



**FRONT STREET TACTICAL BOND FUND**

**Interim Management Report of Fund Performance**

**&**

**Unaudited Interim Financial Statements**

**June 30, 2016**

## **Interim Management Report of Fund Performance As at June 30, 2016 Front Street Tactical Bond Fund**

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

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

### **Forward Looking Information**

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

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that 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 OBJECTIVES AND STRATEGIES**

The investment objective of the Fund is to provide Unitholders with exposure to a diversified portfolio of corporate, government or other bonds, and debt instruments or debt-like securities, of investment grade and non-investment grade North American and/or international issuers. This could include investments in corporate bonds, notes, floating rate notes, convertible bonds, preferred shares, bank loans, government bonds or other income-producing securities.

The fundamental investment objective of the Fund cannot be changed without the approval of its unitholders.

In accordance with its investment objective, the Fund will invest primarily in corporate fixed-income securities, including high-yield securities. The Fund may also invest in government and other sovereign debt. The Fund may invest up to all of its assets in foreign fixed income securities.

### **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). There were no changes over the period to the risks outlined in the simplified prospectus which would materially affect the overall risk of investing in the fund.

### **RESULTS OF OPERATIONS**

In December of 2015, the U.S. Federal Reserve raised interest rates 25 basis points, with an outlook of three to four more hikes in 2016. As the new year began, market sentiment deteriorated on concerns that China's economy was slowing faster than anticipated, and amid rumours of large portfolio reallocations by large sovereign wealth funds. On this news, the market for risky assets sold-off through most of January, bottoming-out in mid-February.

As quickly as markets declined, they began to recover, the main catalyst for which was Mario Draghi's testimony to the European Union parliament that further fiscal stimulus was imminent and that "the ECB is ready to do its part." Markets rallied, with the Nikkei leading the way higher with a one-day gain of 7%. Most risk assets had a very poor start to the year, but were positive by the end of April as the market staged a remarkable recovery in a very short period of time. As we moved into May the market became focused on the upcoming "Brexit/Bremain" referendum. The markets largely anticipated a "remain" vote despite polling data that began to suggest otherwise. And then, to the markets' shock, Brits voted to leave the EU. Extreme volatility ensued as investors grappled with what the vote would actually mean to both the economy and the markets, and how the an exit would actually occur.

Oil continued to be a major focus for markets, as the West Texas Intermediate (WTI) price rallied from February lows of \$26.21 to a high of \$51.23 on June 8th, ending the period at \$48.33. Energy related assets followed suit, show a strong improvement from the lows earlier in the period to end with a much more positive outlook. Interest rate sensitive assets performed well, but may come under pressure as the Fed appears be taking a more cautious stance than anticipated towards more interest rate increases in 2016.

For the six-month period ended June 30, 2016, the Front Street Tactical Bond Class returned 2.1%. During the period ended June 30, 2016, the Fund earned investment income of \$1,529,925 from interest. There were net realized gains on the sale of investments of \$368,447, losses from derivatives and foreign exchange forward contracts of \$1,273,572 and an unrealized appreciation on the value of investments of \$910,074.

Operating expenses, excluding transaction costs, totaled \$80,875 during the period ended June 30, 2016.

Given the Fund’s focus on capital preservation, the Manager maintains an underweight allocation to the Energy sector; as such, the Fund missed out on some of the market upside as energy related assets rallied. The downward move in interest rates contributed to the Fund’s performance over the period.

The Manager improved the Fund’s liquidity profile during the market rally by switching into more liquid “on-the-run” bond issues. There were no major sector shifts, but within the Chemicals, Telecommunication Services and Energy sectors, the Manager sold several holdings in favour of buying others with more attractive fundamentals.

## **RECENT DEVELOPMENTS**

The Manager anticipates that markets will continue to be preoccupied with the timing of possible interest rates increases by the Fed, and continues to be focused on managing interest rate risk. Given the many questions yet to be answered regarding the implications of the UK voters decision to leave the EU, the manager anticipates investors will remain risk averse until the details of how the UK will orchestrate their exit become more clear.

## **RELATED PARTY-TRANSACTIONS**

The following are redeemable units held by the funds of Front Street Mutual Funds Limited which are also managed by the Manager:

Series C units held by Front Street Tactical Bond Class	3,768,387
Percentage of Series C units held by Front Street Tactical Bond Class	60.1%
Series C units held by Front Street Global Balanced Income Class	828,062
Percentage of Series C units held by Front Street Global Balanced Income Class	13.2%
Series C units held by Front Street Growth and Income Class	707,640
Percentage of Series C units held by the Front Street Growth and Income Class	11.3%
Series C units held by Front Street Balanced Monthly Income Class	962,885
Percentage of Series C units held by Front Street Balanced Monthly Income Class	15.4%

When related parties enter unitholder transactions with the Fund, the exchange amount of consideration is the transactional net asset value available to all other unitholders 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. This information is derived from the Fund's audited annual and unaudited interim financial statements for the six months ended June 30, 2016.

