



# FINANCIAL STATEMENTS

DECEMBER 31, 2005

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## AUDITORS' REPORT

To the Unitholders of  
**Front Street Canadian Hedge**

We have audited the statements of net assets and investment portfolio of **Front Street Canadian Hedge** as at December 31, 2005 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 and investment portfolio of the Fund as at December 31, 2005 and the results of its operations and changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
February 16, 2006

“Silver Gold Glatt + Grosman LLP”  
*Chartered Accountants*



**FRONT STREET CANADIAN HEDGE**

**STATEMENTS OF NET ASSETS**

**AS AT DECEMBER 31, 2005**

	2005 \$	2004 \$
<b>Assets</b>		
Due from broker (cash balances)	6,066,609	5,591,437
Marketable securities owned, at market [note 3]	201,114,572	217,086,718
Interest and dividends receivable	281,461	169,460
Offering costs [note 4]	–	34,722
	<u>207,462,642</u>	<u>222,882,337</u>
<b>Liabilities</b>		
Due to broker (cash balances) [note 5]	4,747,002	37,003,499
Marketable securities sold short, at market [note 3]	1,354,603	10,518,166
Accounts payable and accrued liabilities	93,538	109,589
Management fees payable [note 6 (a)]	324,527	138,596
Performance fee payable [note 6 (b)]	6,221,306	1,802,326
Distributions payable [note 9]	5,881,294	–
	<u>18,622,270</u>	<u>49,572,176</u>
<b>Total Net Assets</b>	<u>188,840,372</u>	<u>173,310,161</u>
<b>Net Assets, Common Units</b>	<u>165,291,891</u>	<u>173,310,161</u>
<b>Net Assets, Series “F” Units</b>	<u>23,548,481</u>	<u>–</u>
<b>Number Of Units Outstanding</b> [note 7]		
<b>Common</b>	10,544,811	12,130,738
<b>Series “F”</b>	1,489,683	–
<b>Net Asset Value Per Unit</b>		
<b>Common</b>	15.68	14.29
<b>Series “F”</b>	15.81	–

See accompanying notes to financial statements.

Approved on behalf of the Fund,



Gary P. Selke



**FRONT STREET CANADIAN HEDGE**

**STATEMENTS OF OPERATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

	2005 \$	2004 \$
<b>Investment Income</b>		
Dividends	973,832	211,456
Interest	692,217	151,971
	1,666,049	363,427
<b>Expenses</b>		
Performance fee [note 6 (b)]	6,221,306	1,802,326
Management fees [note 6 (a)]	3,779,432	751,120
Operating	371,072	393,234
Dividends paid on marketable securities sold short	164,699	24,750
Legal fees	91,498	128,355
Audit fees	16,000	30,245
Trustees fees	15,001	14,999
Amortization of offering costs [note 4]	34,722	36,000
	10,693,730	3,181,029
<b>Net Investment Loss</b>	(9,027,681)	(2,817,602)
<b>Realized And Unrealized Gain On Marketable Securities</b>		
Net realized gain on marketable securities, including foreign exchange adjustments	24,019,438	5,956,323
Net change in unrealized appreciation on marketable securities	8,282,632	6,032,512
<b>Net Gain On Marketable Securities</b>	32,302,070	11,988,835
<b>Increase In Net Assets From Operations</b>	23,274,389	9,171,233

See accompanying notes to financial statements.



**FRONT STREET CANADIAN HEDGE**

**STATEMENTS OF CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Common Units \$	2005 Series F Units \$	Total \$	2004 (Common Units only) \$
<b>Increase In Net Assets From Operations</b>	22,326,488	947,901	23,274,389	9,171,233
<b>Capital Transactions</b>				
Sale of units	17,667,638	23,333,950	41,001,588	154,017,683
Redemption of units	(42,864,472)	–	(42,864,472)	(1,103,494)
	(25,196,834)	23,333,950	(1,862,884)	152,914,189
<b>Distributions</b>	(5,147,924)	(733,370)	(5,881,294)	–
<b>Increase (Decrease) In Net Assets</b>	(8,018,270)	23,548,481	15,530,211	162,085,422
<b>Net Assets, Beginning of year</b>	173,310,161	–	173,310,161	11,224,739
<b>Net Assets, End of year</b>	165,291,891	23,548,481	188,840,372	173,310,161

See accompanying notes to financial statements.

