —                        | —                        | —                        |
| <b>Total distributions to redeemable Shareholders <sup>(3)</sup></b> | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 |
| <b>Net assets, end of the year</b>                                   | <b>4.15</b>              | <b>6.63</b>              | <b>6.86</b>              | <b>7.32</b>              | <b>9.05</b>              |

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- (2) Net assets and distributions are based on the actual number of redeemable shares outstanding at the relevant time. The increase (decrease) from operations is based on the average number of redeemable shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional redeemable shares of the Fund or both.

**Ratios and Supplemental Data**

|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Total net asset value (000's) <sup>(1)</sup>                          | \$8,650   | \$19,635  | \$29,731  | \$53,628  | \$82,474  |
| Number of redeemable shares outstanding <sup>(1)</sup>                | 2,085,163 | 2,963,689 | 4,302,635 | 7,275,494 | 9,056,325 |
| Management expense ratio <sup>(2)</sup>                               | 2.55%     | 2.53%     | 2.51%     | 2.50%     | 4.11%     |
| Management expense ratio before waivers or absorptions <sup>(2)</sup> | 2.55%     | 2.53%     | 2.51%     | 2.50%     | 4.11%     |
| Trading expense ratio <sup>(3)</sup>                                  | 0.32%     | 0.33%     | 0.40%     | 0.34%     | 0.24%     |
| Portfolio turnover rate <sup>(4)</sup>                                | 15.00%    | 46.73%    | 50.92%    | 47.70%    | 32.82%    |
| Net asset value per redeemable share <sup>(5)</sup>                   | \$4.15    | \$6.63    | \$6.91    | \$7.37    | \$9.11    |

- (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.
- (5) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.

**Series Y**
**The Fund's Net Assets per Redeemable Share <sup>(1)</sup>**

|  | October 31<br>2015<br>\$ | October 31<br>2014<br>\$ | October 31<br>2013<br>\$ | October 31<br>2012<br>\$ | October 31<br>2011<br>\$ |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Net assets, beginning of the year</b>                             | 6.68                     | 6.96                     | 7.37                     | 9.09                     | 10.07                    |
| <b>Increase (decrease) from operations:</b>                          |                          |                          |                          |                          |                          |
| Total revenue  | 0.02                     | 0.03                     | 0.05                     | 0.04                     | 0.02                     |
| Total expenses   | (0.14)                   | (0.22)                   | (0.16)                   | (0.19)                   | (0.41)                   |
| Realized gains (losses) for the year                                 | (1.40)                   | 0.42                     | (0.22)                   | (1.10)                   | 0.58                     |
| Unrealized gains (losses) for the year                               | (1.02)                   | (0.37)                   | (0.24)                   | (0.56)                   | (1.04)                   |
| <b>Total increase (decrease) from operations <sup>(2)</sup></b>      | <b>(2.54)</b>            | <b>(0.14)</b>            | <b>(0.57)</b>            | <b>(1.81)</b>            | <b>(0.85)</b>            |
| <b>Distributions to redeemable Shareholders:</b>                     |                          |                          |                          |                          |                          |
| From income (excluding dividends)                                    | —                        | —                        | —                        | —                        | —                        |
| From dividends   | —                        | —                        | —                        | —                        | —                        |
| From capital gains   | —                        | —                        | —                        | —                        | —                        |
| Return of capital  | —                        | —                        | —                        | —                        | —                        |
| <b>Total distributions to redeemable Shareholders <sup>(3)</sup></b> | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 | <b>—</b>                 |
| <b>Net assets, end of the year</b>                                   | <b>4.19</b>              | <b>6.68</b>              | <b>6.91</b>              | <b>7.37</b>              | <b>9.09</b>              |

- (1) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements and is prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.
- (2) Net assets and distributions are based on the actual number of redeemable shares outstanding at the relevant time. The increase (decrease) from operations is based on the average number of redeemable shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional redeemable shares of the Fund or both.

**Ratios and Supplemental Data**

|   |           |           |            |            |            |
|---|-----------|-----------|------------|------------|------------|
| Total net asset value (000's) <sup>(1)</sup>                          | \$34,978  | \$65,348  | \$78,261   | \$104,724  | \$149,128  |
| Number of redeemable shares outstanding <sup>(1)</sup>                | 8,347,981 | 9,779,860 | 11,246,394 | 14,123,916 | 16,299,465 |
| Management expense ratio <sup>(2)</sup>                               | 2.41%     | 2.39%     | 2.39%      | 2.38%      | 3.90%      |
| Management expense ratio before waivers or absorptions <sup>(2)</sup> | 2.41%     | 2.39%     | 2.39%      | 2.38%      | 3.90%      |
| Trading expense ratio <sup>(3)</sup>                                  | 0.32%     | 0.33%     | 0.40%      | 0.34%      | 0.24%      |
| Portfolio turnover rate <sup>(4)</sup>                                | 15.00%    | 46.73%    | 50.92%     | 47.70%     | 32.82%     |
| Net asset value per redeemable share <sup>(5)</sup>                   | \$4.19    | \$6.68    | \$6.96     | \$7.41     | \$9.15     |

- (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.
- (5) The information for October 31, 2015 and 2014 is derived from the Fund's audited annual financial statements prepared in accordance with IFRS. The information prior to 2014 is derived from the Fund's audited annual financial statements prepared based on Canadian GAAP. An explanation of the effect of the Fund's transition to IFRS can be found in the notes to the financial statements.

## Management and Performance Fees

The Fund pays a monthly management fee equal to 1/12 of 1.5% of the net asset value of the Fund calculated and paid at the end of each month payable monthly in arrears for series A, B, F and X of the Fund. The Fund pays a monthly management fee equal to 1/12 of 1% of the net asset value of Series Y calculated and paid at the end of each month payable monthly in arrears.

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 shareholders. As the Fund has more than one series of shares, the shareholders 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 may, at its discretion, add a service charge of up to 15% of the costs incurred for any operating and administrative costs charged to the Fund other than management services which are already included in the management fee rate which the Manager receives from the Fund. The 15% service charge is intended to cover certain investor servicing costs attributable solely to the Fund, such as the establishment of the Fund's client servicing models, maintenance of investor support phone lines, and investor website and email support. The Manager stopped charging such fees August 2015.

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

## Dealer Compensation

Brokers, dealers and advisors may be paid a "trailer commission" for assets that their sales representatives place in the Series A, Series B, Series X and Series Y Fund securities. The Fund may, at its discretion, negotiate, change the terms and conditions of, or discontinue the trailer commission with brokers, dealers and advisors.

The trailer commission is calculated as a percentage of assets each broker, dealer or advisor has placed in the Fund series. The trailer commission is calculated based on the closing balance of client accounts for each calendar month. The trailer commission will not be paid if the assets are removed from the Funds. Trailer commissions are paid monthly at rates set within ranges according to the following table.

| Series | Trailer Annual Rate | Annual Payment per \$1,000 of Fund securities held |
|--------|---------------------|--|
| A      | 1.00%               | \$10.00  |
| B      | 1.00%               | \$10.00  |
| F      | 0.00%               | Nil  |
| X      | 0.50%               | \$5.00   |
| Y      | 1.00%               | \$10.00  |

## Past Performance

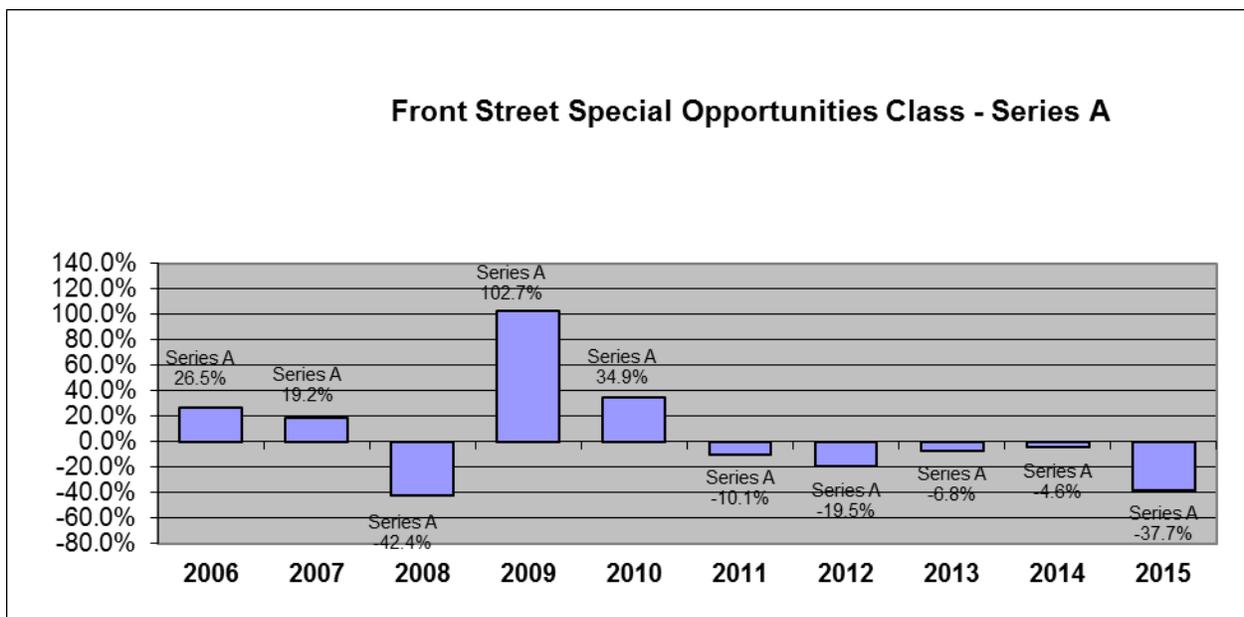
The past performance of the Fund is set out below and includes year-by-year returns and annual compound returns.