### Series C

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

	June 30 2016 \$	For the period from commencement of operations on July 23, 2015 to December 31 2015 \$
<b>Net assets, beginning of the period</b>	9.83	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.02	0.11
Total expenses	(0.02)	(0.07)
Realized gains (losses) for the period	0.14	(0.17)
Unrealized gains (losses) for the period	0.15	-
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	0.29	(0.13)
<b>Distributions to redeemable Unitholders:</b>		
From income (excluding dividends)	—	0.11
From dividends	—	—
From capital gains	—	—
Return of capital	—	—
<b>Total distributions to redeemable Unitholders<sup>(3)</sup></b>	—	0.11
<b>Net assets, end of the period</b>	10.13	9.83

- (1) The information for June 30, 2016 and December 31, 2015 is derived from the Fund's unaudited interim and audited annual financial statements and is prepared in accordance with IFRS.
- (2) Net assets and distributions are based on the actual number of redeemable units outstanding at the relevant time. The increase (decrease) from operations is based on the average number of redeemable units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional redeemable units of the Fund or both.

#### Ratios and Supplemental Data

Total net asset value (000's) <sup>(1)</sup>	\$52,510	\$61,575
Number of redeemable units outstanding <sup>(1)</sup>	5,181,135	6,266,973
Management expense ratio <sup>(2)</sup>	0.28%	0.36%
Management expense ratio before waivers or absorptions	0.28%	0.36%
Trading expense ratio <sup>(3)</sup>	0.00%	0.00%
Portfolio turnover rate <sup>(4)</sup>	44.61%	19.80%
Net asset value per unit <sup>(5)</sup>	\$10.13	\$9.83

- (1) This information is provided as at end of the period shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as annualized percentage of daily average net asset value during the period.
- (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 period.
- (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 period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (5) The information for June 30, 2016 and December 31, 2015 is derived from the Fund's unaudited interim and audited annual financial statements and is prepared in accordance with IFRS.

**MANAGEMENT AND PERFORMANCE FEES**

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees, custodial fees, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to unitholders.

The units are only available for sale to Front Street Mutual Funds Limited Funds and there are no management fees and performance fees payable by the Fund.

**DEALER COMPENSATION**

There is no Dealer Compensation for this Fund

**PAST PERFORMANCE**

The past performance has not been provided because the Fund is less than one year old.

## Summary of Investment Portfolio as at June 30, 2016

### *Portfolio by Category*

	<b>% of Net Asset Value</b>
<b>LONG POSITIONS</b>	
Cash and cash equivalents	2.5%
Corporate Bonds	95.1%
<b>SHORT POSITIONS</b>	
Foreign Exchange Forward Contracts	-0.7%
Other assets less liabilities	3.1%
	<b>100.0%</b>

### *Top 25 Holdings*

	<b>% of Net Asset Value</b>
<b>LONG POSITIONS</b>	
NOVA Chemicals Corporation Callable 5.250% August 01, 2023	6.2%
Olin Corporation 5.500% August 15, 2022	3.7%
Celanese US Holdings LLC 5.875% June 15, 2021	2.7%
Ball Corporation 5.000% March 15, 2022	2.6%
CST Brands, Inc. Callable 5.000% May 1, 2023	2.5%
Tesoro Corporation Callable 5.125% April 1, 2024	2.5%
Sunoco LP and Sunoco Finance Corporation Callable 5.500% August 01, 2020	2.4%
DISH DBS Corporation 5.875% July 15, 2022	2.4%
NRG Energy Inc. Callable 6.250% July 15, 2022	2.4%
Williams Partners LP Callable 4.875% May 15, 2023	2.4%
Avis Budget Group Callable 5.125% June 01, 2022	2.4%
Centene Corporation Callable 4.750% May 15, 2022	2.3%
MasTec, Inc. Callable 4.875% March 15, 2023	2.3%
Cott Beverages Inc. Callable 5.375% July 01, 2022	1.5%
Blue Cube Spinco Inc. Callable 9.750% October 15, 2023	1.4%
Plains All American Pipeline LP and PAA Finance Corporation 8.750% May 01, 2019	1.4%
L Brands Inc. 6.625% April 01, 2021	1.4%
NCI Building Systems Inc. Callable 8.250% January 15, 2023	1.3%
American Axle & Manufacturing Inc. Callable 6.625% October 15, 2022	1.3%
Western Digital Corporation Callable 10.500% April 01, 2024	1.3%
United Rentals North America Inc. Callable 7.625% April 15, 2022	1.3%
The ADT Corporation, 6.250% October 15, 2021	1.3%
Energy Transfer Equity LP 7.500% October 15, 2020	1.3%
CCO Holdings Capital Corporation Callable 5.750% January 15, 2024	1.3%
Jaguar Land Rover Automotive PLC Callable 5.625% February 01, 2023	1.3%
	<b>52.9%</b>
<b>TOTAL NET ASSET VALUE (000s)</b>	<b>\$ 52,510</b>

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



**FRONT STREET CAPITAL**

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**FRONT TACTICAL BOND FUND**

**UNAUDITED INTERIM FINANCIAL  
STATEMENTS**

**JUNE 30, 2016**

**NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS**

The accompanying interim condensed financial statements have not been reviewed by the external auditors of the Fund in accordance with standards established by the Chartered Professional Accountants of Canada. The external auditors will be auditing the annual financial statements of the Fund in accordance with Canadian generally accepted auditing standards.