**FRONT STREET CANADIAN HEDGE**
**STATEMENT OF PORTFOLIO INVESTMENTS**
**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Long Positions – Canadian Equities</b>				
<b>Energy</b>				
268,516	Accrete Energy Inc.	2,082,791	2,671,734	1.40
95,516	Alberta Clipper Energy Inc.	388,230	367,737	0.20
1,367,101	Arawak Energy Corporation	2,167,368	2,269,388	1.20
203,504	Atlas Energy Limited	875,113	976,819	0.50
604,389	Ausam Energy Corporation	375,182	287,085	0.20
126,389	Ausam Energy Corporation Warrants	–	–	–
92,000	Birchcliff Energy Limited	646,705	653,200	0.30
360,000	C&C Energy Canada	360,000	360,000	0.20
327,824	Calvalley Petroleum Inc. ‘A’	871,267	1,481,764	0.80
150	Canadian Natural Resources Limited	8,167	8,645	0.00
234,813	Caribou Resources Corporation	472,986	587,033	0.30
240,000	Caribou Resources Corporation Restricted	588,000	600,000	0.30
120,000	Caribou Resources Corporation Warrants	–	–	–
46,460	CHC Helicopter Corporation ‘A’	1,152,804	1,268,823	0.70
210,344	Clear Energy Inc.	1,120,378	1,114,823	0.60
1,124,861	Coalcorp Mining Inc.	569,706	641,171	0.30
147,500	Coalcorp Mining Inc. Warrants	1,200	–	–
384,422	Cordero Energy Inc.	2,300,477	2,494,899	1.30
65,000	Cordero Energy Inc. Restricted	377,000	396,539	0.20
13,118	Duvernay Oil Corporation	594,822	580,209	0.30
19,366	EnCana Corporation	1,105,403	1,017,877	0.50
16,032	Galleon Energy Inc. ‘A’	240,190	392,784	0.20
328,251	Garneau Inc.	379,371	469,399	0.20
101,376	Great Plains Explorations Inc.	283,125	280,812	0.10
50,098	Husky Energy Inc.	2,877,746	2,955,782	1.60
264,000	Interex Oilfield Services Limited Special Warrants	171,600	171,600	0.10
20,700	International Frontier Resources Corporation	40,572	41,400	0.00
204,871	Iteration Energy Limited	1,220,854	1,278,395	0.70
272,728	Kereco Energy Limited	3,647,919	4,172,738	2.20
639	Kick Energy Limited	5,209	4,569	0.00
64,800	Leader Energy Services Limited	197,640	281,880	0.10
293,572	Mahalo Energy Limited	1,498,471	2,055,004	1.10
24,985	Midnight Oil Exploration Limited	85,533	110,434	0.10
362,976	Mission Oil & Gas Inc.	3,063,679	2,689,652	1.40
315,000	NEMI Northern Energy & Mining Inc. Warrants	60,060	–	–
36,798	Opti Canada Inc.	1,328,551	1,404,580	0.70