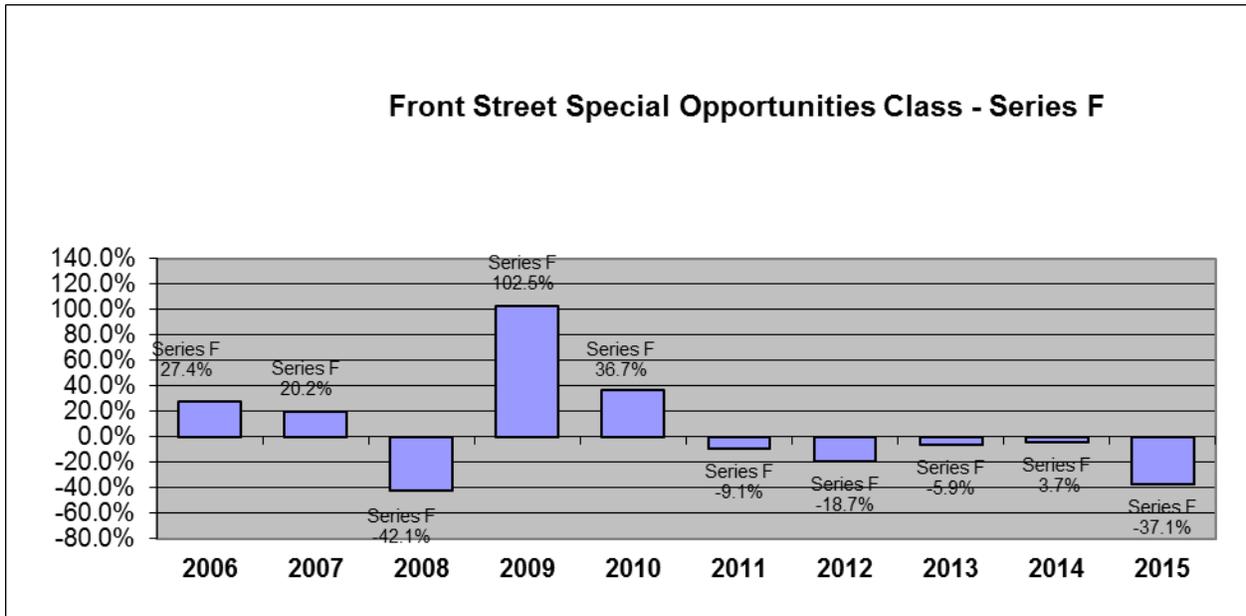
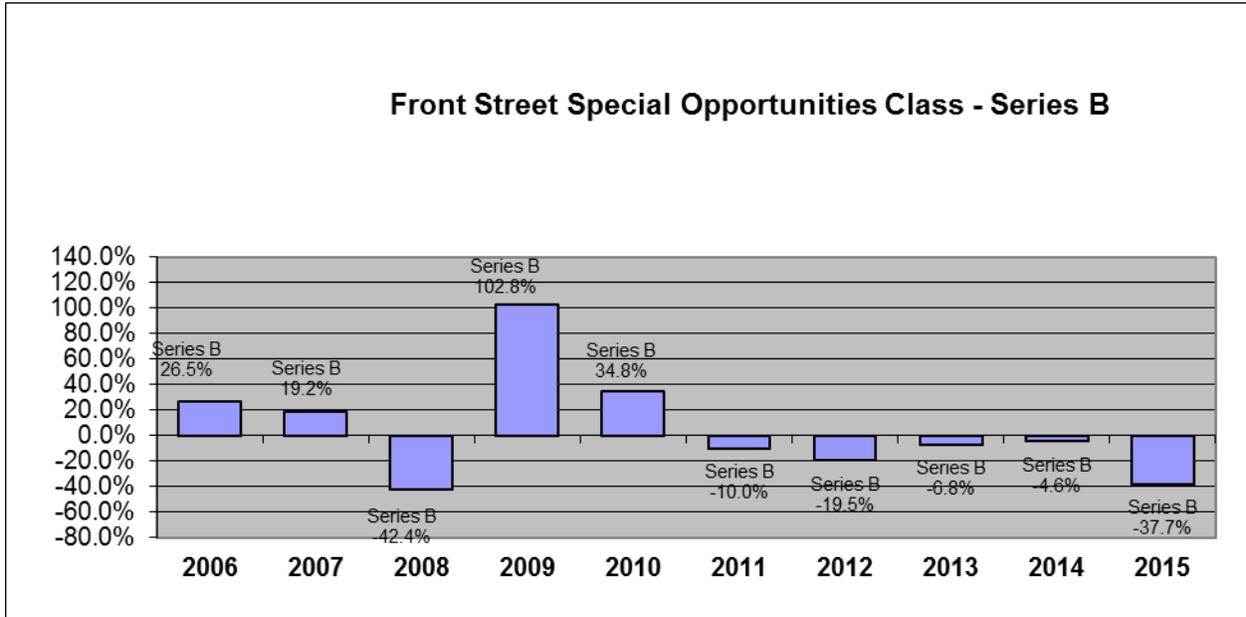
With respect to the charts displayed below, please note the following:

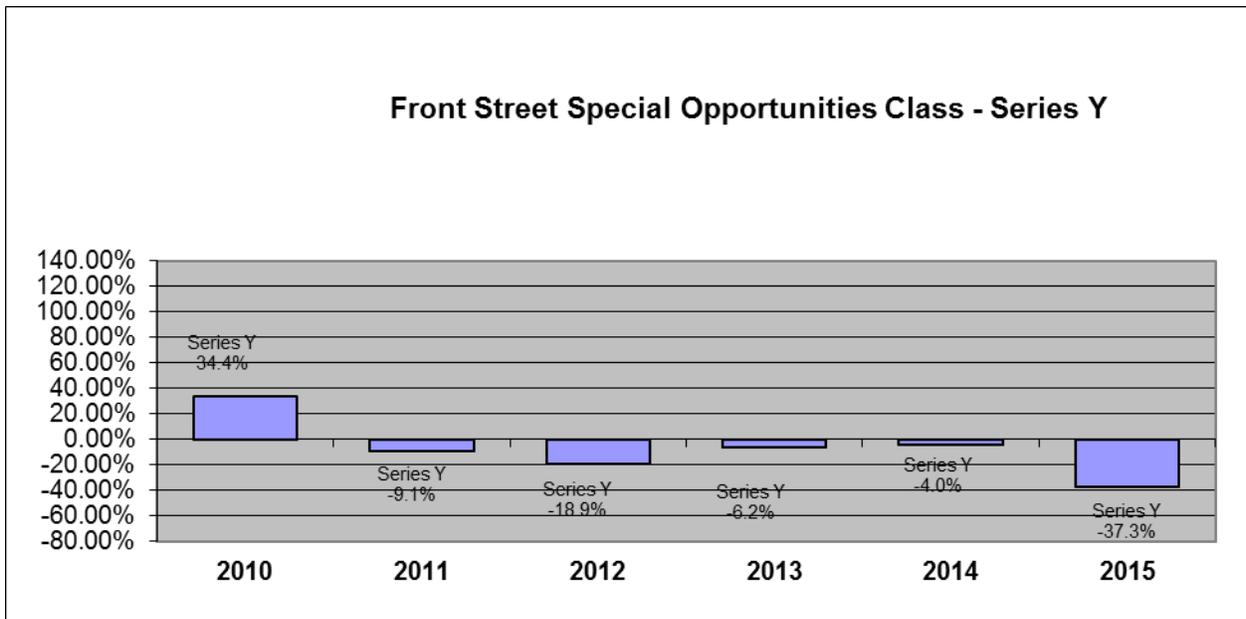
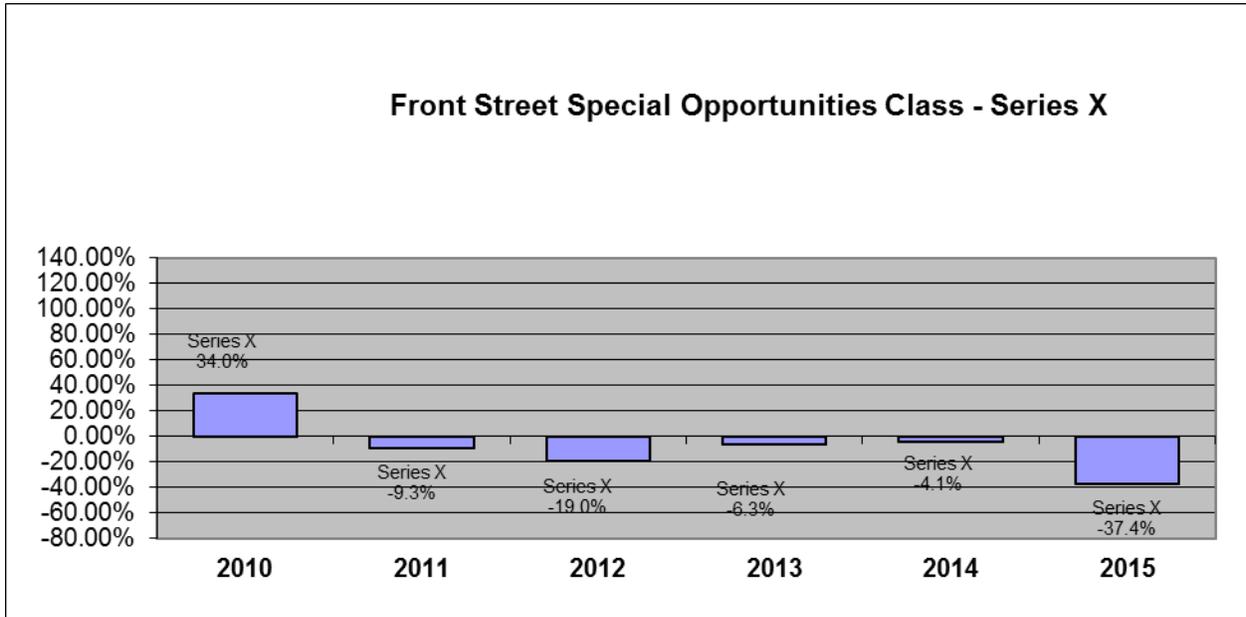
- the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund;
- the return or performance information does not take into account sales, redemption, distribution or other optional charges or income taxes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

### *Year-By-Year Returns*

The bar chart below shows the Fund's annual total return in each of the past 10 financial years. It illustrates how the Fund's performance has changed from year to year. This chart shows, in percentage terms, how much an investment made the first day of each financial year would have grown or decreased by the last day of each financial year.







## ANNUAL COMPOUND RETURNS

The following table shows the Fund's historical annual compound total return for the past ten (for Series A, B, and F), five, three, one, and since inception (for Series X and Y) financial year periods as at October 31, 2015, and as compared to the performance of the S&P/TSX Composite Index.

| Front Street Special Opportunities Class <sup>(1)</sup> | Past 10 Years | Past 5 Years | Past 3 Years | Past 1 Year |
|---|---------------|--------------|--------------|-------------|
| Series A  | -0.71%        | -16.70%      | -17.88%      | -37.71%     |
| Series B  | -0.71%        | -16.69%      | -17.87%      | -37.72%     |
| Series F  | 0.18%         | -15.84%      | -17.04%      | -37.06%     |
| S&P/TSX Composite Index                                 | 2.68%         | 1.31%        | 2.88%        | -7.42%      |

| Front Street Special Opportunities Class <sup>(1)</sup> | Past 5 Years | Past 3 Years | Past 1 Year | Since inception on December 1, 2009 |
|---|--------------|--------------|-------------|-------------------------------------|
| Series X  | -16.20%      | -17.44%      | -37.39%     | -9.60%                              |
| Series Y  | -16.08%      | -17.33%      | -37.29%     | -9.45%                              |
| S&P/TSX Composite Index                                 | 1.31%        | 2.88%        | -7.42%      | 2.86%                               |

- (1) Effective December 1, 2009, Front Street Special Opportunities Canadian Fund Ltd. amalgamated with Front Street Mutual Funds Limited with Front Street Special Opportunities Class being a new class of shares. The results shown include those of Front Street Special Opportunities Canadian Fund Ltd.

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).

## Summary of Investment Portfolio as at October 31, 2015

### *Portfolio by Category*

|                                     | <b>Percentage of<br/>Net Asset Value</b> |
|-------------------------------------|--|
| <b>LONG POSITIONS</b>               |  |
| Energy                              | 83.8%                                    |
| Materials                           | 11.9%                                    |
| Cash and cash equivalents           | 2.5%                                     |
| Industrials                         | 1.4%                                     |
| Financials                          | 1.2%                                     |
| Utilities                           | 0.0%                                     |
| <b>SHORT POSITIONS</b>              |  |
| Energy                              | -0.4%                                    |
| Other assets less other liabilities | -0.4%                                    |
|                                     | <b>100.0%</b>                            |

***Top 25 Holdings***

|   | <b>Percentage of<br/>Net Asset Value</b> |
|---|--|
| Spartan Energy Corporation                    | 10.1%                                    |
| Parex Resources Inc.                          | 9.0%                                     |
| Raging River Exploration Inc.                 | 8.7%                                     |
| Crew Energy Inc.                              | 7.3%                                     |
| Xtreme Drilling and Coil Services Corporation | 6.6%                                     |
| Bankers Petroleum Limited                     | 5.8%                                     |
| Western Energy Services Corporation           | 5.8%                                     |
| RMP Energy Inc.                               | 4.8%                                     |
| Birchcliff Energy Limited                     | 4.5%                                     |
| Kelt Exploration Limited                      | 4.3%                                     |
| Canacol Energy Limited                        | 4.1%                                     |
| Dalradian Resources Inc.                      | 4.0%                                     |
| Boulder Energy Limited                        | 3.1%                                     |
| Lundin Mining Corporation                     | 3.0%                                     |
| Chinook Energy Inc.                           | 2.9%                                     |
| Granite Oil Corporation                       | 2.9%                                     |
| Arizona Mining Inc.                           | 2.9%                                     |
| Torc Oil & Gas Limited                        | 1.6%                                     |
| Ceiba Energy Services Inc.                    | 1.4%                                     |
| IronCo LLC                                    | 1.4%                                     |
| Sintana Energy Inc.                           | 1.3%                                     |
| Committed Capital Acquisition Corporation II  | 0.9%                                     |
| Petroamerica Oil Corporation                  | 0.5%                                     |
| Leucrotta Exploration Inc.                    | 0.4%                                     |
| Hudbay Minerals Inc.                          | 0.3%                                     |
|   | 97.6%                                    |
| <b>TOTAL NET ASSET VALUE (000s)</b>           | <b>\$125,280</b>                         |

The information presented in the foregoing list may change due to the ongoing portfolio transactions of the Fund.