# FRONT STREET TACTICAL BOND FUND

## STATEMENTS OF FINANCIAL POSITION

As at June 30, 2016 and December 31, 2015

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>Assets</b>		
Financial assets at fair value through profit and loss *	\$ 49,935,294	\$ 59,615,453
Cash and cash equivalents	1,311,219	3,483,381
Interest receivable	752,540	858,880
Subscriptions receivable	11	-
Receivable for investments sold	678,135	-
Margin deposits	266,745	373,915
Foreign exchange forward contracts at fair value through profit or loss	136,877	26,695
	<u>\$ 53,080,821</u>	<u>\$ 64,358,324</u>
<b>Liabilities</b>		
Foreign exchange forward contracts at fair value through profit or loss	\$ 501,411	\$ 2,738,940
Accrued expenses	69,247	44,635
<b>Liabilities before net assets attributable to unitholders of redeemable units</b>	<u>570,658</u>	<u>2,783,575</u>
<b>Net assets attributable to unitholders of redeemable units</b>	<u>\$ 52,510,163</u>	<u>\$ 61,574,749</u>
<b>Net assets attributable to unitholders of redeemable units</b>		
Series C	\$ 52,510,163	\$ 61,574,749
<b>Number of redeemable units outstanding, note 5</b>		
Series C	5,181,135	6,266,973
<b>Net assets attributable to unitholders of redeemable units per unit</b>		
Series C	\$ 10.13	\$ 9.83

\*Cost of investments is reflected on the schedule of investment portfolio.

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



Nevin Markwart  
Chief Executive Officer



Susan Johnson  
Chief Financial Officer

See accompanying notes to the financial statements.

**FRONT STREET TACTICAL BOND FUND**  
**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
*For the period ended June 30, 2016*

	<b>June 30,</b>
	<b>2016</b>
<hr/>	
<b>Investment income</b>	
Interest income for distribution purposes and other	\$ 1,529,925
Securities lending revenue, note 11	105
Foreign currency gain (loss) on cash and cash equivalents and other net assets	242,967
Other net changes in fair value of financial assets and liabilities at fair value through profit or loss ("FVTPL")	
Net realized gain (loss) on financial assets and liabilities at FVTPL	368,447
Derivative income (loss)	(1,442,480)
Net realized gain (loss) on foreign exchange forward contracts	168,908
Change in unrealized appreciation (depreciation) on investments and derivatives at FVTPL	910,074
	<hr/>
	1,777,946
	<hr/>
<b>Expenses</b>	
Administration fees	31,500
Custodial fees	22,006
Audit fees	12,465
Legal fees	11,911
Withholding taxes	10,628
Trustee fees	2,494
Securityholder reporting costs	499
Transaction costs	187
	<hr/>
	91,690
	<hr/>
<b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations</b>	<b>\$ 1,686,256</b>
	<hr/> <hr/>
<b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations</b>	
Series C	\$ 1,686,256
<b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations per unit</b>	
Series C	\$ 0.29

See accompanying notes to the financial statements.

**FRONT STREET TACTICAL BOND FUND**  
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**  
**OF REDEEMABLE UNITS (UNAUDITED)**  
**For the period ended June 30, 2016**

**June 30,**  
**2016**

<b>Net assets attributable to unitholders of redeemable units, beginning of period</b>	
Series C	\$ <u>61,574,749</u>
<b>Increase (decrease) in net assets attributable to unitholders of redeemable units from operations</b>	
Series C	<u>1,686,256</u>
<b>Redeemable unit transactions</b>	
Proceeds from redeemable units issued	
Series C	<u>2,717,110</u>
Reinvestment of distributions to unitholders of redeemable units	
Series C	<u>-</u>
Redemption of redeemable units	
Series C	<u>(13,467,952)</u>
<b>Net increase (decrease) from redeemable unit transactions</b>	<u>(10,750,842)</u>
<b>Increase (decrease) in net assets attributable to unitholders of redeemable units</b>	<u>(9,064,586)</u>
<b>Net assets attributable to unitholders of redeemable unit, end of period</b>	
Series C	<u><u>\$ 52,510,163</u></u>

See accompanying notes to the financial statements.

**FRONT STREET TACTICAL BOND FUND**  
**STATEMENT OF CASH FLOWS (UNAUDITED)**  
**For the period ended June 30, 2016**

**June 30,  
2016**

**Cash flows from operating activities**

Increase (decrease) in net assets attributable to unitholders of redeemable units from operations	\$ 1,686,256
Adjustments for:	
Foreign currency (gain) loss on cash and other net assets	(242,967)
Net realized (gain) loss on financial assets and liabilities at FVTPL	(368,447)
Net realized (gain) loss on foreign exchange forward contracts	(168,908)
Change in unrealized (appreciation) depreciation on financial assets and liabilities at FVTPL	(910,074)
(Increase) decrease in interest receivable	106,340
Increase (decrease) in accrued expenses	24,612
Purchase of financial assets and liabilities at FVTPL	(9,961,258)
Proceeds from sales of financial assets and liabilities at FVTPL	<u>18,063,000</u>
<b>Net cash generated by operating activities</b>	<u>8,228,554</u>

**Cash flows from financing activities**

Proceeds from redeemable unit issued	2,717,099
Amounts paid on redemption of redeemable units	<u>(13,467,952)</u>
<b>Net cash used by financing activities</b>	<u>(10,750,853)</u>

Net change in cash and cash equivalents	(2,522,299)
Foreign currency gain (loss) on cash and other net assets	242,967
Cash and cash equivalents, beginning of period	3,857,296
<b>Cash and cash equivalents, end of period</b>	<u>\$ 1,577,964</u>

**Cash and cash equivalents comprise:**

Cash at bank	\$ 1,311,219
Margin deposits	<u>266,745</u>
	<u>\$ 1,577,964</u>
Interest received, net of withholding tax	\$ 1,625,637

See accompanying notes to the financial statements.