**FRONT STREET CANADIAN HEDGE**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Energy (cont'd)</b>				
384,000	Pacific Stratus Energy Limited	96,000	107,520	0.10
192,000	Pacific Stratus Energy Limited Warrants	—	—	—
506,016	Peregrine Energy Limited	1,225,208	1,012,032	0.50
39,292	Petro-Canada	1,675,502	1,832,972	1.00
14,904	Precision Drilling Trust	473,351	572,016	0.30
128,769	Producers Oilfield Services Inc.	1,250,625	1,191,113	0.60
51,587	Rider Resources Limited	937,338	1,068,367	0.60
456,573	Rock Energy Inc.	2,246,151	2,282,865	1.20
264,000	Run of River Power Inc.	158,400	118,800	0.10
132,000	Run of River Power Inc. Warrants	—	—	—
48,606	Savanna Energy Services Corporation	1,238,751	1,390,132	0.70
291,088	Saxon Energy Services Inc.	1,118,813	1,586,430	0.80
108,750	Saxon Energy Services Inc. Warrants	—	153,000	0.10
322,544	ShawCor Limited 'A'	4,103,559	5,018,785	2.70
192	Shell Canada Limited	7,057	8,074	0.00
119,700	Silverwing Energy Inc. Restricted	269,325	269,325	0.10
119,700	Silverwing Energy Inc. Warrants	—	—	—
16,463	Stallion Energy Limited	—	—	—
270,840	Standard Energy Inc.	406,260	406,260	0.20
454,210	Storm Exploration Inc.	2,000,647	3,043,207	1.60
543,314	Stratic Energy Corporation	328,325	440,084	0.20
120,000	Stratic Energy Corporation Restricted	108,000	93,312	0.00
184,375	Stratic Energy Corporation Warrants	8,813	9,563	0.00
17,600	TAG Oil Limited	23,760	11,616	0.00
640,000	Terrawest Energy Company	6,400	6,400	0.00
1,280,000	Terrawest Energy Company Restricted	640,000	640,000	0.30
253,492	Tusk Energy Corporation	1,138,862	1,282,670	0.70
640,080	United Reef Limited	96,012	32,004	0.00
320,040	United Reef Limited Warrants	—	—	—
180,000	Valkyries Petroleum Corporation	1,080,000	1,258,200	0.70
289,008	West Energy Limited	1,762,258	2,317,844	1.20
102,406	Western Canadian Coal Corporation	487,833	359,445	0.20
82,125	Western Canadian Coal Corporation Warrants	—	4,106	0.00
7,584	Western Oil Sands Inc. 'A'	208,717	210,911	0.10
59,100	Zenas Energy Corporation	325,188	310,275	0.20
		54,579,274	61,124,103	32.00



**FRONT STREET CANADIAN HEDGE**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Materials</b>				
553,847	ACE Security Laminates Corporation	343,754	83,077	0.00
276,923	ACE Security Laminates Corporation Warrants	2,031	–	–
106,704	Alcan Inc.	4,757,493	5,096,183	2.70
473,041	Amerigo Resources Limited	869,645	1,106,916	0.60
14,490	AMR Technologies Inc.	25,455	23,764	0.00
48,000	Atna Resources Limited	54,043	93,600	0.00
71,600	Atna Resources Limited Special Warrants	96,660	128,450	0.10
21,353	Aur Resources Inc.	239,347	251,538	0.10
77,000	Canexus Income Fund	695,380	673,750	0.40
11,500	Canfor Corporation	153,295	154,445	0.10
290,974	Desert Sun Mining Corporation	687,490	832,186	0.40
82,961	Desert Sun Mining Corporation Warrants	82,195	91,257	0.00
947,528	Diamonds North Resources Limited	771,465	824,349	0.40
40,000	Diamonds North Resources Limited Restricted	32,800	32,016	0.00
20,000	Diamonds North Resources Limited Warrants	–	–	–
182,520	Endeavour Mining Capital Corporation	620,568	793,962	0.40
95,730	Endeavour Mining Capital Corporation Warrants	118,638	124,449	0.10
353,578	Enerchem International Inc.	989,558	1,131,450	0.60
125,000	Entree Gold Inc.	170,000	216,250	0.10
195,000	Equinox Minerals Limited	156,000	165,750	0.10
147,500	Etruscan Resources Inc. Warrants	1,200	–	–
606,000	Eurozinc Mining Corporation	491,421	775,680	0.40
164,550	FNX Mining Company Inc.	2,149,196	2,236,235	1.20
200,154	Gabriel Resources Limited	492,184	568,437	0.30
860,800	Global Alumina Corporation	2,024,709	1,716,020	0.90
457,500	Global Alumina Corporation Warrants	5,100	112,004	0.10
12,000	Greystar Resources Limited	68,160	91,800	0.00
544,281	Guyana Goldfields Inc.	1,316,787	2,122,696	1.10
2,157,143	Hedman Resources Limited	156,500	75,500	0.00
1,607,143	Hedman Resources Limited Warrants	–	2	0.00
583,936	HudBay Minerals Inc.	1,635,737	3,439,383	1.80
3,330,000	HudBay Minerals Inc. Warrants	49,950	333,000	0.20
239,058	IAMGOLD Corporation	2,073,379	2,189,771	1.20
732,000	Inca Pacific Resources Inc. Warrants	132,000	1	0.00
79,850	Inmet Mining Corporation	1,471,146	2,355,575	1.20
31,792	JCI Corporation	318	318	0.00