**FRONT STREET SPECIAL OPPORTUNITIES CLASS**

**FINANCIAL STATEMENTS  
OCTOBER 31, 2015 AND 2014**

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## MANAGEMENT REPORT

### Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Special Opportunities Class have been prepared by the management of Front Street Capital 2004, the Manager of the Fund, and approved by the Board of Directors of Front Street Mutual Funds Limited. The Manager is responsible for the information and representations contained in these financial statements.

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

The Board of Directors of Front Street Mutual Funds Limited 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 Board of Directors approves the audited financial statements for publication.

Segal LLP are the external auditors of Front Street Special Opportunities Class. 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 shareholders their opinion on the financial statements. Their report is set out below.

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



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Gary P. Selke  
Management Committee Member  
Front Street Capital 2004



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Normand G. Lamarche  
Management Committee Member  
Front Street Capital 2004

Toronto, Ontario  
January 25, 2016

## INDEPENDENT AUDITOR'S REPORT

### **To the Shareholders of Front Street Special Opportunities Class (the "Fund") of Front Street Mutual Funds Limited**

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

We have audited the accompanying financial statements of Front Street Special Opportunities Class which comprise the statements of financial position as at October 31, 2015, October 31, 2014 and November 1, 2013, the statements of comprehensive income, statements of changes in net assets attributable to shareholders of redeemable shares, and statements of cash flows for the years ended October 31, 2015 and October 31, 2014, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

Independent Auditor's Report  
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 audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Front Street Special Opportunities Class as at October 31, 2015, October 31, 2014 and November 1, 2013 and its financial performance and its cash flows for the years ended October 31, 2015 and October 31, 2014 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
January 25, 2016

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

### STATEMENTS OF FINANCIAL POSITION

AS AT OCTOBER 31, 2015, OCTOBER 31, 2014 AND NOVEMBER 1, 2013

|  | October 31,<br>2015   | October 31,<br>2014<br>(Note 14) | November 1,<br>2013<br>(Note 14) |
|--|-----------------------|----------------------------------|----------------------------------|
| <b>ASSETS</b>  |                       |                                  |                                  |
| <b>Current</b>   |                       |                                  |                                  |
| Financial assets at fair value through profit or loss *                                    | \$ 123,152,370        | \$ 253,523,943                   | \$ 321,652,034                   |
| Cash and cash equivalents  | 3,135,133             | 7,037,639                        | -                                |
| Receivables for investments sold   | 303,256               | 3,643,223                        | 643,284                          |
| Subscriptions receivable   | 89,281                | 387,379                          | 347,216                          |
| Dividends receivable   | 29,768                | -                                | -                                |
|  | <u>\$ 126,709,808</u> | <u>\$ 264,592,184</u>            | <u>\$ 322,642,534</u>            |
| <b>LIABILITIES</b>   |                       |                                  |                                  |
| <b>Current</b>   |                       |                                  |                                  |
| Financial liabilities at fair value through profit or loss *                               | \$ 544,150            | \$ 477,050                       | \$ 493,580                       |
| Redemptions payable  | 379,015               | 857,773                          | 912,076                          |
| Accrued expenses, note 9   | 342,474               | 606,391                          | 611,520                          |
| Management fees payable, note 9  | 163,861               | 367,182                          | 410,876                          |
| Payables for investments purchased   | -                     | 1,224,430                        | 663,984                          |
| Bank indebtedness  | -                     | -                                | 556,373                          |
|  | <u>-</u>              | <u>-</u>                         | <u>556,373</u>                   |
| <b>Liabilities before net assets attributable<br/>to shareholders of redeemable shares</b> | <u>1,429,500</u>      | <u>3,532,826</u>                 | <u>3,648,409</u>                 |
| <b>Net assets attributable to shareholders<br/>of redeemable shares</b>                    | <u>\$ 125,280,308</u> | <u>\$ 261,059,358</u>            | <u>\$ 318,994,125</u>            |

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

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

### STATEMENTS OF FINANCIAL POSITION

AS AT OCTOBER 31, 2015, OCTOBER 31, 2014 AND NOVEMBER 1, 2013

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|   | October 31,<br>2015 | October 31,<br>2014<br>(Note 14) | November 1,<br>2013<br>(Note 14) |
|---|---------------------|----------------------------------|----------------------------------|
| <b>Net assets attributable to shareholders<br/>of redeemable shares</b>           |                     |                                  |                                  |
| Series A  | \$ 27,572,920       | \$ 60,408,212                    | \$ 78,459,784                    |
| Series B  | \$ 37,981,117       | \$ 72,887,588                    | \$ 89,353,878                    |
| Series F  | \$ 16,098,919       | \$ 42,781,046                    | \$ 43,158,419                    |
| Series X  | \$ 8,649,829        | \$ 19,634,745                    | \$ 29,738,894                    |
| Series Y  | \$ 34,977,523       | \$ 65,347,767                    | \$ 78,283,150                    |
| <b>Number of redeemable shares outstanding, note 5</b>                            |                     |                                  |                                  |
| Series A  | 6,942,639           | 9,474,363                        | 11,732,520                       |
| Series B  | 9,566,248           | 11,434,196                       | 13,366,728                       |
| Series F  | 3,698,574           | 6,186,050                        | 6,009,766                        |
| Series X  | 2,085,163           | 2,963,689                        | 4,302,635                        |
| Series Y  | 8,347,981           | 9,779,860                        | 11,246,394                       |
| <b>Net assets attributable to shareholders<br/>of redeemable shares per share</b> |                     |                                  |                                  |
| Series A  | \$ 3.97             | \$ 6.38                          | \$ 6.69                          |
| Series B  | \$ 3.97             | \$ 6.37                          | \$ 6.68                          |
| Series F  | \$ 4.35             | \$ 6.92                          | \$ 7.18                          |
| Series X  | \$ 4.15             | \$ 6.63                          | \$ 6.91                          |
| Series Y  | \$ 4.19             | \$ 6.68                          | \$ 6.96                          |

Approved on behalf of the Board of Front Street Mutual Funds Limited:



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Gary P. Selke  
Chief Executive Officer and Director



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Susan Johnson  
Chief Financial Officer

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

|   | 2015                   | 2014<br>(Note 14)     |
|---|------------------------|-----------------------|
| <b>Investment income</b>  |                        |                       |
| Dividends   | \$ 763,334             | \$ 1,306,224          |
| Interest income for distribution purposes and other   | 7,985                  | 18,014                |
| Security lending revenue  | 1,734                  | -                     |
| Foreign currency gain on cash and cash equivalents<br>and other net assets  | 80,428                 | 4,678                 |
| Other net changes in fair value of financial assets and<br>financial liabilities at fair value through profit or loss ("FVTPL") |                        |                       |
| Net realized gain (loss) on financial assets and liabilities at FVTPL   | (46,751,325)           | 17,477,201            |
| Change in unrealized depreciation on financial assets<br>and liabilities at FVTPL   | <u>(37,602,497)</u>    | <u>(13,669,830)</u>   |
|   | <u>(83,500,341)</u>    | <u>5,136,287</u>      |
| <b>Expenses</b>   |                        |                       |
| Management fees, notes 6 and 9  | 2,565,388              | 5,293,115             |
| Servicing fees, notes 6 and 9   | 1,398,352              | 2,715,898             |
| Transaction costs, notes 8 and 9  | 568,916                | 1,135,947             |
| Administration fees   | 477,020                | 756,641               |
| Legal fees  | 112,436                | 203,846               |
| Operating costs, notes 6 and 9  | 84,200                 | 169,691               |
| Audit fees  | 58,175                 | 91,249                |
| Custodial fees  | 47,306                 | 82,317                |
| Independent review committee  | 18,079                 | 24,728                |
| Securityholder reporting costs  | 35,822                 | 17,122                |
| Compensatory dividends  | <u>9,692</u>           | <u>10,190</u>         |
|   | <u>5,375,386</u>       | <u>10,500,744</u>     |
| <b>Decrease in net assets attributable to shareholders<br/>of redeemable shares from operations</b>                             | <u>\$ (88,875,727)</u> | <u>\$ (5,364,457)</u> |

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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|  | 2015            | 2014<br>(Note 14) |
|--|-----------------|-------------------|
| <b>Increase (decrease) in net assets attributable to shareholders<br/>of redeemable shares from operations</b>           |                 |                   |
| Series A   | \$ (20,466,273) | \$ (1,106,452)    |
| Series B   | \$ (25,605,649) | \$ (1,645,549)    |
| Series F   | \$ (13,508,896) | \$ (1,710,532)    |
| Series X   | \$ (6,343,209)  | \$ 518,184        |
| Series Y   | \$ (22,951,700) | \$ (1,420,108)    |
| <b>Increase (decrease) in net assets attributable to shareholders<br/>of redeemable shares from operations per share</b> |                 |                   |
| Series A   | \$ (2.48)       | \$ (0.11)         |
| Series B   | \$ (2.44)       | \$ (0.13)         |
| Series F   | \$ (3.11)       | \$ (0.29)         |
| Series X   | \$ (2.60)       | \$ 0.15           |
| Series Y   | \$ (2.54)       | \$ (0.14)         |

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

|  | 2015                | 2014<br>(Note 14)    |
|--|---------------------|----------------------|
| <b>Net assets attributable to shareholders of redeemable shares,<br/>beginning of year</b>                     |                     |                      |
| Series A   | \$ 60,408,212       | \$ 78,459,784        |
| Series B   | 72,887,588          | 89,353,878           |
| Series F   | 42,781,046          | 43,158,419           |
| Series X   | 19,634,745          | 29,738,894           |
| Series Y   | <u>65,347,767</u>   | <u>78,283,150</u>    |
|  | <u>261,059,358</u>  | <u>318,994,125</u>   |
| <b>Increase (decrease) in net assets attributable to shareholders<br/>of redeemable shares from operations</b> |                     |                      |
| Series A   | (20,466,273)        | (1,106,452)          |
| Series B   | (25,605,649)        | (1,645,549)          |
| Series F   | (13,508,896)        | (1,710,532)          |
| Series X   | (6,343,209)         | 518,184              |
| Series Y   | <u>(22,951,700)</u> | <u>(1,420,108)</u>   |
|  | <u>(88,875,727)</u> | <u>(5,364,457)</u>   |
| <b>Redeemable share transactions</b>   |                     |                      |
| Proceeds from redeemable shares issued   |                     |                      |
| Series A   | 4,567,433           | 8,201,585            |
| Series B   | 8,720,108           | 24,287,350           |
| Series F   | 10,362,438          | 15,987,921           |
| Series X   | 23,829              | 312,202              |
| Series Y   | <u>-</u>            | <u>-</u>             |
|  | <u>23,673,808</u>   | <u>48,789,058</u>    |
| Redemption of redeemable shares  |                     |                      |
| Series A   | (16,936,452)        | (25,146,705)         |
| Series B   | (18,020,930)        | (39,108,091)         |
| Series F   | (23,535,669)        | (14,654,762)         |
| Series X   | (4,665,536)         | (10,934,535)         |
| Series Y   | <u>(7,418,544)</u>  | <u>(11,515,275)</u>  |
|  | <u>(70,577,131)</u> | <u>(101,359,368)</u> |