**FRONT STREET TACTICAL BOND FUND**  
**SCHEDULE OF INVESTMENT PORTFOLIO (UNAUDITED)**  
**AS AT JUNE 30, 2016**

	Number of Shares/Units/Par Value	Cost \$	Fair Value \$
<b>Long Positions (95.1%)</b>			
<b>Corporate Bonds (95.1%)</b>			
ADT Corporation 6.250% October 15, 2021	500,000	\$ 687,894	\$ 686,347
American Axle & Manufacturing Inc. Callable 6.625% October 15, 2022	500,000	665,041	691,192
Ashland Inc. Callable 4.750% August 15, 2022	500,000	634,886	642,744
Avis Budget Group Callable 5.125% June 01, 2022	1,000,000	1,272,067	1,246,732
B&G Foods, Inc. Callable 4.625% June 1, 2021	500,000	640,630	645,975
Ball Corporation 5.000% March 15, 2022	1,000,000	1,326,731	1,371,405
Black Knight Financial Services Inc. Callable 5.750% April 15, 2023	320,000	436,918	433,062
Blue Cube Spinco Inc. Callable 9.750% October 15, 2023	500,000	718,701	747,716
Brocade Communications Systems Inc. Callable 4.625% January 15, 2023	500,000	627,427	622,558
Brunswick Corporation Callable 4.625% May 15, 2021	500,000	652,588	654,050
CCO Holdings Capital Corporation Callable 5.75% January 15, 2024	500,000	643,590	679,824
Cedar Fair Entertainment Company Callable 5.375% June 01, 2024	500,000	660,151	665,354
Celanese US Holdings LLC 5.875% June 15, 2021	1,000,000	1,345,182	1,443,754
Centene Corporation Callable 4.750% May 15, 2022	910,000	1,183,996	1,199,188
Chemtura Corporation Callable 5.750% July 15, 2021	500,000	646,609	652,435
Cinemark USA Inc. Callable 4.875% June 1, 2023	500,000	645,906	642,745
Consolidated Energy Finance S.A. Callable 6.750% October 15, 2019	500,000	630,811	607,216
Corrections Corporation of America Callable 4.125% April 01, 2020	500,000	650,769	664,547
Cott Beverages Inc. Callable 5.375% July 01, 2022	600,000	765,564	775,170
CST Brands, Inc. Callable 5.000% May 1, 2023	1,000,000	1,302,333	1,311,329
Dana Holding Corporation Callable 5.375% September 15, 2021	500,000	656,891	662,447
Darling Ingredients Inc. Callable 5.375% January 15, 2022	500,000	634,302	666,569
Digicel Ltd. Callable 6.000% April 15, 2021	500,000	577,434	553,730
DISH DBS Corporation 5.875% July 15, 2022	1,000,000	1,229,048	1,256,421
Eagle Spinco Inc. Callable 4.625% Febuary 15, 2021	489,000	572,297	646,768
Enable Midstream Partners LP Callable 3.900% May 15, 2024	500,000	533,195	575,774
Energy Transfer Equity LP 5.875% January 15, 2024	500,000	607,407	628,211
Energy Transfer Equity LP 7.500% October 15, 2020	500,000	678,009	684,734
Ferrellgas Partners LP Callable 6.500% May 01, 2021	500,000	614,120	592,682
Frontier Communications Corporation Callable 6.250% September 15, 2021	500,000	579,844	609,001
Harland Clarke Holdings Corporation Callable 6.875% March 1, 2020	500,000	589,246	594,297
HCA Inc. Callable 5.250% June 15, 2026	500,000	677,152	670,603
Huntsman International LLC Callable 4.875% November 15, 2020	500,000	590,107	649,205
INEOS Group Holdings S.A. Callable 6.125% August 15, 2018	500,000	634,071	652,031
Jaguar Land Rover Automotive PLC Callable 5.625% February 01, 2023	500,000	637,351	671,007
KLX Inc. Callable 5.875% December 1, 2022	500,000	645,481	633,056
L Brands Inc. 6.625% April 01, 2021	500,000	728,787	726,722
M.D.C Holdings Inc. Callable 5.500% January 15, 2024	500,000	657,699	639,515
MarkWest Energy Partners LP Callable 4.500% July 15, 2023	500,000	606,863	626,099
MasTec, Inc. Callable 4.875% March 15, 2023	1,000,000	1,073,793	1,198,284
NCI Building Systems Inc. Callable 8.250% January 15, 2023	500,000	704,104	694,287
NCR Corporation. Callable 5.875% December 15, 2021	500,000	636,040	655,665
NOVA Chemicals Corporation Callable 5.250% August 01, 2023	2,500,000	3,219,255	3,246,024
NRG Energy Inc. Callable 6.250% July 15, 2022	1,000,000	1,204,572	1,253,192
Olin Corporation 5.500% August 15, 2022	1,500,000	1,701,723	1,928,235
Penske Automotive Group, Inc. Callable 5.375% December 01, 2024	500,000	654,257	623,366
Plains All American Pipeline LP and PAA Finance Corporation 8.750% May 01, 2019	500,000	695,409	738,420
Quebecor Media Inc. 6.625% January 15, 2023	500,000	518,125	518,125
Revlon Products Corporation Callable 5.750% February 15, 2021	500,000	648,695	623,366
Sabine Pass Liquefaction LLC Callable 5.625% February 01, 2021	500,000	664,453	652,435
Sabine Pass Liquefaction LLC 5.875% June 30, 2026	250,000	317,800	324,199
Sealed Air Corporation Callable 4.875% December 01, 2022	500,000	643,877	664,547
Sunoco LP and Sunoco Finance Corporation Callable 5.500% August 01, 2020	1,000,000	1,308,879	1,275,801

