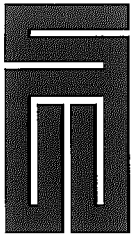


FRONT STREET CANADIAN HEDGE

FINANCIAL STATEMENTS

DECEMBER 31, 2004



**SILVER
GOLD
GLATT &
GROSMAN LLP
CHARTERED
ACCOUNTANTS**

Murray A. Silver, C.A.
Randy L. Gold, B.B.M., C.A.
Richard E. Glatt, B.Comm., C.A.
Sharon Grosman, C.A.
James K. Angus, C.A.

AUDITORS' REPORT

To the Unitholders of
Front Street Canadian Hedge

We have audited the statement of net assets of **Front Street Canadian Hedge** as at December 31, 2004 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Silver Gold Glatt & Grosman
LLP

Chartered Accountants

Toronto, Ontario
March 25, 2005

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Front Street Canadian Hedge

Statement of Net Assets as at December 31, 2004

	2004	2003
ASSETS		
Marketable securities owned, at market (Note 3)	\$ 217,086,718	\$ 14,145,194
Interest and dividends receivable	169,460	10,895
Subscriptions receivable	1,539,723	-
Other receivable	140,277	3,403
Offering costs (Note 4)	<u>34,722</u>	<u>70,721</u>
	<u>218,970,900</u>	<u>14,230,213</u>
LIABILITIES		
Due to broker (cash balances) (Note 5)	31,412,061	2,324,380
Due to Casurina Limited Partnership	1,680,000	-
Accounts payable and accrued liabilities	109,590	20,716
Management fee payable (Note 6a)	138,596	34,548
Performance bonus payable (Note 6b)	1,802,326	-
Marketable securities sold short, at market (Note 3)	<u>10,518,166</u>	<u>625,830</u>
	<u>45,660,739</u>	<u>3,005,474</u>
NET ASSETS	<u>\$ 173,310,161</u>	<u>\$ 11,224,739</u>
Number Of Units Outstanding (Note 7)	<u>12,130,737.72</u>	<u>947,949.50</u>
Net Asset Value Per Unit	<u>\$ 14.286861</u>	<u>\$ 11.841073</u>

Approved on behalf of the Fund, _____ Manager
Front Street Capital

Front Street Canadian Hedge

Statement of Operations

For the year ended December 31, 2004

	2004	2003 (Note 12)
Investment Income		
Dividends	\$ 186,706	\$ 15,692
Interest	<u>131,831</u>	<u>2,815</u>
	<u>318,537</u>	<u>18,507</u>
Expenses		
Performance bonus (Note 6b)	1,802,326	475,168
Management fee (Note 6a)	751,120	34,548
Operating	348,461	19,919
Professional fees	<u>234,232</u>	<u>49,142</u>
	<u>3,136,139</u>	<u>578,777</u>
Net Investment Loss	<u>(2,817,602)</u>	<u>(560,270)</u>
Realized And Unrealized Gain On Marketable Securities		
Net realized gain on marketable securities, including foreign exchange adjustments	5,956,323	671,317
Net change in unrealized appreciation on marketable securities	<u>6,032,512</u>	<u>1,044,482</u>
Net Gain On Marketable Securities	<u>11,988,835</u>	<u>1,715,799</u>
Increase In Net Assets From Operations	<u>\$ 9,171,233</u>	<u>\$ 1,155,529</u>

Front Street Canadian Hedge

Statement of Changes in Net Assets

For the year ended December 31, 2004

	2004	2003 (Note 12)
Increase In Net Assets From Operations	<u>\$ 9,171,233</u>	<u>\$ 1,155,529</u>
Capital Transactions		
Sale of units	154,017,683	10,094,210
Units redeemed	<u>(1,103,494)</u>	<u>(25,000)</u>
	<u>152,914,189</u>	<u>10,069,210</u>
Increase In Net Assets	162,085,422	11,224,739
Net Assets , Beginning of year	<u>11,224,739</u>	<u>-</u>
Net Assets , End of year	<u>\$ 173,310,161</u>	<u>\$ 11,224,739</u>

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2004

1. ESTABLISHMENT OF THE FUND

Front Street Canadian Hedge (the "Fund") is an investment trust created under the laws of the Province of Ontario pursuant to a trust agreement dated September 30, 2003 (the "Trust Agreement"). HSBC Trust Company (Canada), a trust company incorporated under the laws of Canada, which is authorized under the laws of the Province of Ontario to carry on the business of a trust company, is the trustee of the Fund (the "Trustee"). Front Street Capital, a partnership formed pursuant to a partnership agreement dated as of October 1, 2001, is the manager of the Fund (the "Manager") pursuant to the Trust Agreement.

The Fund's investment objective is to provide holders of Units ("Unitholders") with long term capital growth primarily through the selection and strategic trading of both long and short positions in equity, debt and derivative securities. The Fund's portfolio (the "Portfolio") will consist primarily of investments which generate capital gains, but will also include investments which generate income.

The Fund is not a "mutual fund" that is a reporting issuer or equivalent for securities law purposes. As a result, the protections provided to investors in mutual funds that are reporting issuers or equivalent under such laws are not available to investors in the Units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation:

The financial statements include the financial position and results of operations of the Fund; however, they do not include all the assets, liabilities, revenue and expenses of the individual unitholders.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the valuation principles as set forth in the Trust Agreement. The following is a summary of significant accounting policies followed by the Fund.

b) Marketable securities owned and sold short:

Marketable securities owned and sold short are valued by the Manager in accordance with the Trust Agreement as of the close of business on the relevant business day and valued based on external pricing sources to the extent possible. When available, closing and/or average prices will be obtained from broker-dealers and exchanges; however, such prices may be adjusted if a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. In addition, prices may be adjusted to reflect bid-offer pricing spreads in which securities markets close at different times. Securities for which market quotations are available, but which are restricted as to saleability or transferability will be valued as provided above, less an appropriate discount based on the value and terms of the restrictions. Where market quotations are not available, the fair value will be determined by the Manager based on standard industry practice.

c) Investment transactions and income recognition:

Investment transactions are accounted for on a trade date basis and gains and losses from such transactions are calculated based on average cost.

