



FRONT STREET
Canadian Energy Resource Fund

**FRONT STREET CANADIAN ENERGY
RESOURCE FUND**

**INTERIM UNAUDITED FINANCIAL
STATEMENTS**

JUNE 30, 2012

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

**STATEMENT OF NET ASSETS
AS AT JUNE 30, 2012 (UNAUDITED) AND DECEMBER 31, 2011 (AUDITED)**

	2012	2011
ASSETS		
Investments, at fair value (cost - \$26,504,341 ; 2011- \$40,348,629)	\$ 17,817,294	\$ 33,999,393
Accounts receivable relating to units issued	8,286	136,245
Accounts receivable relating to portfolio assets sold	6,540	—
Accounts receivable relating to accrued income	1,121	1,121
	<u>\$ 17,833,241</u>	<u>\$ 34,136,759</u>
LIABILITIES		
Bank indebtedness	\$ 819,953	\$ 4,087,885
Accounts payable relating to units redeemed	635,967	623,348
Accounts payable and accrued liabilities	103,442	143,066
	<u>1,559,362</u>	<u>4,854,299</u>
Net assets representing unitholders' equity	<u>\$ 16,273,879</u>	<u>\$ 29,282,460</u>
Net assets applicable to outstanding units allocated as follows:		
Net assets, Series B, note 3	\$ 15,333,916	\$ 28,450,412
Units outstanding, Series B, note 3	1,370,573	1,475,630
Net asset value per unit, Series B	<u>\$ 11.19</u>	<u>\$ 19.28</u>
Net assets, Series F, note 3	\$ 939,963	\$ 832,048
Units outstanding, Series F, note 3	86,216	44,098
Net asset value per unit, Series F	<u>\$ 10.90</u>	<u>\$ 18.87</u>

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



Gary P. Selke
Management Committee Member



Normand G. Lamarche
Management Committee Member

See accompanying notes to the financial statements.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

**STATEMENT OF OPERATIONS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012 AND 2011 (UNAUDITED)**

	2012	2011
Investment income		
Interest	\$ 143	\$ 27
	<u>143</u>	<u>27</u>
Expenses		
Management fees, note 4 and 6	301,934	574,625
Operating costs	79,095	91,291
Interest expense and bank charges	39,561	64,533
Audit fees	18,889	17,356
Legal fees	7,458	7,439
Trustees' fees	9,389	5,951
	<u>456,326</u>	<u>761,195</u>
Net investment loss	<u>(456,183)</u>	<u>(761,168)</u>
Realized and unrealized gains (losses) on investments		
Net realized gains (losses) on the sale of investments	(9,372,407)	3,708,102
Transaction costs, note 5 and 6	(71,217)	(134,292)
Change in the unrealized depreciation of the value of investments	<u>(2,347,984)</u>	<u>(14,124,598)</u>
Net loss on investments for the period	<u>(11,791,608)</u>	<u>(10,550,788)</u>
Net decrease in net assets from operations for the period	<u>\$ (12,247,791)</u>	<u>\$ (11,311,956)</u>

Decrease in net assets from operations applicable to outstanding units allocated as follows:

Decrease in net assets from operations, Series B	\$ <u>(11,604,287)</u>	\$ <u>(11,196,009)</u>
Decrease in net assets from operations per unit, Series B	\$ <u>(7.98)</u>	\$ <u>(6.90)</u>
Decrease in net assets from operations, Series F	\$ <u>(643,504)</u>	\$ <u>(115,947)</u>
Decrease in net assets from operations per unit, Series F	\$ <u>(9.98)</u>	\$ <u>(7.26)</u>

See accompanying notes to financial statements.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012 AND 2011 (UNAUDITED)**