See accompanying notes to the financial statements

**FRONT STREET TACTICAL BOND FUND**  
**SCHEDULE OF INVESTMENT PORTFOLIO (UNAUDITED)**  
**AS AT JUNE 30, 2016**

	Number of Shares/Units/Par Value	Cost \$	Fair Value \$
Taylor Morrison Home Corporation Callable 5.250% April 15, 2021	500,000	650,371	644,360
Tesoro Corporation Callable 5.125% April 1, 2024	1,000,000	1,311,526	1,298,410
The Chemours Company Callable 6.625% May 15, 2023	500,000	478,182	549,079
United Rentals North America Inc. Callable 7.625% April 15, 2022	500,000	694,831	689,578
Virgin Media Secured Finance PLC Callable 5.375% April 15, 2021	45,000	60,294	59,155
WESCO Distribution Inc. Callable 5.375% December 15, 2021	500,000	625,549	650,820
Western Digital Corporation Callable 10.500% April 01, 2024	500,000	614,436	691,193
Williams Partners LP Callable 4.875% May 15, 2023	1,000,000	1,174,423	1,248,741
Windstream Services LLC Callable 7.500% June 01, 2022	500,000	500,632	581,378
		<u>48,688,324</u>	<u>49,930,875</u>
<b>Purchased Call Options (0.0%)</b>			
PowerShares Senior Loan Portfolio, Put 22, 20/01/2017	72	9,214	4,419
		<u>9,214</u>	<u>4,419</u>
<b>Total Long Positions (95.1%)</b>			
		<u>\$ 48,697,538</u>	<u>\$ 49,935,294</u>
<b>Foreign exchange forward contracts (-0.7%)</b>			
Unrealized loss on forward contracts, Schedule 1		-	(364,534)
		<u>-</u>	<u>(364,534)</u>
<b>Transaction costs, note 3</b>			
		(914)	-
		<u>(914)</u>	<u>-</u>
<b>Total Investments (94.4%)</b>			
		<u>\$ 48,696,624</u>	<u>49,570,760</u>
<b>Cash and cash equivalents (2.5%)</b>			
			1,311,219
<b>Other assets, less liabilities (3.1%)</b>			
			<u>1,628,184</u>
<b>Net assets (100.0%)</b>			
		<u>\$ 52,510,163</u>	<u>\$ 52,510,163</u>

**Front Street Tactical Bond Fund**  
**Forward Exchange Foreign Contracts**  
**As at June 30, 2016**

**Schedule 1**

<b>Maturity Date</b>	<b>Currency to be Delivered</b>	<b>Currency</b>	<b>Canadian Value as at June 30, 2016</b>	<b>Currency to be Received</b>	<b>Currency</b>	<b>Canadian Value as at June 30, 2016</b>	<b>Contract Price</b>	<b>CAD Appreciation</b>
July 6, 2016	5,000,000	USD	\$ 6,459,590	6,554,460	CAD	\$ 6,554,460	1.310892	\$ 94,870
July 11, 2016	642,567	CAD	642,567	500,000	USD	645,946	0.778129	3,379
July 11, 2016	5,000,000	USD	6,459,457	6,498,085	CAD	6,498,085	1.299617	38,628
			\$ 13,561,614			\$ 13,698,491		\$ 136,877
<b>Maturity Date</b>	<b>Currency to be Delivered</b>	<b>Currency</b>	<b>Canadian Value as at June 30, 2016</b>	<b>Currency to be Received</b>	<b>Currency</b>	<b>Canadian Value as at June 30, 2016</b>	<b>Contract Price</b>	<b>CAD Depreciation</b>
July 11, 2016	18,025,000	USD	\$ 23,286,341	23,236,442	CAD	\$ 23,236,442	1.289123	\$ (49,899)
September 9, 2016	18,700,000	USD	24,155,725	23,704,213	CAD	23,704,213	1.267605	(451,512)
			\$ 47,442,066			\$ 46,940,655		\$ (501,411)
<b>TOTAL NUMBER OF CONTRACT(S):</b>	<b>5</b>		<b>NET DEPRECIATION</b>					<b>\$ (364,534)</b>

# FRONT STREET TACTICAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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### 1. THE FUND

Front Street Tactical Bond Fund (the "Fund") is an unincorporated open ended mutual fund trust which was created under the laws of the Province of Ontario on July 23, 2015. The Fund is domiciled in Canada, and the address of its registered office is 33 Yonge Street, Suite 600, Toronto, Ontario, Canada, M5E 1G4.