**FRONT STREET CANADIAN HEDGE**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Materials (cont'd)</b>				
238,811	Kensington Resources Limited Warrants	1,943	—	—
180,684	Kinross Gold Corporation	1,743,804	1,940,546	1.00
34,600	Linear Gold Corporation	176,560	165,042	0.10
464,432	LionOre Mining International Limited	2,544,009	2,298,938	1.20
121,200	Major Drilling Group International Inc.	1,990,261	2,131,908	1.10
590,081	Metalex Ventures Limited	577,318	442,561	0.20
1,052,884	Metallica Resources Inc.	1,704,764	2,263,701	1.20
762,168	Nevsun Resources Limited	1,837,533	1,600,553	0.80
12,000	Nevsun Resources Limited Warrants	—	6,360	0.00
113,868	New Gold Inc.	712,518	888,170	0.50
150,048	NOVA Chemicals Corporation	6,337,484	5,823,363	3.10
167,600	Opta Minerals Inc.	646,845	502,800	0.30
79,200	Opta Minerals Inc. Warrants	25,344	13,068	0.00
84,500	Peregrine Holdings Limited Special Warrants	422,500	422,500	0.20
62,700	Peru Copper Inc. Warrants	13,167	60,819	0.00
310,704	Quadra Mining Limited	1,859,987	1,848,689	1.00
429,042	Rio Narcea Gold Mines Limited	660,661	686,467	0.40
302,579	Sherritt International Corporation	3,040,974	3,056,048	1.60
337,690	Shore Gold Inc.	1,011,475	2,593,459	1.40
120,000	Shore Gold Inc. Warrants	—	321,000	0.20
120,000	Solomon Resources Limited	40,164	30,000	0.00
186,727	Southwestern Resources Corporation	1,859,829	2,522,682	1.30
29,500	Stornoway Diamond Corporation Warrants	240	—	—
146,137	SXR Uranium One Inc.	611,646	865,131	0.50
242,400	TNR Gold Corporation	48,722	53,328	0.00
1,032,000	Urasia Energy Limited	1,735,200	2,239,440	1.20
240,000	Vaaldiam Resources Limited	144,000	162,000	0.10
120,000	Vaaldiam Resources Limited Warrants	—	—	—
737,000	Vena Resources Inc.	294,800	361,130	0.20
375,000	Vena Resources Inc. Warrants	—	—	—
25,300	Viceroy Exploration Limited	111,027	129,030	0.10
170,178	Western Prospector Group Limited	628,439	850,890	0.50
48,000	Western Prospector Group Limited Restricted	249,600	230,400	0.10
321,160	Wolfden Resources Inc.	922,298	1,188,292	0.60
		54,886,716	63,538,129	33.40