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

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Investment transactions and income recognition: (cont'd)

Net realized and unrealized gain (loss) on marketable securities includes the related foreign exchange gains and losses.

d) Foreign currency translation:

Foreign currency amounts are translated into Canadian dollars on the following basis:

- (i) market value of the marketable securities and other assets and liabilities, at the closing rates of exchange; and
- (ii) purchases and sales of marketable securities and income and expenses, at the rate of exchange prevailing on the respective dates of such transactions.

e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

f) Fair value of financial instruments:

Financial assets and liabilities, other than marketable securities owned (see Note 2b), are valued at cost. These balances are short term in nature and, therefore, their carrying values approximate fair values.

g) Financial instruments and associated risks:

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.

(i) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors specific to the individual security of its issuer or factors affecting all securities in the market. All trading instruments are recognized at fair value and all changes in market conditions directly affect net assets from operations.

(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.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Taxation:

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the year, including realized taxable capital gains, less allowable capital losses, to the extent such net income for tax purposes has not been paid or made payable to the Unitholders in the year.

3. MARKETABLE SECURITIES OWNED AND SOLD SHORT

At December 31, 2004, the Fund had marketable securities owned and sold short as outlined below:

Type of Investment	Securities owned at cost	Securities owned at market value	Securities sold short at cost	Securities sold short at market value
Canadian\$ denominated bonds	\$ 3,812,090	\$ 3,976,996	\$ -	\$ -
Canadian\$ denominated equities	203,420,218	210,801,127	9,424,585	9,833,148
United States\$ denominated equities	<u>2,393,855</u>	<u>2,308,595</u>	<u>710,020</u>	<u>685,018</u>
	<u>\$ 209,626,163</u>	<u>\$ 217,086,718</u>	<u>\$ 10,134,605</u>	<u>\$ 10,518,166</u>

At December 31, 2003, the Fund had marketable securities owned and sold short as outlined below:

	Securities owned at cost	Securities owned at market value	Securities sold short at cost	Securities sold short at market value
Canadian\$ denominated equities	\$ 12,996,172	\$ 14,059,569	\$ 617,802	\$ 625,830
United States\$ denominated equities	<u>96,512</u>	<u>85,625</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,092,684</u>	<u>\$ 14,145,194</u>	<u>\$ 617,802</u>	<u>\$ 625,830</u>

4. OFFERING COSTS

Offering costs, which include legal and accounting costs related to the formation of the Fund will be amortized over two years. Unamortized offering costs are reviewed annually for impairment in relation to the Manager's expectation of future issuance of units.

	2004	2003
Balance , Beginning of year	\$ 70,721	\$ -
Offering Costs Incurred	-	108,116
Amortization	<u>(35,999)</u>	<u>(37,395)</u>
Balance , End of year	<u>\$ 34,722</u>	<u>\$ 70,721</u>

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2004

5. DUE TO BROKER

Due to broker is a margin account representing cash loans with the broker and is secured by the underlying securities owned by the Fund.

6. MANAGEMENT FEE AND PERFORMANCE BONUS

a) Management fee:

A management fee of 2.0% per annum, based on the weekly Net Asset Value calculations, is payable within ten business days after the end of each month. Management fees are payable to the Manager.

b) Performance bonus:

The performance bonus is paid to the Manager based on the Fund's annual performance. The performance bonus is calculated and accrued monthly as 20% of the Fund performance in excess of a minimum performance as specifically defined in the Fund's Trust Agreement.

7. UNITS ISSUED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of Units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Fund. Each Unit entitles the holder to the same rights and obligations as a holder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholders. Each Unitholder is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains.

Subject to the Fund's right to suspend redemptions, units held by a Unitholder for a minimum period of 12 months may be surrendered not less than 30 days prior to the last business day of each month for redemption. Units so surrendered for redemption by the Unitholder to the Manager will be redeemed for a price equal to the Net Asset Value per Unit as at the close of business on the redemption date.

The following unit transactions took place during the year:

	2004	2003
Balance, Beginning of year	947,949.50	-
Issued:		
On new subscriptions	11,262,525.63	950,290.19
Redeemed	<u>(79,737.41)</u>	<u>(2,340.69)</u>
Balance, End of year	<u><u>12,130,737.72</u></u>	<u><u>947,949.50</u></u>

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2004

8. EXPENSES

The Manager may pay out of the Trust Property all expenses relating to the operation of the Fund and the carrying on of its business. These expenses may include management fees, performance bonus, bookkeeping, legal, audit, trustee, registrar and transfer agency, custodial and safekeeping fees, taxes, brokerage commissions, advertising costs, interest, operating and administrative costs, Unitholder servicing costs, and costs of financial and other reports that are used in complying with the laws, regulations and policies regulating the issue or sale of Units.

9. INCOME TAXES

The Fund has accumulated non-capital losses in the amount of \$33,569 available as at December 31, 2004 for utilization against investment income in future years. The losses will expire in 2009.

10. DISTRIBUTION POLICY

The Fund intends to distribute all of its income for purposes of the 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.

11. 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 wilful misconduct, bad faith, gross negligence or reckless disregard of its duties, or breach of its obligations as manager under the Trust Agreement which have not been delegated to the Fund's investment advisor.

12. COMPARATIVE FIGURES

The comparative figures are for the period from creation, September 30, 2003, to December 31, 2003.