The Fund has appointed Front Street Capital 2004 to act as investment fund manager of the Fund (the "Manager") and Front Street Investment Management Inc. (the "Investment Advisor") 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.

Equity Financial Trust Company is the trustee (the "Trustee") of the Fund. Effective November 13, 2015, CIBC Mellon replaced Citibank Canada as the custodian and replaced Citigroup Fund Services Canada, Inc. to provide unitholder recordkeeping services and fund accounting services.

The investment objective is to provide Unitholders with exposure to a diversified portfolio of corporate, government or other bonds, and debt instruments or debt-like securities, of investment grade and non-investment grade North American and/or international issuers. This could include investments in corporate bonds, notes, floating rate notes, convertible bonds, preferred shares, bank loans, government bonds or other income-producing securities.

The fundamental investment objective of the Fund cannot be changed without the approval of its unitholders.

### 2. BASIS OF PRESENTATION

#### (a) Statement of compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

These interim financial statements have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective as at June 30, 2016, the Fund's interim reporting date.

These interim financial statements were authorized for issue by the Manager on August 19, 2016.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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#### 2. **BASIS OF PRESENTATION** (Continued...)

(b) Basis of measurement

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

(c) Functional and presentation currency

The interim 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 interim financial statements.

(a) Financial instruments

**Classification of financial instruments**

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

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

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

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

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

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

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

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

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

# FRONT STREET TACTICAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

#### (b) Fair value measurement:

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

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

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

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

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

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

(c) Cash and cash equivalents

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

(d) Redeemable units

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

(e) Impairment of financial assets

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

(f) Investment transactions and income recognition

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

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

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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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 earned from these transactions is recognized on an accrual basis and included in the statements of comprehensive income under the heading securities lending revenue.

(h) Foreign currency translation

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

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

(i) Increase (decrease) in net assets attributable to unitholders of redeemable units from operations per unit

Increase (decrease) in net assets attributable to unitholders of redeemable units from operations per unit is calculated by dividing the increase (decrease) in net assets attributable to unitholders of redeemable units from operations of a series by the average number of units outstanding of that series during the period.

(j) Net assets attributable to unitholders of redeemable units per unit

The net assets attributable to unitholders of redeemable units per unit are calculated by dividing the net assets of a series of units by the total number of redeemable units of that series outstanding at the end of the period.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

(k) Transaction costs

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

(l) Provisions

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

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

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

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

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

(n) Income taxes

The Fund presently qualifies as a mutual fund trust under the Income Tax Act (Canada) and, accordingly, is not taxed on that portion of its taxable income that is paid or allocated to unitholders. The Fund allocates to its unitholders sufficient net income and net realized capital gains so that it will not be subject to income taxes. Foreign income is subject to foreign withholding taxes.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

(o) Future changes in accounting standards:

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

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Valuation of investments

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

(b) Other judgments, estimates and assumptions

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

(c) Assessment as investment entity

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

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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#### 5. REDEEMABLE UNITS

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

The authorized capital of the Fund consists of an unlimited number of mutual fund trust units, available in one series.

The following redeemable unit transactions took place during the period ended June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Redeemable Units outstanding, beginning of the period:		
Series	6,266,973	-
Redeemable Units issued during the period:		
Series C	280,597	7,171,379
Units reinvested during the period:		
Series C	-	67,655
Redeemable Units redeemed during the period:		
Series C	1,366,435	972,061
Redeemable Units outstanding, end of the period:		
Series C	5,181,135	6,266,973

#### 6. FEES AND EXPENSES

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees, custodial fees, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to unitholders.

The Fund units are only available for sales to Front Street Mutual Funds Limited funds and there are no management fees, servicing fees and performance fees payable by the Fund.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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#### 7. SECURITIES LENDING

The Fund lends portfolio securities from time to time in order to earn additional income. Income is earned from securities lending transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. The Fund has entered into a securities lending program with its custodian, CIBC Mellon. The aggregate fair value of all securities loaned will not exceed 50% of the net assets of the Fund. The Fund receives collateral (in the form of obligations of, or guaranteed by, the Government of Canada, or a province thereof, by the United States government or its agencies and/or cash) or by corporate bonds and equities against the loaned securities. Collateral is maintained in an amount representing at least 102% of the fair value of the loaned securities during the year the loan is outstanding. The fair value of the loaned securities is determined daily at the close of business of the Fund and any additional collateral required is delivered to the Fund on the next business day.