	2012	2011
Series B		
Net assets, beginning of period	\$ 28,450,412	\$ 54,347,910
Net decrease in net assets from operations	(11,604,287)	(11,196,009)
Unitholder transactions		
Capital contributions	—	1,084,830
Redemptions	(1,512,209)	(4,386,902)
	<u>(1,512,209)</u>	<u>(3,302,072)</u>
Net decrease in net assets for the period	<u>(13,116,496)</u>	<u>(14,498,081)</u>
Net assets, end of period	<u>\$ 15,333,916</u>	<u>\$ 39,849,829</u>
Series F		
Net assets, beginning of period	\$ 832,048	\$ 276,778
Net decrease in net assets from operations	(643,504)	(115,947)
Unitholder transactions		
Capital contributions	791,347	443,288
Redemptions	(39,928)	—
	<u>751,419</u>	<u>443,288</u>
Net increase in net assets for the period	<u>107,915</u>	<u>327,341</u>
Net assets, end of period	<u>\$ 939,963</u>	<u>\$ 604,119</u>
Total		
Net assets, beginning of period	\$ 29,282,460	\$ 54,624,688
Net decrease in net assets from operations	(12,247,791)	(11,311,956)
Unitholder transactions		
Capital contributions	791,347	1,528,118
Redemptions	(1,552,137)	(4,386,902)
	<u>(760,790)</u>	<u>(2,858,784)</u>
Net decrease in net assets for the period	<u>(13,008,581)</u>	<u>(14,170,740)</u>
Net assets, end of period	<u>\$ 16,273,879</u>	<u>\$ 40,453,948</u>

See accompanying notes to financial statements

FRONT STREET CANADIAN ENERGY RESOURCE FUND

STATEMENT OF INVESTMENT PORTFOLIO
AS AT JUNE 30, 2012 (UNAUDITED)

	Number of Shares/ Units	Cost \$	Fair Value \$
Long positions (109.5%)			
Domestic (90.8%)			
Energy (48.7%)			
Anatolia Energy Corp Warrants February 15, 2013	220,625	\$ -	\$ -
C&C Energia Limited	121,431	909,953	672,728
Canadian International Oil Corporation Warrants August 25, 2015	202,781	-	152,086
Crocotta Energy Inc.	701,867	1,605,288	1,417,771
Crown Point Ventures Limited	169,574	262,840	81,396
Cub Energy Inc.	4,200,000	1,680,000	1,071,000
Lipari Energy Inc. Warrants March 11, 2014	348,793	-	1,744
Madalena Ventures Inc.	2,546,011	542,424	865,644
P1 Energy Corporation	727,591	2,000,876	873,109
Petroamerica Oil Corporation Warrants November 4, 2014	2,000,000	-	11,704
Renegade Petroleum Limited	300,000	1,200,000	780,000
Royal Coal Corporation Warrants February 23, 2013	4,750,000	950	23,750
Spartan Oil Corporation	424,072	1,064,107	1,467,289
TriOil Resources Limited 'A'	102,639	208,614	142,668
Xtreme Drilling and Coil Services Corporation	234,419	844,494	365,694
		<u>\$ 10,319,546</u>	<u>\$ 7,926,583</u>
Materials (42.1%)			
Augusta Resource Corporation	564,881	\$ 739,994	\$ 949,000
Billabong Gold Restricted	1,250,000	500,000	250,000
Calston Exploration Inc. Restricted	1,739,232	434,808	400,023
Calston Exploration Inc. Warrants June 17, 2013	869,616	-	1
Dalradian Resources Inc.	752,948	232,074	474,357
EACOM Timber Corporation Warrants November 13, 2012	300,000	-	-
Edgewater Exploration Limited Warrants September 21, 2013	500,000	-	1
Entree Gold Inc.	389,300	863,768	249,152
GMV Minerals Inc. Warrants October 27, 2012	778,000	-	10,620
Guatavita Gold Corporation Restricted	1,000,000	250,000	130,000
Lithium Americas Corporation	398,500	737,225	358,650
Plata Latina Minerals Corporation	258,000	129,000	129,000
PMI Gold Corporation	1,000,000	1,250,000	780,000
Range Energy Resources Inc.	7,868,000	1,573,600	314,720
Rubicon Minerals Corporation	267,531	931,420	823,995
Sintana Energy Inc.	7,488,750	1,914,000	561,656
Tolima Gold Inc.	1,800,000	724,500	279,000
Wildcat Silver Corporation	1,531,529	911,582	1,133,331
		<u>\$ 11,191,971</u>	<u>\$ 6,843,506</u>
Total Domestic		<u>\$ 21,511,517</u>	<u>\$ 14,770,089</u>
Foreign (18.7%)			
Australia (9.9%)			
Mirabela Nickel Limited	1,314,364	\$ 2,214,619	\$ 341,735
Perseus Mining Limited	483,854	1,127,935	1,272,536
		<u>\$ 3,342,554</u>	<u>\$ 1,614,271</u>
U.S. Equities (5.6%)			
Business Bridge Corporation Private Placement	10	\$ 1,047,954	\$ 916,964