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

|  | 2015                  | 2014<br>(Note 14)     |
|--|-----------------------|-----------------------|
| Net decrease in net assets from redeemable share transactions                | <u>(46,903,323)</u>   | <u>(52,570,310)</u>   |
| Decrease in net assets attributable to shareholders of<br>redeemable shares  | <u>(135,779,050)</u>  | <u>(57,934,767)</u>   |
| Net assets attributable to shareholders of redeemable shares,<br>end of year |                       |                       |
| Series A   | 27,572,920            | 60,408,212            |
| Series B   | 37,981,117            | 72,887,588            |
| Series F   | 16,098,919            | 42,781,046            |
| Series X   | 8,649,829             | 19,634,745            |
| Series Y   | <u>34,977,523</u>     | <u>65,347,767</u>     |
| Total  | <u>\$ 125,280,308</u> | <u>\$ 261,059,358</u> |

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED OCTOBER 31, 2015 AND 2014

|  | 2015<br>(Note 14)   | 2014<br>(Note 14)    |
|--|---------------------|----------------------|
| <b>Cash flows from operating activities</b>  |                     |                      |
| Decrease in net assets attributable to shareholders of redeemable shares from operations | \$(88,875,727)      | \$ (5,364,457)       |
| Adjustments for:   |                     |                      |
| Foreign currency gain on cash and other net assets                                       | (80,428)            | (4,678)              |
| Net realized loss (gain) on financial assets and liabilities at FVTPL                    | 46,751,325          | (17,477,201)         |
| Change in unrealized depreciation on financial assets and liabilities at FVTPL           | 37,602,497          | 13,669,831           |
| Increase in dividends receivable   | (29,768)            | -                    |
| Decrease in management fees payable  | (203,321)           | (43,694)             |
| Decrease in other payables and accrued liabilities                                       | (263,917)           | (5,130)              |
| Purchases of financial assets and liabilities at FVTPL                                   | (26,793,493)        | (157,644,803)        |
| Proceeds from sales of financial assets and liabilities at FVTPL                         | <u>74,993,881</u>   | <u>227,124,242</u>   |
| <b>Net cash generated by operating activities</b>  | <u>43,101,049</u>   | <u>60,254,110</u>    |
| <b>Cash flows from financing activities</b>  |                     |                      |
| Proceeds from redeemable shares issued   | 23,971,906          | 48,748,895           |
| Amounts paid on redemption of redeemable shares  | <u>(71,055,889)</u> | <u>(101,413,671)</u> |
| <b>Net cash used by financing activities</b>   | <u>(47,083,983)</u> | <u>(52,664,776)</u>  |
| Net change in cash and cash equivalents  | (3,982,934)         | 7,589,334            |
| Foreign currency gain on cash and other net assets                                       | 80,428              | 4,678                |
| Cash and cash equivalents (bank indebtedness), beginning of year                         | <u>7,037,639</u>    | <u>(556,373)</u>     |
| <b>Cash and cash equivalents, end of year</b>  | <u>\$ 3,135,133</u> | <u>\$ 7,037,639</u>  |
| <b>Cash and cash equivalents comprise:</b>   |                     |                      |
| Cash at bank   | <u>\$ 3,135,133</u> | <u>\$ 7,037,639</u>  |
| Interest received, net of withholding tax  | \$ 7,985            | \$ 18,014            |
| Dividends received, net of withholding tax   | \$ 733,566          | \$ 1,306,224         |
| Compensatory dividends paid  | \$ (9,692)          | \$ (10,190)          |

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

### SCHEDULE OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2015

|   | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$            | Fair<br>Value<br>\$   |
|---|---|-----------------------|-----------------------|
| <b>Long positions (98.3%)</b>                   |   |                       |                       |
| <b>Energy (83.8%)</b>                           |   |                       |                       |
| Bankers Petroleum Limited                       | 3,308,100                               | \$ 7,606,051          | \$ 7,277,820          |
| Birchcliff Energy Limited                       | 998,200                                 | 8,128,362             | 5,689,740             |
| Boulder Energy Limited                          | 777,540                                 | 7,614,643             | 3,903,251             |
| Canacol Energy Limited                          | 1,676,734                               | 10,116,304            | 5,080,504             |
| Chinook Energy Inc.                             | 6,435,917                               | 15,297,577            | 3,668,473             |
| Crew Energy Inc.                                | 2,058,128                               | 27,426,226            | 9,158,670             |
| Granite Oil Corporation                         | 492,244                                 | 4,430,245             | 3,667,218             |
| Kelt Exploration Limited                        | 1,121,200                               | 8,135,355             | 5,392,972             |
| Leucrotta Exploration Inc.                      | 532,350                                 | 635,595               | 532,350               |
| Parex Resources Inc.                            | 1,144,866                               | 8,014,170             | 11,242,584            |
| Petro Rio SA                                    | 88,550                                  | 2,639,378             | 63,533                |
| Petroamerica Oil Corporation                    | 869,954                                 | 2,836,505             | 626,367               |
| Raging River Exploration Inc.                   | 1,311,900                               | 7,275,198             | 10,888,770            |
| RMP Energy Inc.                                 | 3,358,589                               | 11,772,410            | 6,011,874             |
| Sintana Energy Inc.                             | 8,758,220                               | 1,007,195             | 1,620,271             |
| Sintana Energy Inc., Warrants December 16, 2015 | 1,111,000                               | -                     | 1                     |
| Spartan Energy Corporation                      | 5,296,498                               | 17,048,122            | 12,658,630            |
| Torc Oil & Gas Limited                          | 306,000                                 | 3,090,600             | 2,028,780             |
| Western Energy Services Corporation             | 1,748,255                               | 13,385,722            | 7,220,293             |
| Xtreme Drilling and Coil Services Corporation   | 4,098,909                               | <u>11,092,613</u>     | <u>8,238,807</u>      |
|   |   | <u>\$ 167,552,271</u> | <u>\$ 104,970,908</u> |
| <b>Financials (1.2%)</b>                        |   |                       |                       |
| Committed Capital Acquisition Corporation II    | 200,000                                 | \$ 1,095,854          | \$ 1,177,332          |
| Delavaco Residential Properties Corporation     | 957,668                                 | <u>1,207,149</u>      | <u>275,610</u>        |
|   |   | <u>\$ 2,303,003</u>   | <u>\$ 1,452,942</u>   |
| <b>Industrials (1.4%)</b>                       |   |                       |                       |
| Ceiba Energy Services Inc.                      | 7,755,800                               | <u>\$ 4,138,902</u>   | <u>\$ 1,783,834</u>   |

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

### SCHEDULE OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2015

|  | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$            | Fair<br>Value<br>\$   |
|--|---|-----------------------|-----------------------|
| <b>Materials (11.9%)</b>                         |   |                       |                       |
| Arizona Mining Inc.                              | 12,534,952                              | \$ 10,165,639         | \$ 3,635,136          |
| Calston Exploration Inc.                         | 18,260,868                              | 4,565,217             | 365,217               |
| Dalradian Resources Inc.                         | 6,703,682                               | 7,555,848             | 4,960,725             |
| Dalradian Resources Inc., Warrants July 31, 2017 | 700,000                                 | 42,000                | 66,500                |
| Hudbay Minerals Inc., Warrants July 20, 2018     | 734,284                                 | 1,762,282             | 389,170               |
| IronCo LLC Restricted                            | 5,000                                   | 4,889,019             | 1,765,999             |
| Lundin Mining Corporation                        | 850,000                                 | <u>4,376,615</u>      | <u>3,748,500</u>      |
|  |   | <u>\$ 33,356,620</u>  | <u>\$ 14,931,247</u>  |
| <b>Utilities (0.0%)</b>                          |   |                       |                       |
| Trilliant Inc.                                   | 671,939                                 | <u>\$ 403,163</u>     | <u>\$ 13,439</u>      |
| <b>Total Long Positions (98.3%)</b>              |   | <u>\$ 207,753,959</u> | <u>\$ 123,152,370</u> |
| <b>Short Positions (-0.4%)</b>                   |   |                       |                       |
| <b>Energy (-0.4%)</b>                            |   |                       |                       |
| Bellatrix Exploration Limited                    | (100,000)                               | \$ (312,641)          | \$ (215,000)          |
| iShares S&P/TSX Capped Energy Index ETF          | (29,000)                                | <u>(533,020)</u>      | <u>(329,150)</u>      |
|  |   | <u>\$ (845,661)</u>   | <u>\$ (544,150)</u>   |
| <b>Total Short Positions (-0.4%)</b>             |   | <u>\$ (845,661)</u>   | <u>\$ (544,150)</u>   |
| <b>Transaction costs, note 3</b>                 |   | <u>\$ (722,963)</u>   | -                     |
| <b>Total Investments (97.9%)</b>                 |   | <u>\$ 206,185,335</u> | 122,608,220           |
| <b>Cash and cash equivalents (2.5%)</b>          |   |                       | 3,135,133             |
| <b>Other assets less liabilities (-0.4%)</b>     |   |                       | <u>(463,045)</u>      |
| <b>Net assets (100.0%)</b>                       |   |                       | <u>\$ 125,280,308</u> |

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 1. THE FUND

Front Street Special Opportunities Class (the "Fund") is a class of shares of Front Street Mutual Funds Limited (the "Corporation"), a mutual fund corporation incorporated under the Canada Business Corporations Act on April 11, 2006, and is authorized to issue an unlimited number of classes of shares in multiple series.

Pursuant to an amalgamation of Front Street Mutual Funds Limited and Front Street Special Opportunities Canadian Fund Ltd. on December 1, 2009, a new class of shares of Front Street Mutual Funds Limited was created, being Front Street Special Opportunities Canadian Fund (of which Series A, B, F, X and Y shares were created). Existing shareholders of the Series A, Series B and Series F shares of the Front Street Special Opportunities Canadian Fund Ltd. received Series X, Series Y or Series F shares respectively of Front Street Special Opportunities Canadian Fund class of shares of Front Street Mutual Funds Limited.

Pursuant to the notice of change in legal structure, the name of the Fund was changed to Front Street Special Opportunities Class on June 27, 2012. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure.

The foregoing financial statements and accompanying notes to the financial statements presented herein are for the Fund. Separate financial statements of each of the other classes of shares of the Corporation have also been prepared as at October 31, 2015.

The Fund is managed by Front Street Capital 2004 (the "Manager"). Front Street Investment Management Inc. (the "Investment Advisor") has been retained by the Manager, on behalf of the Fund, to provide investment advisory and portfolio management services to the Fund. Front Street Capital 2004 assumed the portfolio management and investment advisory services from Front Street Investment Management Inc. on October 16, 2015. RBC Investor Services Trust is the custodian. Citigroup Fund Services Canada, Inc. provides shareholder recordkeeping services and fund accounting services.