A reconciliation of the gross amount generated from the securities lending transactions to the security lending income to the Fund for the period ended June 30, 2016 is as follows:

Securities lending income	June 30, 2016	
Gross securities lending income	<u>\$ 210</u>	
Agent fees - The Bank of New York Mellon Corp.	<u>\$ (105)</u>	
Securities lending income to the Fund		
before tax reclaims (withholding taxes)	<u>\$ 105</u>	
Tax reclaims (withholding taxes)	<u>\$ -</u>	
Net securities lending income	<u>\$ 105</u>	

As at June 30, 2016 and December 31, 2015, the aggregate fair values of the Fund's securities loaned and the collateral received were as follows:

Securities lent and collateral received	June 30, 2016	December 31, 2015
Value of securities loaned	<u>\$ 1,247,964</u>	<u>\$ -</u>
Value of collateral received	<u>\$ 1,318,600</u>	<u>\$ -</u>

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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#### 8. INCOME TAXES AND DISTRIBUTION POLICY

The Fund intends to distribute all of its income for purposes of the Income Tax Act, including sufficient net realized capital gains (less applicable losses), on an annual basis, so that the Fund will not be liable for income tax. Distributions over the life of the Fund will be derived primarily from net realized capital gains and income from the Portfolio.

The Fund has \$250,468 in allowable capital losses available to be applied against taxable capital gains of future years. These losses do not expire.

#### 9. INDEMNIFICATION OF THE MANAGER

The Fund, pursuant to the Trust Agreement, will indemnify the Manager, its partners, directors, officers, employees and agents out of the Trust Property from all claims that may arise in connection with the exercise of its duties as Manager if they do not result from the Manager's willful misconduct, bad faith, gross negligence or reckless disregard of its duties, or breach of its obligations as manager under the Trust Agreement.

#### 10. RELATED PARTY TRANSACTIONS

The following are redeemable units held by the funds of Front Street Mutual Funds Limited which are also managed by the Manager as at June 30, 2016:

Series C units held by Front Street Tactical Bond Class	3,115,338.584
Percentage of Series C units held by Front Street Tactical Bond Class	60.1%
Series C units held by Front Street Global Balanced Income Class	578,917.998
Percentage of Series C units held by Front Street Global Balanced Income Class	11.2%
Series C units held by Front Street Growth and Income Class	402,269.933
Percentage of Series C units held by the Front Street Growth and Income Class	7.8%
Series C units held by Front Street Balanced Monthly Income Class	1,084,332.497
Percentage of Series C units held by Front Street Balanced Monthly Income Class	20.9%

When related parties enter unitholder transactions with the Fund, the exchange amount of consideration is the transactional net asset value available to all other unitholders on the trade date.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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#### 11. RECONCILIATION OF NET ASSET VALUE TO IFRS NET ASSETS ATTRIBUTABLE TO UNITHOLDERS OF REDEEMABLE UNITS

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

As at June 30, 2016, there is no variance between the IFRS NA per unit to net asset value per unit.

#### 12. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of financial assets and liabilities at FVTPL, cash and cash equivalents, interest receivable and accrued expenses. It is the Manager's opinion that due to the short term nature of these financial instruments, the Fund is not exposed to significant market price, currency, interest rate, liquidity, cash flow, 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 June 30, 2016 and groups the securities by asset type, sector and/or market segment. The investment portfolio is comprised of corporate bonds and foreign currency forward contracts. The Manager will maintain a mix of debt instruments, foreign currency forward contracts and cash that represents its view of the most optimal combination of these investments based on economic outlook, market conditions and the relative value of these investments. Significant risks that are relevant to the Fund are discussed below.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

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

i) Market price risk

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

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

ii) Currency risk

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

Included in the undernoted accounts are the following foreign currency balances as at June 30, 2016 and December 31, 2015:

As at June 30, 2016

Currency	Financial assets at FVTPL	Cash and cash equivalents (bank indebtedness)	Forward currency contracts (note 12)	Net Exposure	Percentage of Net Assets
United States Dollar	<u>\$49,417,169</u>	<u>\$1,191,207</u>	<u>\$(59,715,167)</u>	<u>\$(9,106,791)</u>	<u>(17.34%)</u>

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

##### ii) Currency risk (Continued...)

As at December 31, 2015

Currency	Financial assets at FVTPL	Cash and cash equivalents (bank indebtedness)	Forward currency contracts (note 12)	Net Exposure	Percentage of Net Assets
United States Dollar	\$ 58,635,453	\$ 2,342,636	\$ (60,703,841)	\$ (274,248)	(0.40)%
Euro	<u>-</u>	<u>(81,005)</u>	<u>-</u>	<u>(81,005)</u>	<u>(0.10)%</u>
	<u>\$ 58,635,453</u>	<u>\$ 2,261,631</u>	<u>\$(60,703,841)</u>	<u>\$ 193,243</u>	<u>0.30%</u>

##### 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 June 30, 2016, there were investments in corporate bonds representing 95.1% (December 31, 2015 – 96.8%) of the investments owned, maturing ranging in 2018 to 2025. The remaining portion of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

As at June 30, 2016

Financial assets	Floating Rate Financial Instruments	Fixed Rate Financial Instruments	Non-interest Bearing	Total
Financial assets at FVTPL	\$ -	\$ 49,930,875	\$ 141,296	\$ 50,072,171
Cash and cash equivalents	1,311,219	-	-	1,311,219
Loans and receivables	<u>-</u>	<u>-</u>	<u>1,697,431</u>	<u>1,697,431</u>
Total	<u>\$ 1,311,219</u>	<u>\$ 49,930,875</u>	<u>\$ 1,838,727</u>	<u>\$ 53,080,821</u>
Financial liabilities				
Financial liabilities at FVTPL	\$ -	\$ -	\$ 69,247	\$ 69,247
Other financial liabilities	<u>-</u>	<u>-</u>	<u>501,411</u>	<u>501,411</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,658</u>	<u>\$ 570,658</u>
IFRS NA				<u>\$ 52,510,163</u>