FRONT STREET CANADIAN ENERGY RESOURCE FUND

**STATEMENT OF INVESTMENT PORTFOLIO
AS AT JUNE 30, 2012 (UNAUDITED)**

	Number of Shares/ Units	Cost \$	Fair Value \$
Cayman Islands (3.2%)			
Greenfields Petroleum Corporation	105,300	\$ 602,316	\$ 515,970
Total Foreign		<u>\$ 4,992,824</u>	<u>\$ 3,047,205</u>
Total Long Positions		<u>\$ 26,504,341</u>	<u>\$ 17,817,294</u>
Transaction costs		<u>(42,668)</u>	
Total Investments		<u>\$ 26,461,673</u>	17,817,294
Bank indebtedness (-5.0%)			(819,953)
Other assets less liabilities (-4.5%)			<u>(723,462)</u>
Net assets (100.0%)			<u>\$ 16,273,879</u>

See accompanying notes to financial statements.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

1. THE FUND

Front Street Canadian Energy Resource Fund (Formerly Front Street Canadian Energy Fund) (the "Fund") is a mutual fund trust created under the laws of the Province of Ontario pursuant to a trust agreement dated January 3, 2005 (the "Trust Agreement") as amended and restated as of May 1, 2009. The business of the Fund is to invest in equity, debt and derivative securities. Effective May 1, 2009, the Trust Agreement was amended to change the name of the Fund from "Front Street Mining Opportunities Fund" to "Front Street Canadian Energy Fund", redesignate the units of the Fund as B Units, authorize the Fund to issue F Units and amend the investment objective, investment strategies and investment restrictions of the Fund. Effective December 15, 2009, Valiant Trust Company replaced HSBC Trust Company (Canada) as the trustee of the Fund (the "Trustee"). Pursuant to the Amended and Restated Trust Agreement dated February 15, 2010, the name of the Fund has been changed to Front Street Canadian Energy Resource Fund.

As of June 30, 2012, Series B and Series F units have been issued. Series F commenced operations on June 1, 2010.

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

The Fund's investment objective is to achieve maximum capital appreciation by investing primarily in a diversified portfolio (the "portfolio") consisting primarily of equity and equity-related securities of small and medium-sized business entities in a range of energy-related industries, including oil and gas exploration and production, servicing and drilling, the power generation market, including coal, liquefied natural gas, nuclear and electricity, and alternative energy-related projects, including fuel cell, power generation and wind power projects, as well as other related natural resource sector industries including mineral resource mining and exploration, forestry and water resource projects.

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial instruments

Investments, at fair value and obligations from portfolio assets sold short, at fair value are classified as held for trading. Accounts receivable relating to units issued and amounts receivable relating to accrued income are classified as loans and receivables. Bank indebtedness, accounts payable relating to units redeemed, performance fees payable and accounts payable and accrued liabilities are classified as other financial liabilities.

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

b) Valuation of investments

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

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

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

b) Valuation of investments (Continued...)