**FRONT STREET CANADIAN HEDGE**
**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**
**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Industrials</b>				
1,722	3801110 Canada Inc.	17	17	0.00
1,460,428	Bioteq Environmental Technologies Inc.	1,107,071	1,518,845	0.80
117,500	Bioteq Environmental Technologies Inc. Warrants	—	—	—
120,715	CAE Inc.	1,023,520	1,028,492	0.50
180,408	Ceramic Protection Corporation	3,601,393	2,633,957	1.40
200,000	Clean Air Partners	2,000	2,000	0.00
1,500,000	Divcom Lighting Inc.	897,551	585,000	0.30
1,949,934	Dynex Power Inc.	721,476	126,746	0.10
610,000	Environmental Management Solutions Inc. Warrants	5,500	1	0.00
250,000	Future Beach	2,500	2,500	0.00
290,275	Icefloe Technologies Inc.	223,800	105,950	0.10
330,003	Icefloe Technologies Inc. Warrants	—	—	—
50,459	Icon Laser	505	505	0.00
301,450	Intermap Technologies Corporation	1,436,954	1,507,250	0.80
50,000	Intermap Technologies Corporation Warrants	—	—	—
852,610	Loewen Group Inc.	8,526	8,526	0.00
91,000	Multi-Glass International Corporation	9,100	2,275	0.00
182,025	Rand A Technology Corporation	327,645	536,974	0.30
21,450	Roman Corporation Limited Warrants	—	215	0.00
184,375	SMTC Manufacturing Corporation of Canada Warrants	6,000	9,219	0.00
23,000	Steeplejack Industrial Group Inc.	142,138	163,300	0.10
122,112	WestJet Airlines Limited	1,586,815	1,497,093	0.80
96,000	Westshore Terminals Income Fund	1,049,733	1,148,160	0.60
		12,152,244	10,877,025	5.80
<b>Consumer Discretionary</b>				
47,932	Corus Entertainment Inc. 'B'	1,416,905	1,495,478	0.80
800,000	Delicious Desserts	8,000	8,000	0.00
750,150	Dimethaid Research Inc. Warrants	5,501	1	0.00
209,091	Dominion Citrus Limited	253,000	207,000	0.10
2,250,000	Fareport Capital Inc.	146,250	22,500	0.00
1,125,000	Fareport Capital Inc. Warrants	11,250	1	0.00
49,126	Great Canadian Gaming Corporation	698,653	804,684	0.40
192,000	Kidsfutures Inc. 'C' Preference Shares Series 2	192,000	192,000	0.10
192,000	Kidsfutures Inc. Warrants	—	—	—
161,200	Laidlaw Inc. Preference Shares	1,612	1,612	0.00

**FRONT STREET CANADIAN HEDGE**
**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**
**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Consumer Discretionary (cont'd)</b>				
799,620	Las Vegas From Home.com Entertainment Inc.	464,288	315,850	0.20
240,000	Las Vegas From Home.com Entertainment Inc. Warrants	–	–	–
199,250	Lingo Media Inc.	53,798	33,873	0.00
1,462,500	Outdoorpartner Media Canada Inc.	292,500	292,500	0.20
731,250	Outdoorpartner Media Canada Inc. Warrants	–	1	0.00
100,000	Parkbridge Lifestyles Communities Inc.	330,000	500,000	0.30
300,000	RepeatSeat Limited	240,000	159,000	0.10
150,000	RepeatSeat Limited Warrants	–	750	0.00
66,140	Shaw Communications Inc. 'B'	1,600,929	1,668,712	0.90
		5,714,686	5,701,962	3.10
<b>Health Care</b>				
250,000	Adaltis Inc.	1,159,635	775,000	0.40
587,295	Aeterna Zentaris Inc.	4,253,103	3,465,041	1.80
207,000	Automated Benefits Corporation	105,570	70,380	0.00
103,500	Automated Benefits Corporation Warrants	–	–	–
42,320	Blue Devil Pharmaceuticals Inc.	230,221	230,221	0.10
750,000	Covalon Technologies Limited	235,918	450,000	0.20
192,308	Covalon Technologies Limited Warrants	–	1,923	0.00
267,204	CryoCath Technologies Inc.	1,505,987	1,148,977	0.60
375,000	Haemacure Corporation Warrants	3,750	–	–
40,566	Labopharm Inc.	219,731	282,745	0.10
186,816	MDS Inc.	3,689,370	3,756,870	2.00
213,460	MediSystem Technologies Inc.	580,667	542,188	0.30
572,900	ORTHOsoft Inc.	233,986	211,973	0.10
74,000	Spectral Diagnostics Inc.	35,890	34,780	0.00
1,657,500	Stem Cell Therapeutics Corporation	426,317	488,963	0.30
1,759,780	Transition Therapeutics Inc.	1,715,620	1,214,248	0.60
240,000	TSO3 Inc.	480,000	674,400	0.40
120,000	TSO3 Inc. Warrants	–	37,200	0.00
1,174,000	Vigil Health Solutions Inc.	222,435	58,700	0.00
995,025	Warnex Inc.	1,109,612	1,094,528	0.60
168,150	Warnex Inc. Warrants	1,368	–	–
368,939	YM Biosciences Inc. Warrants	258,257	427,969	0.20
		16,467,437	14,966,106	7.70