The Fund's investment objective is to provide Fund security holders capital appreciation through the investment in equity securities of companies whose product, service or management team the Investor Advisor believes can realize value and growth. The Investor Advisor may rely on "top down" fundamental research to identify equity securities of companies in a particular industry or sector, but portfolio diversification will be driven primarily from the Fund's investments, as opposed to targeting sector weights.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 2. BASIS OF PRESENTATION AND ADOPTION OF INTERNATIONAL FINANCIAL STANDARDS

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). The Fund adopted IFRS in 2015 as required by Canadian securities legislation and the Canadian Accounting Standards Board. These are the Fund's first annual financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied. For the period from November 1, 2013 to October 31, 2014, the Fund had previously prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as defined in Part V of the CPA Canada Handbook. To prepare comparative information, the Fund has applied IFRS as at November 1, 2013, the Fund's date of transition to IFRS. The accounting, estimation and valuation policies adopted on conversion to IFRS, as described below, have been applied consistently to all periods presented herein. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows is provided in note 14 (Explanation of Transition to IFRS).

These financial statements were authorized for issue by the Board of Directors on January 25, 2016.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been applied consistently to all periods presented in these financial statements and in preparing the statement of financial position as at November 1, 2013 for the purpose of the transition to IFRS.

(a) Financial instruments:

**Classification of financial instruments**

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

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

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

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

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

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

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

The Fund recognizes financial instruments at fair value upon initial recognition. Transaction costs include brokerage commissions incurred in the purchase and sale of portfolio investments in which the Fund invests. All such costs are expensed in the period incurred and presented in the statements of comprehensive income. Purchases and sales of financial assets are recognized at their trade date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL), including certain investments in debt securities which have been designated at FVTPL. The Fund's obligations for net assets attributable to shareholders of redeemable shares are presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Fund's accounting policies for measuring the fair value of its investments and derivatives, except for warrants classified as level 2 are identical to those used in measuring its net asset value ("NAV") for transactions with shareholders.

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Quantitative information on the impact on the Fund's statements of financial position if all amounts were set off is required.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

(b) Fair value measurement:

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. The fair value of financial instruments traded in active markets should be measured based on a price within the bid and ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The Fund has determined the closing sale price to be most reflective of fair value unless this price is outside the bid and ask spread. When the closing sale price of financial instruments traded in active markets is outside the bid and ask spread, such financial instruments are measured based on the bid price for securities owned or held long and on the asking price for securities sold short. The fair value of financial instruments not traded in an active market (including, but not limited to securities in private companies, warrants and restricted securities) are determined using valuation techniques. Depending on the circumstances, the Fund may use several methods and make assumptions based on market conditions existing at each reporting date. Valuation techniques may include, without limitation, the use of comparable recent arm's length transactions, discounted cash flow analysis, option-pricing models and other valuation techniques commonly used by market participants. Estimated fair values for investments in securities not traded in an active market are based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for such investments.

The fair value of financial instruments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided above less a discount of 2% per month up to four months.

Short-term investments, if any, are valued at the aggregate of cost and accrued interest receivable, which approximates fair value.

For financial statement reporting purposes, under National Instrument 81-106 ("NI 81-106") the Fund is required to disclose the differences between net assets attributable to redeemable shares per share and net asset value per share, including any differences in valuation principles or practices for the purposes of calculating net asset value versus those required under IFRS. A reconciliation between the net assets attributable to redeemable shares per share for financial reporting purposes and net asset value for investor transactions is presented in note 10 (Reconciliation of Net Asset Value to IFRS Net Assets Attributable to Shareholders of Redeemable Shares).

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

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

(c) Cash and cash equivalents

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

(d) Redeemable shares

The Fund classifies redeemable shares issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has multiple classes of redeemable shares that do not have identical features and therefore, do not qualify as equity under IAS 32, Financial Instruments. The redeemable shares, which are classified as financial liabilities and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a share price based on the Fund's valuation policies at each redemption date. The shares represent the residual interest in the Fund.

(e) Impairment of financial assets

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

(f) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Realized gains and losses are calculated on a weighted average cost basis.

Revenue from investments is recognized on the accrual basis. Interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis and is recognized through profit and loss. Dividend revenue is recognized on the ex-dividend date.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

(g) Securities lending, repurchase and reverse repurchase transactions

The Fund is permitted to enter into securities lending, repurchase and reverse repurchase transactions as set out in the Simplified Prospectus. These transactions involve the temporary exchange of securities for collateral with a commitment to redeliver the same securities on a future date. The value of cash or securities held as collateral must at least 102% of the fair value of the securities loaned, sold or purchased. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the statements of comprehensive income under the heading securities lending revenue.

(h) Foreign currency translation

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

Realized and unrealized exchange gains and losses on foreign currency cash and cash equivalents and other assets and liabilities are presented as "Foreign currency gain (loss) on cash and cash equivalents and other net assets". Realized and unrealized exchange gains and losses on investments and derivatives are presented within "Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss".

(i) Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations per share

Increase (decrease) in net assets attributable to shareholders of redeemable shares from operations per share is calculated by dividing the increase (decrease) in net assets attributable to shareholders of redeemable shares from operations of a series by the average number of shares outstanding of that series during the year.

(j) Net assets attributable to shareholders of redeemable shares per share

The net assets attributable to shareholders of redeemable shares per share are calculated by dividing the net assets of a series of shares by the total number of redeemable shares of that series outstanding at the end of the year.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

(k) Transaction costs

Portfolio transaction costs are expensed and are included in "Transaction costs" in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges. The individual security's cost shown on the schedule of investment portfolio includes only those transaction costs incurred on the acquisition of portfolio investments.

(l) Provisions

The Fund recognizes a provision, if as a result of a prior event, the Fund has a current obligation requiring the outflow of resources to settle. Provisions are recorded at the Manager's best estimates of the most probable outcome of any future settlement.

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

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

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

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

(n) Future changes in accounting standards:

IFRS 9 - Financial Instruments

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

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Valuation of investments

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

(b) Other judgments, estimates and assumptions

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

(c) Assessment as investment entity

The Manager has concluded that the Fund has the characteristics of an investment entity, in that it has more than one investment and is managed in accordance with the articles of incorporation and prospectus; the investments are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics change.

#### 5. REDEEMABLE SHARES

Net assets attributable to holders of redeemable shares consists of amounts paid for shares, undistributed income, realized gains and losses and unrealized appreciation (depreciation) of financial assets at FVTPL, and represents the capital of the Fund. The Fund may issue an unlimited number of redeemable shares. Each share is redeemable at the option of the shareholder in accordance with the articles of incorporation and prospectus, and entitles the shareholder to a proportionate interest in the net assets of the Fund. The Fund has no restrictions or specified capital requirements on subscriptions or redemptions of shares.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 5. REDEEMABLE SHARES (Continued...)

The authorized capital of the Fund consists of an unlimited number of mutual fund shares, available in five series. Redemption and commission fees vary according to each series of shares as follows:

##### **Series A shares**

Redemption fees payable to the Manager may be applicable upon the sale of shares of this series based on the original cost amount and the time to disposition. A redemption fee of 3% applies to shares of this series sold within the first 18 months following acquisition. A redemption fee of 2% applies to shares of this series sold between the first 18 months to 36 months following acquisition. No redemption fee applies to shares of this series sold after the third year following acquisition.

##### **Series B shares**

Commission fees payable to brokers, dealers or advisors may be applicable upon the purchase of shares of this series up to 5% of the gross purchase amount, at the discretion of the broker, dealer or advisor.

##### **Series F shares**

No redemption or commission fees are applicable to shares of this series.

##### **Series X shares**

Redemption fees payable to the Manager may be applicable upon the sale of shares of this series based on the original cost amount and the time to disposition. A redemption fee of 5% applies to shares of this series sold within the first year following acquisition. A redemption fee of 3% applies to shares of this series sold within the second year following acquisition. A redemption fee of 1.5% applies to shares of this series sold within the third year following acquisition. No redemption fee applies to shares of this series sold after the third year following acquisition.

##### **Series Y shares**

No redemption or commission fees are applicable to shares of this series.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 5. REDEEMABLE SHARES (Continued...)

The Fund allocates income and expenses, and realized and unrealized capital gains and losses to each class of redeemable shares outstanding based on the average class allocation for the year.

The following redeemable share transactions took place during the year ended October 31:

|   | 2015       | 2014       |
|---|------------|------------|
| Redeemable shares outstanding, beginning of the year: |            |            |
| Series A  | 9,474,363  | 11,732,520 |
| Series B  | 11,434,196 | 13,366,728 |
| Series F  | 6,186,050  | 6,009,766  |
| Series X  | 2,963,689  | 4,302,635  |
| Series Y  | 9,779,860  | 11,246,394 |
| Redeemable Shares issued during the year:             |            |            |
| Series A  | 923,227    | 1,044,191  |
| Series B  | 1,738,207  | 3,023,830  |
| Series F  | 1,915,086  | 1,874,900  |
| Series X  | 3,952      | 35,077     |
| Series Y  | -          | -          |
| Redeemable Shares redeemed during the year:           |            |            |
| Series A  | 3,454,951  | 3,302,348  |
| Series B  | 3,606,155  | 4,956,362  |
| Series F  | 4,402,562  | 1,698,616  |
| Series X  | 882,478    | 1,374,023  |
| Series Y  | 1,431,879  | 1,466,534  |
| Redeemable Shares outstanding, end of the year:       |            |            |
| Series A  | 6,942,639  | 9,474,363  |
| Series B  | 9,566,248  | 11,434,196 |
| Series F  | 3,698,574  | 6,186,050  |
| Series X  | 2,085,163  | 2,963,689  |
| Series Y  | 8,347,981  | 9,779,860  |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 6. FEES AND EXPENSES

The Fund pays a monthly management fee equal to 1/12 of 1.5% of the net asset value of the Fund calculated and paid at the end of each month payable monthly in arrears for series A, B, F and X of the Fund. The Fund pays a monthly management fee equal to 1/12 of 1% of the net asset value of Series Y calculated and paid at the end of each month payable monthly in arrears.

In consideration of the management fees payable by the Fund to the Manager, the Manager is responsible for providing marketing and promotion, fund management and administration and investment advisory services to the Fund. Fund management and administration services include establishing investment objectives, selecting investment sub-advisors, if applicable, and establishing and maintaining an appropriate infrastructure to meet accounting, financial and taxation reporting requirements. The Manager is also responsible for establishing and maintaining a servicing and risk management framework to ensure regulatory compliance, which includes regular monitoring. The Manager does not charge or allocate corporate overhead or expenses to the Fund.

The Fund pays a monthly service fee of 1/12 of 1% of the net asset value of the Series A, Series B, and Series Y shares calculated and paid at the end of each month. The Fund pays a monthly service fee of 1/12 of 0.50% of the net asset value of Series X shares calculated and paid at the end of each month.

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 shareholders. As the Fund has more than one series of shares, the shareholders 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 may, at its discretion, add a service charge of up to 15% of the costs incurred for any operating and administrative costs charged to the Fund other than management services which are already included in the management fee rate which the Manager receives from the Fund. The 15% service charge is intended to cover certain investor servicing costs attributable solely to the Fund, such as the establishment of the Fund's client servicing models, maintenance of investor support phone lines, and investor website and email support. The Manager stopped charging such fees August 2015.

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 quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the S&P/TSX Composite Index (the "Benchmark") over the same year. The fee is equal to this excess return per share multiplied by the number of shares outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per share of the Fund (including distributions) is greater than all previous values at the end of each previous quarter. The starting reference point for the next quarter's calculation is based on the higher of either the Benchmark performance adjusted net asset value per share or the adjusted actual net asset value per share, both with respect to the previous quarter in which a performance fee was payable.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 7. INCOME TAX DISTRIBUTION

The Fund qualifies as a mutual fund corporation under the Income Tax Act (Canada). The Corporation will earn three types of income, Canadian dividends, taxable capital gains and other net taxable income. The income of the Fund, including taxable capital gains, will be subject to income tax at applicable corporate tax rates, after claiming allowable deductions for expenses and applicable credits for foreign taxes paid on foreign-source income. Income tax on capital gains is refundable to the Fund to the extent that such gains are distributed to shareholders as capital gains dividends or the Fund's share are redeemed. Gains and losses realized by the Fund in relation to certain derivative transactions and short sale transactions may be taxed on account of income as opposed to on account of capital. Other income is subject to tax at normal corporate rates and is not subject to refundable tax treatment.