- iii) Trust units are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The cost of the trust units is reduced on an annual basis by distributions from the trust and increased by the annual income allocated to the units by the trust.
- iv) Investments in mutual funds or pooled funds are valued based on the net asset value per unit at the close of trading on the financial statement date.
- v) The Fund values its investments in limited partnerships at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The Fund calculates the cost value of its investment in limited partnerships using the equity method. Under this method, the limited partnership investments are recorded at cost plus the Fund's pro rata unit in undistributed earnings since acquisition.
- vi) The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities which are sold short are valued at the last ask price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter a short sale, the Fund may need to borrow the security for delivery to the buyer. While the transaction is open, the Fund will also incur a liability for any paid dividends or interest which are due to the lender of the security.
- vii) The Fund invests in derivatives which represent financial instruments which may require little or no initial investment and which are settled in the future. These investments are commonly referred to as options, forwards or futures contracts. Futures contracts listed upon a principal exchange are valued at their last bid price (for long contracts) and last ask price (for short contracts) at the financial statement date. Contracts with no available bid and ask prices are valued at the fair value as determined by the Manager.

c) Financial instruments disclosure and presentation and fair value measurements

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

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

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

See Note 12 for additional details.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

d) Transaction costs

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

e) Cash and cash equivalents

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

f) Bank indebtedness

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

g) Investment transactions and income recognition

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

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

h) Income taxes

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

i) Foreign currency translation

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

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

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

k) Net assets per unit

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

l) Capital disclosures

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

m) General standards on financial statement presentation

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

n) Estimates

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

o) Future accounting pronouncements

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

International financial reporting standards ("IFRS")

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

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

- (a) IAS 32, Financial Instruments: Disclosure and Presentation, requires unitholders' equity to be classified as liability unless certain criteria are met.
- (b) IFRS 13, Fair Value Measurements, that was released in May 2011 provides guidance on the fair value measurements and allows for the possible use of closing prices to value investments.

At October 31, 2011, the IASB has published an exposure draft for comment addressing specific issues relating to Investment Companies and Funds.

The Manager is monitoring these developments and will assess the impact of any changes in accounting policies or financial statement presentation as necessary to determine an appropriate approach.

The anticipated impact of IFRS on accounting policies and implementation decisions will be on the financial statement presentation and note disclosures in the Fund's financial statements. In particular, the Fund will be required to present a statement of unitholders' equity and a statement of cash flows, and will be required to include certain additional and enhanced disclosures. In addition, the impact due to IFRS 13 mentioned above may result in the elimination of the difference between the Net assets per unit and Net asset value per unit at the financial statement reporting dates.

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

3. UNITS ISSUED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of units in one or more series. Initially, B units and F units have been authorized. Each unit of a series represents an undivided interest in the net assets of the Fund applicable to that series. Each unit has equal rights with respect to voting, liquidation and other events in respect of the Fund.

Subject to the Fund's right to suspend redemptions, units that have been held by a Unitholder for a minimum of six months may be surrendered at least 30 days prior to the last business day of each month (each, a "Redemption Date") for redemption on such Redemption Date. Units so surrendered for redemption by a Unitholder will be redeemed on such Redemption Date for a redemption price equal to the applicable Series Net Asset Value per Unit on such Redemption Date.

The following unitholder transactions took place during the six months period ended June 30:

	2012	2011
Units outstanding, beginning of the period		
Series B	1,475,630	1,671,138
Series F	44,098	8,767
Units issued during the period		
Series B	-	32,851
Series F	45,713	15,433
Units redeemed during the period		
Series B	105,057	137,285
Series F	3,595	-
Units outstanding, end of period		
Series B	1,370,573	1,566,704
Series F	86,216	24,200

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

4. MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee, within 10 business days after the end of each month, equal to 1/12 of 2% of the Series B net asset value and a monthly management fee equal to 1/12 of 1% of the Series F net asset value, calculated based on the weekly net asset value calculation during the month and paid at the end of each month in arrears for each series. The Manager will pay any fees owing to the Investment Advisor out of the management fee.