**FRONT STREET CANADIAN HEDGE**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Financials</b>				
74,650	Dundee Wealth Management Inc.	732,777	753,219	0.40
870,066	iseemedia Inc.	274,263	165,313	0.10
105,000	iseemedia Inc. Warrants	—	—	—
75,000	Killam Properties Inc.	200,250	216,000	0.10
4,500,000	Queensway Financial	45,000	45,000	0.00
67,800	Sun Life Financial Inc.	3,120,564	3,168,294	1.70
29,898	The Toronto-Dominion Bank	1,722,764	1,827,665	1.00
368,000	Tonbridge Power Inc.	85,560	125,120	0.10
		6,181,178	6,300,611	3.40
<b>Information Technology</b>				
53,664	Aastra Technologies Limited	1,115,140	1,990,934	1.10
323,165	Absolute Software Corporation	423,827	1,147,236	0.60
1,833,750	Atlantis Systems Corporation	740,959	1,228,613	0.70
921,875	Atlantis Systems Corporation Warrants	7,500	64,531	0.00
93,500	Bridgewater Systems	935	935	0.00
272,800	Cannect Networks	2,728	2,728	0.00
10,274	Castek Software Warrants	103	103	0.00
186,977	Certicom Corporation	928,062	1,159,257	0.60
202,960	Chartwell Technology Inc.	1,298,432	842,284	0.40
92,650	Coastal Contacts Inc.	64,781	199,198	0.10
73,750	Coastal Contacts Inc. Warrants	—	—	—
470,459	Cold North Wind	4,705	4,705	0.00
457,664	ComnetiX Inc.	750,885	961,094	0.50
438,616	ComnetiX Inc. Warrants	16,848	15,270	0.00
96,000	CYBERplex Inc.	39,840	27,360	0.00
564,480	DEQ Systems Corporation	479,808	248,371	0.10
282,240	DEQ Systems Corporation Warrants	—	—	—
153,936	Divestco Inc.	325,917	484,898	0.30
72,000	Divestco Inc. Warrants	—	46,800	0.00
126,500	DWL Inc. 'A'	1,265	1,265	0.00
1,180,531	Estation Networks	11,805	11,805	0.00
675,000	Fortsum Business Solutions Inc.	526,500	357,750	0.20
675,000	Fortune 1000 Group Warrants	6,750	1	0.00
2,640,320	Grey Island Systems International Inc.	1,052,096	521,463	0.30
320,160	Grey Island Systems International Inc. Warrants	—	—	—

**FRONT STREET CANADIAN HEDGE**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Information Technology (cont'd)</b>				
198,863	Info Touch Technologies Corporation	121,306	169,034	0.10
397,727	Info Touch Technologies Corporation Restricted	167,045	124,091	0.10
744,000	LYRtech Inc. 'A' Warrants	22,320	1	0.00
2,146,668	Mint Technology Corporation	1,308,801	558,134	0.30
450,000	Mint Technology Corporation Units	180,000	107,640	0.10
79,380	Mosaid Technologies Inc.	1,837,281	1,786,050	0.90
186,238	Netactive Inc.	1,862	1,862	0.00
104,167	Nuvo Network Management Inc.	39,844	46,875	0.00
860,479	OnX Enterprise Solutions Inc.	184,596	137,677	0.10
155,938	Parlay Entertainment Inc.	210,042	260,416	0.10
662,880	RDM Corporation	696,024	589,963	0.30
575,000	Redcity Search Company Inc.	225,000	66,125	0.00
250,000	Redcity Search Company Inc. Warrants	—	—	—
50,000	Segami Images Inc.	500	500	0.00
357,880	SIRIT Inc.	251,396	132,416	0.10
69,000	The Descartes Systems Group Inc.	191,820	252,540	0.10
511,112	Visiphor Corporation Restricted	230,000	168,155	0.10
255,556	Visiphor Corporation Warrants	—	—	—
		13,466,723	13,718,080	7.20
<b>Telecommunication Services</b>				
88,000	Azonic Networks	880	880	0.00
2,076,667	Blue Tree Wireless Data Inc.	373,800	311,500	0.20
705,000	Blue Tree Wireless Data Inc. Warrants	7,050	21,150	0.00
320,610	Cygnal Technologies Corporation	469,426	355,877	0.20
129,412	Future Way	1,294	1,294	0.00
96,800	Kaval Wireless	968	968	0.00
1,220,235	QuStream Corporation	1,000,666	2,928,564	1.60
32,568	Rogers Communications Inc. 'B'	1,507,173	1,602,346	0.80
9,600	Sierra Wireless Inc.	130,450	123,552	0.10
161,000	WebTech Wireless Inc.	204,010	196,420	0.10
406,276	Wireless Matrix Corporation	226,579	211,264	0.10
		3,922,296	5,753,815	3.10