The Fund may elect in the prescribed manner and form in order to have the dividends it distributes treated as capital gains dividends to the extent that the dividends do not exceed the Fund's capital gains dividend account. The capital gains dividend account will be represented by the amount by which capital gains realized by the Fund while it was a mutual fund corporation exceed the aggregate of:

- (a) capital losses realized by the Fund while it was a mutual fund corporation;
- (b) certain capital gains dividends previously paid by it; and
- (c) amounts in respect of which the Fund received capital gains tax refunds.

The Corporation is a single legal entity for tax purposes and is not taxed on a fund-by-fund basis. Non-capital and capital losses of the Corporation may be applied against the income and/or capital gains attributable to the Corporation as a whole irrespective of the Fund from which the income, gains and/or losses arise. Therefore, where the Corporation has positive net taxable income, any current tax liability can be offset with the utilization of unused prior year tax losses of the Corporation. Further, the payment of capital gains dividends, will also reduce or eliminate any taxes payable by the Corporation. This eliminates the requirement for a net tax provision for the Fund.

The Corporation's shares are qualified investments for registered plans.

#### 8. TRANSACTION COSTS AND SOFT DOLLARS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended October 31, 2015 was \$568,916 (2014 - \$1,135,947).

There were no soft dollar amounts included in brokerage commissions.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 9. RELATED PARTY TRANSACTIONS

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

|                         | 2015                | 2014                |
|-------------------------|---------------------|---------------------|
| Management fees, note 6 | <u>\$ 2,565,388</u> | <u>\$ 5,293,115</u> |
| Servicing fees, note 6  | <u>\$ 1,398,352</u> | <u>\$ 2,715,898</u> |
| Operating costs, note 6 | <u>\$ 84,200</u>    | <u>\$ 169,691</u>   |

Management fees payable and other payables included in the accrued expenses were as follows:

|                         | October 31,<br>2015 | October 31,<br>2014 | November 1,<br>2013 |
|-------------------------|---------------------|---------------------|---------------------|
| Management fees payable | <u>\$ 163,861</u>   | <u>\$ 367,182</u>   | <u>\$ 410,876</u>   |
| Servicing fees payable  | \$ 91,291           | \$ 193,399          | \$ 219,587          |
| Operating costs payable | <u>-</u>            | <u>32,896</u>       | <u>9,817</u>        |
|                         | <u>\$ 91,291</u>    | <u>\$ 226,295</u>   | <u>\$ 229,404</u>   |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

#### 9. RELATED PARTY TRANSACTIONS (Continued...)

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

|  | October 31,<br>2015 | October 31,<br>2014 | November 1,<br>2013 |
|--|---------------------|---------------------|---------------------|
| Series F shares held by the Partners and Officers of the Manager                   | 9,230.47            | 210,882.98          | 2,873.77            |
| Percentage of Series F shares held by the Partners and Officers of the Manager     | 0.25%               | 3.41%               | 0.05%               |
| Series F shares held by the relatives of the Partners of the Manager               | -                   | 13,751.71           | 14,882.88           |
| Percentage of Series F shares held by the relatives of the Partners of the Manager | -%                  | 0.22%               | 0.25%               |
| Series Y shares held by the Partners of the Manager                                | 1,632,265.32        | 1,632,265.32        | 1,649,999.99        |
| Percentage of Series Y shares held by the Partners of the Manager                  | 19.55%              | 16.69%              | 14.67%              |
| Series Y shares held by the relatives of the Partners of the Manager               | 1,630,980.13        | 1,664,156.28        | 1,687,686.48        |
| Percentage of Series Y shares held by the relatives of the Partners of the Manager | 19.54%              | 17.02%              | 15.01%              |

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 October 31, 2015, Tuscarora Capital Inc., a company under common control to the Manager, received \$14,821 (2014 - \$94,099) in commissions on portfolio transactions for the Fund.

Management fees, servicing fees, operating costs and performance fees are measured at the consideration prescribed by the offering documents of the Fund. When related parties enter shareholder transactions with the Fund, the consideration is the transactional NAV available to all other shareholders on the trade date.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

#### 10. RECONCILIATION OF NET ASSET VALUE TO IFRS NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS OF REDEEMABLE SHARES

Investment funds may have two different net asset values: (i) one for financial statements, which is prepared in accordance with IFRS (referred to as "IFRS NA") and (ii) another for all other purposes, including share pricing for investor transactions (referred to as "net asset value"). For investments that are traded in an active market where quoted prices are readily and regularly available, IFRS requires investments to be valued using the methods and principles described in note 3 (Summary of significant accounting policies – Fair value measurement), wherein the Fund may use closing sale prices for the purpose of determining net asset value. For investments that are not traded in an active market, IFRS requires the use of specific valuation techniques, rather than the use of valuation techniques in general practice in the investment funds industry. National Instrument 81-106 ("NI 81-106") requires that annual financial statements present a reconciliation of Net asset value per share to IFRS Net Assets Attributable to Shareholders of Redeemable Shares.

As at October 31, 2015 and 2014, there is no variance between the IFRS NA per share to net asset value per share.

As at November 1, 2013, that reconciliation is as follows:

|          | Net asset<br>value | Financial reporting<br>adjustment | IFRS<br>NA     | Net asset<br>value<br>per share | IFRS<br>NA<br>per share |
|----------|--------------------|-----------------------------------|----------------|---------------------------------|-------------------------|
| Series A | \$ 78,437,833      | \$ 21,951                         | \$ 78,459,784  | \$ 6.69                         | \$ 6.69                 |
| Series B | 89,328,909         | 24,969                            | 89,353,878     | 6.68                            | 6.68                    |
| Series F | 43,146,372         | 12,047                            | 43,158,419     | 7.18                            | 7.18                    |
| Series X | 29,730,576         | 8,318                             | 29,738,894     | 6.91                            | 6.91                    |
| Series Y | 78,261,315         | 21,835                            | 78,283,150     | 6.96                            | 6.96                    |
| Total    | \$ 318,905,005     | \$ 89,120                         | \$ 318,994,125 |                                 |                         |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of financial assets and liabilities at FVIPL, cash and cash equivalents, dividends receivable, subscriptions receivable, interest and other receivables, receivables for investments sold, accrued expenses and redemptions payable. It is the Manager's opinion that due to the short term nature of these financial instruments, the Fund is not exposed to significant market price, currency, interest rate, liquidity, cash flow, credit, and portfolio concentration risks arising from these financial instruments except as described below. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

All securities present a risk of loss of capital. The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisors, by daily monitoring of the Fund's positions and market events, and by diversifying the investment portfolio within the constraints of the investment objective. To assist in managing risk, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

The schedule of investment portfolio presents the securities held by the Fund as at October 31, 2015 and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

The Fund is exposed to financial risks, including market risk, currency risk, interest rate risk, liquidity risk, cash flow risk, credit risk and concentration risk. The Fund's overall risk management program seeks to minimize potentially adverse effects of those risks on the Fund's financial performance. The Fund moderates financial risks through the careful selection of portfolio investments and other financial instruments within the parameters of the investment guidelines, strategies and objectives.

i) Market price risk

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

The Fund is exposed to market price risk arising from its investments in securities. The Investment Manager manages the Fund's market price risk on a daily basis in accordance with the Fund's investment objective and policies.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

##### ii) Currency risk

The Fund may invest in financial instruments denominated in currencies other than its measurement currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of the portion of the Fund's assets or liabilities denominated in currencies other than Canadian dollars, absent any changes in market price or investment specific events.

Included in the undernoted accounts are the following foreign currency balances:

As at October 31, 2015

| Currency             | Financial instruments at FVTPL | Cash and cash equivalents | Total               | Percentage of Net Assets |
|----------------------|--------------------------------|---------------------------|---------------------|--------------------------|
| United States Dollar | \$ 3,218,941                   | \$ 584,508                | \$ 3,803,449        | 3.04 %                   |
| Brazilian Real       | <u>63,533</u>                  | <u>-</u>                  | <u>63,533</u>       | <u>0.05 %</u>            |
|                      | <u>\$ 3,282,474</u>            | <u>\$ 584,508</u>         | <u>\$ 3,866,982</u> | <u>3.09 %</u>            |

As at October 31, 2014

| Currency             | Financial instruments at FVTPL | Cash and cash equivalents | Total               | Percentage of Net Assets |
|----------------------|--------------------------------|---------------------------|---------------------|--------------------------|
| United States Dollar | \$ 6,439,083                   | \$ 504,080                | \$ 6,943,163        | 2.66 %                   |
| Brazilian Real       | <u>395,433</u>                 | <u>-</u>                  | <u>395,433</u>      | <u>0.15 %</u>            |
|                      | <u>\$ 6,834,516</u>            | <u>\$ 504,080</u>         | <u>\$ 7,338,596</u> | <u>2.81 %</u>            |

As at November 1, 2013

| Currency             | Financial instruments at FVTPL | Cash and cash equivalents | Total               | Percentage of Net Assets |
|----------------------|--------------------------------|---------------------------|---------------------|--------------------------|
| United States Dollar | \$ 8,072,430                   | \$ -                      | \$ 8,072,430        | 2.53 %                   |
| Brazilian Real       | <u>274,267</u>                 | <u>-</u>                  | <u>274,267</u>      | <u>0.09 %</u>            |
|                      | <u>\$ 8,346,697</u>            | <u>\$ -</u>               | <u>\$ 8,346,697</u> | <u>2.62 %</u>            |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

##### iii) Interest rate risk

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at October 31, 2015, Nil% (October 31, 2014 – Nil%; November 1, 2013 – 0.5%) of net assets invested in bonds. The remaining portion of the Fund's investments are substantially non-interest bearing equity investments.