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, trustees' fees, and expenses making distributions to unitholders. As the Fund has more than one series of units, the unitholders of each series, bear their pro rata share of those expenses which are common to the operation of all series, as well as those expenses which are attributable solely to that series.

The Manager 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 Fund pays a performance fee per unit of each series equal to 20% of the amount by which the aggregate of:

- (a) the Series Net Asset Value per unit for the relevant series at the end of such fiscal period (without regard to any accrual of the Performance Bonus), and
- (b) Any distribution per unit of such series declared during such period;

exceeds the series Net Asset Value per unit for such series at the beginning of such fiscal period, provided that the Fund generates an annual return on investment of at least 6%.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

5. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the period ended June 30, 2012 was \$ 71,217 (2011 - \$134,292).

6. RELATED PARTY TRANSACTIONS

Management fees of \$301,934 (June 30, 2011 - \$574,625) were paid to the Manager during the period see note 4). Included in accounts payable and accrued liabilities is \$29,451 (December 31, 2011 - \$55,175) in management fees payable to the Manager.

461,798.498 (December 31, 2011 - 461,798.498) of series B units outstanding at year end representing 33.69% (December 31, 2011 - 31.30%) of the total series B units of the Fund are held by the Partners of the Manager. 102,310.744 (December 31, 2011 - 102,310.744) of series B units outstanding at year end representing 7.46% (December 31, 2011 - 6.93%) of the total series B units of the Fund are held by the relatives of the Partners of the Manager.

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 period ended June 30, 2012, Tuscarora Capital Inc, a company under common control to the Manager, received \$Nil (June 30, 2011 - \$175) in commissions on portfolio transactions for the Fund.

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

7. DISTRIBUTION POLICY

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

8. INDEMNIFICATION OF THE MANAGER

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

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

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the transactional net asset value ("NAV") and net assets calculated using generally accepted accounting policies ("GAAP NA") of an investment fund is required for financial reporting periods ending on or after October 31, 2007. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold) to be used in the fair valuation of investments, rather than the use of closing trade prices currently used for the purpose of determining transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques (see note 2) rather than the use of valuation techniques in of general practice in the investment funds industry.

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

As at June 30, 2012

	<u>Net Asset Value</u>			<u>Net Assets per Unit</u>	
	Transactional NAV	Section 3855 Adjustment	GAAP NAV	Transactional NAV	GAAP NA
Series B	\$ 15,619,648	\$(285,732)	\$15,333,916	11.40	11.19
Series F	<u>957,443</u>	<u>(17,480)</u>	<u>939,963</u>	11.11	10.90
	<u>\$ 16,577,091</u>	<u>\$(303,212)</u>	<u>\$16,273,879</u>		

As at December 31, 2011

	<u>Net Asset Value</u>			<u>Net Assets per Unit</u>	
	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA
Series B	\$ 29,276,448	\$(826,036)	\$28,450,412	19.84	19.28
Series F	<u>852,293</u>	<u>(20,245)</u>	<u>832,048</u>	19.33	18.87
	<u>\$ 30,128,741</u>	<u>\$(846,281)</u>	<u>\$29,282,460</u>		

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

10. FINANCIAL INSTRUMENTS

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

	As at June 30, 2012 (Unaudited)	As at Dec.31, 2011 (Audited)
Assets		
Held for trading	\$ 17,817,294	\$ 33,999,393
Loans and receivables	<u>15,947</u>	<u>137,366</u>
Total Assets	<u>17,833,241</u>	<u>34,136,759</u>
Liabilities		
Held for trading	-	-
Other financial liabilities at amortized cost	<u>1,559,362</u>	<u>4,854,299</u>
Total liabilities	<u>1,559,362</u>	<u>4,854,299</u>
Net Assets	<u>\$ 16,273,879</u>	<u>\$ 29,282,640</u>

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

Risk management

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

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The Statement of Investment Portfolio presents the securities held by the Fund as at June 30, 2012, and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

10. FINANCIAL INSTRUMENTS (Continued...)

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 or 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 prices or investment specific events.