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

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

As at December 31, 2015

Financial assets	Floating Rate Financial Instruments	Fixed Rate Financial Instruments	Non-interest Bearing	Total
Financial assets at FVTPL	\$ -	\$ 59,615,453	\$ 26,695	\$ 59,642,148
Cash and cash equivalents	3,857,296	-	-	3,857,296
Loans and receivables	<u>-</u>	<u>-</u>	<u>858,880</u>	<u>858,880</u>
Total	<u>\$ 3,857,296</u>	<u>\$ 59,615,453</u>	<u>\$ 885,575</u>	<u>\$ 64,358,324</u>
Financial liabilities				
Financial liabilities at FVTPL	\$ -	\$ -	\$ 2,738,940	\$ 2,738,940
Other financial liabilities	<u>-</u>	<u>-</u>	<u>44,635</u>	<u>44,635</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,783,575</u>	<u>\$ 2,783,575</u>
IFRS NA				<u>\$ 61,574,749</u>

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

##### iv) Liquidity risk

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

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

As at June 30, 2016

Financial assets	0 - 12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Financial assets at FVTPL	\$ 141,296	\$ 1,390,451	\$11,718,796	\$ 36,821,628	\$ -	\$ 50,072,171
Cash and cash equivalents	1,311,219	-	-	-	-	1,311,219
Loans and receivables	<u>1,697,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,697,431</u>
Total	<u>\$ 3,149,946</u>	<u>\$ 1,390,451</u>	<u>\$11,718,796</u>	<u>\$ 36,821,628</u>	<u>\$ -</u>	<u>\$ 53,080,821</u>
Financial liabilities						
Financial liabilities at FVTPL	\$ 69,247	\$ -	\$ -	\$ -	\$ -	\$ 69,247
Other financial liabilities	<u>501,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>501,411</u>
Total	<u>\$ 570,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,658</u>
IFRS NA						<u>\$ 52,510,163</u>

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

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

As at December 31, 2015

Financial assets	0 - 12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Financial assets at FVTPL	\$ 26,695	\$ 684,932	\$ 5,858,897	\$ 53,071,624	\$ -	\$ 59,642,148
Cash and cash equivalents	3,857,296	-	-	-	-	3,857,296
Loans and receivables	<u>858,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>858,880</u>
Total	<u>\$ 4,742,871</u>	<u>\$ 684,932</u>	<u>\$ 5,858,897</u>	<u>\$ 53,071,624</u>	<u>\$ -</u>	<u>\$ 64,358,324</u>
Financial liabilities						
Financial liabilities at FVTPL	\$ 2,738,940	\$ -	\$ -	\$ -	\$ -	\$ 2,738,940
Other financial liabilities	<u>44,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,635</u>
Total	<u>\$ 2,783,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,783,575</u>
IFRS NA						<u>\$ 61,574,749</u>

##### v) Cash flow risk

The risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. In the case of a floating rate debt instrument, for example, such fluctuations could result from a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

##### vi) Credit risk

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

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

As at June 30, 2016, the Fund had \$49,930,875 (December 31, 2015 - \$59,615,453) in debt instruments with the following credit ratings obtained from Standard and Poor's Moody's or DBRS:

As at June 30, 2016

Debt instruments by credit rating	Percentage of net assets
BBB	14.7%
BB	59.0%
B	18.9%
Not available or not rated	2.5%

As at December 31, 2015

Debt instruments by credit ratings	Percentage of Net Assets
BBB	7.3%
BB	72.7%
B	16.8%

##### 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 has been summarized in the schedule of investment portfolio.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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#### 13. CAPITAL MANAGEMENT

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

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

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

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

#### 14. FAIR VALUE HIERARCHY

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

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

The following tables summarize the inputs used as at June 30, 2016 and December 31, 2015 in valuing the Fund's financial assets and liabilities at FVTPL.

As at June 30, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	\$ <u>                  -</u>	\$ <u>50,072,171</u>	\$ <u>                  -</u>	\$ <u>50,072,171</u>
Financial liabilities at FVTPL	\$ <u>                  -</u>	\$ <u>501,411</u>	\$ <u>                  -</u>	\$ <u>501,411</u>

During the period ended June 30, 2016, the Fund did not hold any investments measured at fair value using unobservable inputs (Level 3).

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

As at December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	<u>\$ -</u>	<u>\$ 59,642,148</u>	<u>\$ -</u>	<u>\$ 59,642,148</u>
Financial liabilities at FVTPL	<u>\$ -</u>	<u>\$ 2,738,940</u>	<u>\$ -</u>	<u>\$ 2,738,940</u>

During the period ended December 31, 2015, the Fund did not hold any investments measured at fair value using unobservable inputs (Level 3).

There were no transfers in or out between the fair value hierarchy levels for the financial assets and liabilities at fair value through profit or loss during the period.

## FRONT STREET TACTICAL BOND FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 (UNAUDITED)

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

##### **Valuation techniques and framework**

The Fund's portfolio investments in equity and debt 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 and debt securities classified as Level 2 and Level 3 (primarily private companies).

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