As at October 31, 2015

| Financial assets               | Floating Rate<br>Financial<br>Instruments | Fixed Rate<br>Financial<br>Instruments | Non-interest<br>Bearing | Total                 |
|--------------------------------|---|--|-------------------------|-----------------------|
| Financial assets at FVTPL      | \$ -                                      | \$ -                                   | \$ 123,152,370          | \$ 123,152,370        |
| Cash and cash equivalents      | 3,135,133                                 | -                                      | -                       | 3,135,133             |
| Loans and receivables          | <u>-</u>                                  | <u>-</u>                               | <u>422,305</u>          | <u>422,305</u>        |
| Total                          | <u>\$ 3,135,133</u>                       | <u>\$ -</u>                            | <u>\$ 123,574,675</u>   | <u>\$ 126,709,808</u> |
| Financial liabilities          |   |  |                         |                       |
| Financial liabilities at FVTPL | \$ -                                      | \$ -                                   | \$ 544,150              | \$ 544,150            |
| Other financial liabilities    | <u>-</u>                                  | <u>-</u>                               | <u>885,350</u>          | <u>885,350</u>        |
| Total                          | <u>\$ -</u>                               | <u>\$ -</u>                            | <u>\$ 1,429,500</u>     | <u>\$ 1,429,500</u>   |
| IFRS NA                        |   |  |                         | <u>\$ 125,280,308</u> |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

##### iii) Interest rate risk (Continued...)

As at October 31, 2014

| Financial assets               | Floating Rate<br>Financial<br>Instruments | Fixed Rate<br>Financial<br>Instruments | Non-interest<br>Bearing | Total                 |
|--------------------------------|---|--|-------------------------|-----------------------|
| Financial assets at FVTPL      | \$ -                                      | \$ -                                   | \$ 253,523,943          | \$ 253,523,943        |
| Cash and cash equivalents      | 7,037,639                                 | -                                      | -                       | 7,037,639             |
| Loans and receivables          | -   | -                                      | 4,030,602               | 4,030,602             |
| Total                          | <u>\$ 7,037,639</u>                       | <u>\$ -</u>                            | <u>\$ 257,554,545</u>   | <u>\$ 264,592,184</u> |
| Financial liabilities          |   |  |                         |                       |
| Financial liabilities at FVTPL | \$ -                                      | \$ -                                   | \$ 477,050              | \$ 477,050            |
| Other financial liabilities    | -   | -                                      | 3,055,776               | 3,055,776             |
| Total                          | <u>\$ -</u>                               | <u>\$ -</u>                            | <u>\$ 3,532,826</u>     | <u>\$ 3,532,826</u>   |
| IFRS NA                        |   |  |                         | <u>\$ 261,059,358</u> |

As at November 1, 2013

| Financial assets               | Floating Rate<br>Financial<br>Instruments | Fixed Rate<br>Financial<br>Instruments | Non-interest<br>Bearing | Total                 |
|--------------------------------|---|--|-------------------------|-----------------------|
| Financial assets at FVTPL      | \$ -                                      | \$ 1,564,945                           | \$ 320,087,089          | \$ 321,652,034        |
| Loans and receivables          | -   | -                                      | 990,500                 | 990,500               |
| Total                          | <u>\$ -</u>                               | <u>\$ 1,564,945</u>                    | <u>\$ 321,077,589</u>   | <u>\$ 322,642,534</u> |
| Financial liabilities          |   |  |                         |                       |
| Financial liabilities at FVTPL | \$ -                                      | \$ -                                   | \$ 493,580              | \$ 493,580            |
| Bank overdraft                 | 556,373                                   | -                                      | -                       | 556,373               |
| Other financial liabilities    | -   | -                                      | 2,598,456               | 2,598,456             |
| Total                          | <u>\$ 556,373</u>                         | <u>\$ -</u>                            | <u>\$ 3,092,036</u>     | <u>\$ 3,648,409</u>   |
| IFRS NA                        |   |  |                         | <u>\$ 318,994,125</u> |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

iv) Liquidity risk

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

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

As at October 31, 2015

|                                | 0 - 12<br>months    | 1 - 3<br>years    | 3 - 5<br>years | Beyond<br>5 years | Indefinite<br>maturity | Total                |
|--------------------------------|---------------------|-------------------|----------------|-------------------|------------------------|----------------------|
| Financial assets               |                     |                   |                |                   |                        |                      |
| Financial assets at FVTPL      | \$ 1                | \$ 455,671        | \$ -           | \$ -              | \$122,696,698          | \$123,152,370        |
| Cash and cash equivalents      | 3,135,133           | -                 | -              | -                 | -                      | 3,135,133            |
| Loans and receivables          | <u>422,305</u>      | <u>-</u>          | <u>-</u>       | <u>-</u>          | <u>-</u>               | <u>422,305</u>       |
| Total                          | <u>\$ 3,557,439</u> | <u>\$ 455,671</u> | <u>\$ -</u>    | <u>\$ -</u>       | <u>\$122,696,698</u>   | <u>\$126,709,808</u> |
| Financial liabilities          |                     |                   |                |                   |                        |                      |
| Financial liabilities at FVTPL | \$ -                | \$ -              | \$ -           | \$ -              | \$ 544,150             | \$ 544,150           |
| Other financial liabilities    | <u>885,350</u>      | <u>-</u>          | <u>-</u>       | <u>-</u>          | <u>-</u>               | <u>885,350</u>       |
| Total                          | <u>\$ 885,350</u>   | <u>\$ -</u>       | <u>\$ -</u>    | <u>\$ -</u>       | <u>\$ 544,150</u>      | <u>\$ 1,429,500</u>  |
| IFRS NA                        |                     |                   |                |                   |                        | <u>\$125,280,308</u> |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

##### iv) Liquidity risk (Continued...)

As at October 31, 2014

| Financial assets               | 0 - 12<br>months           | 1 - 3<br>years          | 3 - 5<br>years           | Beyond<br>5 years  | Indefinite<br>maturity      | Total                       |
|--------------------------------|----------------------------|-------------------------|--------------------------|--------------------|-----------------------------|-----------------------------|
| Financial assets at FVTPL      | \$ 1,191,112               | \$ 56,007               | \$ 580,084               | \$ -               | \$251,696,740               | \$253,523,943               |
| Cash and cash equivalents      | 7,037,639                  | -                       | -                        | -                  | -                           | 7,037,639                   |
| Loans and receivables          | <u>4,030,602</u>           | <u>-</u>                | <u>-</u>                 | <u>-</u>           | <u>-</u>                    | <u>4,030,602</u>            |
| <b>Total</b>                   | <b><u>\$12,259,353</u></b> | <b><u>\$ 56,007</u></b> | <b><u>\$ 580,084</u></b> | <b><u>\$ -</u></b> | <b><u>\$251,696,740</u></b> | <b><u>\$264,592,184</u></b> |
| Financial liabilities          |                            |                         |                          |                    |                             |                             |
| Financial liabilities at FVTPL | \$ -                       | \$ -                    | \$ -                     | \$ -               | \$ 477,050                  | \$ 477,050                  |
| Other financial liabilities    | <u>3,055,776</u>           | <u>-</u>                | <u>-</u>                 | <u>-</u>           | <u>-</u>                    | <u>3,055,776</u>            |
| <b>Total</b>                   | <b><u>\$ 3,055,776</u></b> | <b><u>\$ -</u></b>      | <b><u>\$ -</u></b>       | <b><u>\$ -</u></b> | <b><u>\$ 477,050</u></b>    | <b><u>\$ 3,532,826</u></b>  |
| IFRS NA                        |                            |                         |                          |                    |                             | <u>\$261,059,358</u>        |

As at November 1, 2013

| Financial assets               | 0 - 12<br>months           | 1 - 3<br>years            | 3 - 5<br>years     | Beyond<br>5 years         | Indefinite<br>maturity      | Total                       |
|--------------------------------|----------------------------|---------------------------|--------------------|---------------------------|-----------------------------|-----------------------------|
| Financial assets at FVTPL      | \$ 204,715                 | \$1,500,807               | \$ -               | \$1,564,945               | \$318,381,567               | \$321,652,034               |
| Loans and receivables          | <u>990,500</u>             | <u>-</u>                  | <u>-</u>           | <u>-</u>                  | <u>-</u>                    | <u>990,500</u>              |
| <b>Total</b>                   | <b><u>\$ 1,195,215</u></b> | <b><u>\$1,500,807</u></b> | <b><u>\$ -</u></b> | <b><u>\$1,564,945</u></b> | <b><u>\$318,381,567</u></b> | <b><u>\$322,642,534</u></b> |
| Financial liabilities          |                            |                           |                    |                           |                             |                             |
| Financial liabilities at FVTPL | \$ -                       | \$ -                      | \$ -               | \$ -                      | \$ 493,580                  | \$ 493,580                  |
| Bank indebtedness              | 556,373                    | -                         | -                  | -                         | -                           | 556,373                     |
| Other financial liabilities    | <u>2,598,456</u>           | <u>-</u>                  | <u>-</u>           | <u>-</u>                  | <u>-</u>                    | <u>2,598,456</u>            |
| <b>Total</b>                   | <b><u>\$ 3,154,829</u></b> | <b><u>\$ -</u></b>        | <b><u>\$ -</u></b> | <b><u>\$ -</u></b>        | <b><u>\$ 493,580</u></b>    | <b><u>\$ 3,648,409</u></b>  |
| IFRS NA                        |                            |                           |                    |                           |                             | <u>\$318,994,125</u>        |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

iv) Liquidity risk (Continued...)

Certain of the Fund's investments are in private securities which are thinly traded. As at October 31, 2015, the fair value of such assets was 1.7% (October 31, 2014 – 8.5%; November 1, 2013 – 9.3%) 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.

vi) Credit risk

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

Financial assets which potentially expose the Fund to credit risk consist principally of investment in bonds, 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 Financial Position.

As at October 31, 2015, the Fund had Nil% (October 31, 2014 - Nil%; November 1, 2013 - 0.5%) of holdings in debt instruments with the following credit ratings obtained from Standard and Poor's Moody's or DBRS:

|                                   | Percentage of net assets |                  |                  |
|-----------------------------------|--------------------------|------------------|------------------|
| Debt instruments by credit rating | October 31, 2015         | October 31, 2014 | November 1, 2013 |
| Not available or not rated        | - %                      | - %              | 0.5 %            |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

vii) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The Fund's concentration risk by market segments/categories of financial instruments has been summarized as follows:

|                               | October 31, 2015 | October 31, 2014 | November 1, 2013 |
|-------------------------------|------------------|------------------|------------------|
| Energy                        | 83.4 %           | 80.6 %           | 80.3 %           |
| Materials                     | 11.9 %           | 8.4 %            | 13.7 %           |
| Cash and cash equivalents     | 2.5 %            | 2.7 %            | (0.2)%           |
| Industrial                    | 1.4 %            | 7.1 %            | 6.1 %            |
| Financials                    | 1.2 %            | 0.8 %            | 0.0%             |
| Utilities                     | 0.0%             | 0.0%             | 0.1 %            |
| Corporate bonds               | 0.0%             | 0.0%             | 0.5 %            |
| Other assets less liabilities | <u>(0.4)%</u>    | <u>0.4 %</u>     | <u>(0.5)%</u>    |
| Total                         | <u>100.0 %</u>   | <u>100.0 %</u>   | <u>100.0 %</u>   |

#### 12. CAPITAL MANAGEMENT

The Fund considers financial instruments in the form of redeemable shares to represent capital. In managing this capital, the objectives of the Fund are:

- (a) to safeguard the Fund's ability to continue as a going concern, be flexible and take advantage of opportunities that might present themselves;
- (b) to provide an appropriate return to shareholders; and
- (c) to use active management strategies intended to enhance the returns of the Fund and concurrently minimize risk and preserve capital, consistent with the investment guidelines, strategies and objectives of the Fund.

The Fund follows, and is in compliance with, the Investment Guidelines described in the Prospectus.