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

Currency	Investments, at fair value	Bank indebtedness	Total	Percentage of GAAP NA
United States Dollar	<u>916,964</u>	<u>(128)</u>	<u>916,836</u>	<u>5.63%</u>
	<u>\$ 916,964</u>	<u>\$ (128)</u>	<u>\$ 916,836</u>	<u>5.63%</u>

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

10. FINANCIAL INSTRUMENTS (Continued...)

iii) Interest rate risk

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at June 30, 2012, the bulk of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

Financial assets	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Held for trading	\$ -	\$ -	\$ 17,817,294	\$ 17,817,294
Other receivables	-	-	15,947	15,947
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,833,241</u>	<u>\$ 17,833,241</u>
Financial liabilities				
Other financial liabilities	<u>\$ 819,953</u>	<u>\$ -</u>	<u>\$ 739,409</u>	<u>\$ 1,559,362</u>
GAAP NA				<u>\$ 16,273,879</u>

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

10. FINANCIAL INSTRUMENTS (Continued...)

iv) Liquidity risk

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

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

Financial assets	0-12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Held for Trading	\$ -	\$ -	\$ -	\$ -	\$ 17,817,294	\$ 17,817,294
Other receivables	<u>15,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,947</u>
Total	<u>\$ 15,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,817,294</u>	<u>\$ 17,833,241</u>
Financial liabilities						
Other financial liabilities	<u>\$ 1,559,362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,559,362</u>
GAAP NA						<u>\$ 16,273,879</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at June 30, 2012 the fair value of such assets was 16.7% (December 31, 2011 – 17.3%) of the total net assets.

v) Cash flow risk

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

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

10. FINANCIAL INSTRUMENTS (Continued...)

vi) Credit risk

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

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

As at June 30, 2012, the Fund had no significant investments in long term debt instruments.

11. CAPITAL MANAGEMENT

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

The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, policies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet participating unitholder redemptions. The Fund's overall strategy for managing capital remains unchanged from 2011.

The Fund does not have any externally imposed capital requirements.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

12. FAIR VALUE HIERARCHY

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments and derivatives carried at fair values as discussed in note 2(c):

Assets at fair value as at June 30, 2012	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
Investments, at fair value	<u>\$ 15,047,292</u>	<u>\$ 47,819</u>	<u>\$ 2,722,183</u>	<u>\$ 17,817,294</u>

During the period ended June 30, 2012 reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Fair value measurements using level 3 inputs
Balance at December 31, 2011	\$ 5,060,049
Purchases	-
Sales	-
Transfers out	(1,665,000)
Gains (losses)	
Realized	-
Unrealized	<u>(672,866)</u>
Balance at June 30, 2012	<u>\$ 2,722,183</u>

During the period ended June 30, 2012, there were transfers between Level 3 to Level 1 as certain security was acquired by listed company.

FRONT STREET CANADIAN ENERGY RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

13. INCOME TAX LOSSES CARRYFORWARD

The Fund has \$1,056,604 in non-capital losses available to be applied against taxable income of future periods which will expire as follows:

2029	\$ 82,638
2030	<u>973,966</u>
	<u>\$ 1,056,604</u>

The Fund has \$4,106,979 in capital losses available to be applied against capital gains of future periods. These losses do not expire.

14. EXEMPTION FROM REGULATORY FILING REQUIREMENTS

The Fund is not a reporting issuer and is exempt from the financial statement filing requirements of Sections 2.1 and 2.3 of National Instrument 81-106 for the period ended December 31, 2011 and following financial periods. The Fund has prepared its financial statements under National Instrument 81-106 and has advised the Ontario Securities Commission that it is relying on the exemption not to file its financial statements according to Sections 2.1 and 2.3.



FRONT STREET CAPITAL

33 Yonge Street, Suite 600
Toronto, ON M5E 1G4

Tel.: 1 (800) 513-2832

or (416) 364-1990

Fax: (416) 364-8893

www.FrontStreetCapital.com