**FRONT STREET CANADIAN HEDGE**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Utilities</b>				
1,302,441	Ozz Corporation	1,177,639	1,026,321	0.50
356,950	Ozz Corporation 'A' Preference Shares	324,500	324,500	0.20
19,631	Ozz Corporation Warrants A	145	—	—
114,224	Ozz Corporation Warrants B	845	—	—
		1,503,129	1,350,821	0.70
<b>Total Canadian Equities – Long</b>		168,873,683	183,330,652	96.40
<b>Global Equities</b>				
<b>United States</b>				
843,091	AssistMed Restricted	443,535	419,688	0.20
421,545	AssistMed Warrants	—	—	—
46,875	BMB Munai Inc.	347,596	371,599	0.20
1,449	C.O.R.E. Holdings Inc. 'B'	481,579	482,634	0.30
48,000	Digit Oil	591	560	0.00
2,333,333	E-Zone Networks	28,882	27,202	0.00
196,950	International Menu Solutions Corporation Restricted	2,438	2,296	0.00
526,432	International Royalty Corporation	2,510,121	1,842,511	1.00
18,750	Metrophotonics Inc. Warrants	232	219	0.00
3,300,314	NGTV	1,197,745	1,173,489	0.60
72,000	NGTV Warrants	—	—	—
23,714	Oz Optics	294	276	0.00
250,000	Patriot Computer Warrants	3,095	2,915	0.00
458,700	Popcast	5,678	5,348	0.00
150,000	Special Indian Warrants	1,857	1,749	0.00
200,000	Stockhouse Media	2,476	2,332	0.00
513,333	Yummy Inc. Warrants	6,353	5,984	0.00
317,073	Zero Knowledge Systems Inc.	3,925	3,696	0.00
		5,036,397	4,342,498	2.30
<b>Australia</b>				
120,000	Paladin Resources Limited Restricted	236,400	202,752	0.10
<b>Bermuda</b>				
115,352	Pan-Ocean Energy Corporation Limited	3,247,237	3,114,504	1.60

**FRONT STREET CANADIAN HEDGE**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Average Cost \$	Market Value \$	% of Net Assets
<b>Cayman Islands</b>				
425,000	PetroWorld Corporation	361,200	332,058	0.20
187,500	PetroWorld Corporation Warrants	–	–	–
		361,200	332,058	0.20
<b>United Kingdom</b>				
332,096	Fun Technologies PLC	1,362,140	2,208,437	1.20
	<b>Total Global Equities – Long</b>	10,243,374	10,200,249	5.40
<b>Bonds</b>				
1,098,000	ACE Security Laminates Corporation 8.0% November 3, 2007	1,102,860	1,098,000	0.60
282,000	Blue Tree Wireless Data Inc. 10.0% Convertible November 19, 2009	295,443	282,000	0.10
690,000	BlueGrouse Seismic Solutions Limited 10.0% Convertible Nov. 21, 2008	690,000	690,000	0.40
620,000	Cameco Corporation 5.0% Convertible October 1, 2013	1,189,650	2,141,976	1.10
1,376,000	COM DEV International Limited 6.75% December 31, 2006	1,465,440	1,396,640	0.70
526,000	Crystallex International Corporation 9.375% December 30, 2011	471,725	539,626	0.30
214,000	Mainstreet 7.25% Convertible September 30, 2011	214,000	171,200	0.10
72,000	NGTV 10.0% Promissory Note July 15, 2007	86,926	83,938	0.00
1,180	QuStream Corporation 10.0% Note	1,180,000	1,180,000	0.60
2,500,000	Teleglobe Inc. 5.60373% July 1, 2009	309	291	0.00
	<b>Total Bonds</b>	6,696,353	7,583,671	4.00
	<b>Total Long Positions</b>	185,813,410	201,114,572	106.50