The Fund is not subject to any externally imposed capital requirements.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

#### 13. FAIR VALUE HIERARCHY

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

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

The following tables summarize the inputs used as of October 31, 2015; October 31, 2014 and November 1, 2013 in valuing the Fund's financial assets and liabilities at FVTPL.

| As at October 31, 2015         |                       |                     |                      |                       |
|--------------------------------|-----------------------|---------------------|----------------------|-----------------------|
|                                | Level 1               | Level 2             | Level 3              | Total                 |
| Financial assets at FVTPL      | <u>\$ 121,007,714</u> | <u>\$ 1</u>         | <u>\$ 2,144,655</u>  | <u>\$ 123,152,370</u> |
| Financial liabilities at FVTPL | <u>\$ 544,150</u>     | <u>\$ -</u>         | <u>\$ -</u>          | <u>\$ 544,150</u>     |
| As at October 31, 2014         |                       |                     |                      |                       |
|                                | Level 1               | Level 2             | Level 3              | Total                 |
| Financial assets at FVTPL      | <u>\$ 229,010,361</u> | <u>\$ 2,368,311</u> | <u>\$ 22,145,271</u> | <u>\$ 253,523,943</u> |
| Financial liabilities at FVTPL | <u>\$ 477,050</u>     | <u>\$ -</u>         | <u>\$ -</u>          | <u>\$ 477,050</u>     |
| As at November 1, 2013         |                       |                     |                      |                       |
|                                | Level 1               | Level 2             | Level 3              | Total                 |
| Financial assets at FVTPL      | <u>\$ 290,273,162</u> | <u>\$ 1,717,921</u> | <u>\$ 29,660,951</u> | <u>\$ 321,652,034</u> |
| Financial liabilities at FVTPL | <u>\$ 493,580</u>     | <u>\$ -</u>         | <u>\$ -</u>          | <u>\$ 493,580</u>     |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

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

|                             | Financial assets<br>at FVTPL<br>Equities | Financial assets<br>at FVTPL<br>Bonds |
|-----------------------------|--|---------------------------------------|
| Balance at November 1, 2013 | \$ 28,096,006                            | \$ 1,564,945                          |
| Purchases                   | 8,200,200                                | -                                     |
| Proceeds from sales         | (16,507,155)                             | (1,787,109)                           |
| Gains (losses)              |  |                                       |
| Realized                    | (15,696,250)                             | 292,430                               |
| Unrealized                  | <u>18,052,470</u>                        | <u>(70,266)</u>                       |
| Balance at October 31, 2014 | 22,145,271                               | -                                     |
| Purchases                   | 15,400                                   | -                                     |
| Proceeds from sales         | (11,138,310)                             | -                                     |
| Transfers out               | (2,278,465)                              | -                                     |
| Gains (losses)              |  |                                       |
| Realized                    | (5,611,219)                              | -                                     |
| Unrealized                  | <u>(988,022)</u>                         | <u>-</u>                              |
| Balance at October 31, 2015 | <u>\$ 2,144,655</u>                      | <u>\$ -</u>                           |

The transfers out during the year ended October 31, 2015 represented equities and debt instruments held by the Fund converted to common shares which have quoted prices in active markets.

#### Valuation techniques and framework

The Fund's portfolio investments in equity securities are classified as Level 1 when the security is actively traded and a reliable price is observable. The Fund may not be able to trade certain equity securities of publicly listed issuers (primarily warrants and shares for which trading is restricted by a contractual hold period), and therefore observable prices may not be available. In such cases, fair value is determined based on observable market data (e.g., prices for transactions for similar securities of the same issuer) and the fair value is classified as Level 2. However, if the determination of fair value requires significant unobservable data, the measurement of such securities is classified as Level 3.

Valuation techniques are used for equity securities classified as Level 2 and Level 3 (primarily private companies).

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

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

Valuation techniques may include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models, including but not limited to the Black-Scholes stock option model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indices, EBITDA and/or revenue multiples and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement for an asset to be sold or a liability to be transferred between market participants at a measurement date.

The Fund uses widely recognized valuation models for determining the fair value of common and simple financial instruments, such as warrants and temporarily restricted shares of public companies, which generally use observable market data and require some management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and other simple derivatives. The availability of observable market prices and model inputs may reduce the need for management judgment and estimation and may reduce, but does not eliminate, uncertainty associated with determining fair values. The availability of observable inputs may vary and depends on the nature of the securities being valued and markets, and is subject to change based on specific events and general conditions in the financial markets. Management applies a certain discount to restricted securities in order to determine the fair value of these securities. To determine the fair value of warrants, management uses the Black-Scholes stock option model, which incorporates the volatility of the underlying stock.

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

The Fund has established a control framework for the measurement of fair value. The valuation process is overseen by management, who are responsible for developing the Fund's valuation processes and procedures, conducting periodic reviews of those policies and evaluating their consistent application. When third party information, such as broker quotes or pricing services or recent transactions, are used to measure value, then management assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes verifying the information provided, and analyzing the information to check for any material inconsistencies.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

Valuation techniques and framework (Continued...)

The tables below summarize the level 3 financial assets at FVTPL valued based on the aforementioned valuation techniques as at October 31, 2015, October 31, 2014 and November 1, 2013.

| As at October 31, 2015   | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$          | Fair<br>Value<br>\$ |
|--------------------------|---|---------------------|---------------------|
| Calston Exploration Inc. | 18,260,868                              | \$ 4,565,217        | \$ 365,217          |
| IronCo LLC               | 5,000                                   | 4,889,019           | 1,765,999           |
| Trilliant Inc.           | 671,939                                 | <u>403,163</u>      | <u>13,439</u>       |
|                          |   | <u>\$ 9,857,399</u> | <u>\$ 2,144,655</u> |

| As at October 31, 2014   | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$           | Fair<br>Value<br>\$  |
|--|---|----------------------|----------------------|
| Calston Exploration Inc.   | 18,260,868                              | \$ 4,565,217         | \$ 1,460,869         |
| Canadian International Oil Corporation                             | 2,127,219                               | 3,190,829            | 5,318,048            |
| Canadian International Oil Corporation<br>warrants August 25, 2015 | 2,382,219                               | 336,600              | 1,191,110            |
| IronCo LLC   | 5,000                                   | 4,889,019            | 3,384,438            |
| Laricina Energy Limited  | 613,000                                 | 8,301,600            | 5,823,500            |
| Mitra Energy Limited   | 780,000                                 | 2,278,465            | 879,954              |
| North West Upgrading Inc.  | 5,000,000                               | 4,905,100            | 4,000,000            |
| Trilliant Inc.   | 671,939                                 | <u>403,163</u>       | <u>87,352</u>        |
|  |   | <u>\$ 28,869,993</u> | <u>\$ 22,145,271</u> |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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

Valuation techniques and framework (Continued...)

| As at November 1, 2013  | Number of<br>Shares/Units<br>/Par Value | Cost<br>\$           | Fair<br>Value<br>\$  |
|---|---|----------------------|----------------------|
| C3 Resources Inc.   | 500,000                                 | \$ 112,500           | \$ -                 |
| Calston Exploration Inc.  | 12,173,912                              | 4,565,217            | 1,095,652            |
| Calston Exploration Inc.  | 6,086,956                               | -                    | 547,826              |
| Canadian International Oil Corporation                          | 2,127,219                               | 3,190,829            | 5,594,586            |
| Canadian International Oil Corporation warrants August 25, 2015 | 2,382,219                               | 336,600              | 1,500,798            |
| Colcan Energy Corporation warrants November 8, 2013             | 2,499,999                               | -                    | 3                    |
| Delavaco Real Estate Opportunities Corp. convertible debenture  | 1,500,000                               | 1,494,679            | 1,564,945            |
| IronCo LLC  | 5,000                                   | 4,889,019            | 3,588,941            |
| Laricina Energy Limited   | 213,000                                 | 3,301,500            | 4,260,000            |
| Mitra Energy Limited  | 780,000                                 | 2,278,465            | 2,034,429            |
| Northwest Upgrading Inc.  | 1,000,000                               | 1,705,000            | 1,700,000            |
| Solfotara Mining Corporation                                    | 2,857,142                               | 1,000,000            | 171,428              |
| Solfotara Mining Corporation warrants August 25, 2049           | 1,428,571                               | 1                    | 1                    |
| Triliant Inc.   | 671,939                                 | 403,163              | 342,689              |
| United Hydrocarbon International Corporation                    | 5,803,000                               | 5,231,000            | 5,106,640            |
| Verano Energy Limited   | 9,786,422                               | <u>25,859,904</u>    | <u>2,153,013</u>     |
|   |   | <u>\$ 54,367,877</u> | <u>\$ 29,660,951</u> |

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 14. TRANSITION TO IFRS

The quantitative effects of the Fund's transition to IFRS are summarized as follows:

(a) Statement of Cash Flows

Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. IAS 1 requires that a complete set of financial statements include a statement of cash flows for the current and comparative years, without exception.

(b) Reconciliation of net assets attributable to shareholders of redeemable shares and increase (decrease) in net assets attributable to shareholders of redeemable shares from operations previously reported under Canadian GAAP to IFRS:

|  | 4October 31,<br>2014         | November 1,<br>2013          |
|--|------------------------------|------------------------------|
| <b>Net assets attributable to shareholders of redeemable shares</b>  |                              |                              |
| Equity as reported under Canadian GAAP   | \$ 258,720,312               | \$ 316,548,530               |
| Revaluation of investments due to bid-ask price spread adjustment  | <u>2,339,046</u>             | <u>2,445,595</u>             |
| <b>Net assets attributable to shareholders of redeemable shares</b>  | <b><u>\$ 261,059,358</u></b> | <b><u>\$ 318,994,125</u></b> |
| <b>Comprehensive income for the year ended</b>   | October 31,<br>2014          |                              |
| Decrease in net assets attributable to shareholders of redeemable shares from operations under Canadian GAAP | \$ (5,257,908)               |                              |
| Revaluation of investments due to bid-ask price spread adjustment  | <u>(106,549)</u>             |                              |
| <b>Decrease in net assets attributable to shareholders of redeemable shares from operations</b>              | <b><u>\$ (5,364,457)</u></b> |                              |

#### Transition elections

The Fund has applied the voluntary election upon transition to designate financial assets or financial liabilities at FVTPL. All financial assets designated at FVTPL upon transition were previously recorded at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

#### Classification of redeemable shares issued by the Fund

Under Canadian GAAP, the Fund accounted for its redeemable shares as equity. Under IFRS, IAS 32 requires that shares of an entity which include a contractual obligation of the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's shares do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

## FRONT STREET SPECIAL OPPORTUNITIES CLASS

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

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#### 14. **TRANSITION TO IFRS** (Continued...)

##### **Revaluation of investments due to bid-ask spread adjustments**

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, Financial Instruments – Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, Fair Value Measurement, which requires that if an asset or a liability has a bid price or ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. When the closing sale price of financial instruments traded in active markets is outside the bid and ask spread, such financial instruments are measured based on the bid price for securities owned or held long and on the asking price for securities sold short. As a result, upon adoption of IFRS an adjustment was recognized to increase the carrying amount of the Fund's investment by \$2,445,595 at November 1, 2013 and \$2,339,046 at October 31, 2014. The impact of this adjustment was to increase the Fund's decrease in net assets attributable to shareholders of redeemable shares by \$106,549 for the year ended October 31, 2014.

##### **Reclassification adjustments**

In addition to the measurement adjustments noted above, the Fund reclassified certain amounts upon transition in order to conform to its financial statement presentation under IFRS.

Presentation of the statements of financial position has been reclassified in accordance with IFRS to present assets and liabilities between current and non-current.

IFRS requires withholding taxes to be disclosed separately as an expense, whereas Canadian GAAP allowed withholding taxes to be netted against dividend income.

IFRS requires transaction costs and other gains or losses, all presented under Canadian GAAP after the line "Investment loss for the period", to be classified with expenses or income as applicable.

#### 15. **SUBSEQUENT EVENTS**

Effective November 16, 2015, CIBC Mellon replaced RBC Investor Services Trust as the custodian and replaced Citigroup Fund Services Canada, Inc. to provide shareholder recordkeeping services and fund accounting services.

Pursuant to the press release dated January 18, 2016, Front Street U.S. MLP Income Fund Ltd. ("FSUSMLP") will amalgamate with Front Street Mutual Funds Limited ("FSMFL") on January 26, 2016. Upon amalgamation, each shareholder of FSMFL will be issued the class and series of shares of the new amalgamated fund that are of equal denomination as the class and series of FSMFL shares that he or she holds immediately prior to the amalgamation, and these shares will carry terms that are identical in all respects to their current holdings. For each equity share, series C, and equity share series U that shareholders of FSUSMLP hold immediately prior to the amalgamation, they will receive, on the effective date of the amalgamation, one series MC share, one series MU share, respectively, of the new amalgamated fund's Front Street MLP and Infrastructure Income Class.