**FRONT STREET CANADIAN HEDGE**
**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**
**AS AT DECEMBER 31, 2005**

Number of Shares/ Par Value	Description	Proceeds on Sale \$	Market Value \$	% of Net Assets
<b>Short Positions – Canadian Equities</b>				
<b>Energy</b>				
(460)	NEMI Northern Energy & Mining Inc.	(736)	(695)	0.00
(4,600)	Suncor Energy Inc.	(340,048)	(337,272)	(0.20)
(6,000)	Talisman Energy Inc.	(368,790)	(369,600)	(0.20)
		(709,574)	(707,567)	(0.40)
<b>Material</b>				
(4,800)	Agrium Inc.	(119,352)	(122,976)	(0.10)
(23,000)	Birch Mountain Resources Limited	(192,354)	(191,360)	(0.10)
		(311,706)	(314,336)	(0.20)
<b>Industrials</b>				
(19,780)	ZENON Environmental Inc.	(391,786)	(332,700)	(0.20)
	<b>Total Short Positions</b>	(1,413,066)	(1,354,603)	(0.70)
	<b>TOTAL INVESTMENT PORTFOLIO</b>	<u>184,400,344</u>	199,759,969	105.80
	<b>Other Assets Net of Liabilities</b>		<u>(10,919,597)</u>	<u>(5.80)</u>
	<b>TOTAL NET ASSETS</b>		<u>188,840,372</u>	<u>100.00</u>

See accompanying notes to financial statements.



## FRONT STREET CANADIAN HEDGE

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

#### 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 which was amended and restated on November 30, 2004, and January 31, 2005 (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 (the “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 beneficial interest in the Fund will be divided into interests in two series of units (the “Trust Units”), designated as common units (the “Common Units”) and “F” series units (the “F Units”).

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 Fund.

#### 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 the 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.



## FRONT STREET CANADIAN HEDGE

### NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2005

(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.

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 these 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 affecting all securities in the market. All trading instruments are recognized at fair value and all changes in market conditions directly affect the changes in 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 (CONT'D)

#### DECEMBER 31, 2005

(h) **Taxation**

The Fund qualifies as a mutual fund trust under the provisions of the *Income Tax Act* (Canada) (the "Tax Act") 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, 2005 the Fund had marketable securities owned and sold short as outlined below:

Type of Investment	Securities owned at cost \$	Securities owned at market value \$	Proceeds on securities sold short \$	Securities sold short at market value \$
Canadian \$ and United States \$ denominated bonds	6,696,353	7,583,671	—	—
Canadian \$ denominated equities	168,873,683	183,330,652	1,413,066	1,354,603
Global \$ denominated equities	10,243,374	10,200,249	—	—
	185,813,410	201,114,572	1,413,066	1,354,603

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 \$	Proceeds on securities sold short \$	Securities sold short at market value \$
Canadian and United States \$ 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	2,393,855	2,308,595	710,020	685,018
	209,626,163	217,086,718	10,134,605	10,518,166

### 4. OFFERING COSTS

Offering costs, which include legal and accounting costs related to the creation 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 Trust Units.

	2005 \$	2004 \$
<b>Balance, Beginning of year</b>	34,722	70,721
Amortization	(34,722)	(35,999)
<b>Balance, End of year</b>	—	34,722



**FRONT STREET CANADIAN HEDGE**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**DECEMBER 31, 2005**

**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 FEES AND PERFORMANCE FEE**

(a) **Management fees**

Management fees equal to one-twelfth of 2.0% of the Series Net Asset Value in respect of the Common Units and one-twelfth of 1.0% of the Series Net Asset Value in respect of the F Units, based on the weekly Net Asset Value calculations during each month plus applicable taxes and related expenses, are payable within ten business days after the end of each month. Management fees are payable to the Manager.

(b) **Performance fee**

The performance fee per Trust Unit of each Series is paid to the Manager based on the Fund's annual performance. The performance fee 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 Trust Units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Fund. Each Trust Unit entitles the holder to the same rights and obligations as a holder of any other Trust 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 Trust 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, Trust Units held by a Unitholder for a minimum period of six 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:

	Common Units \$	F Units \$	Total 2005 \$	Total 2004 \$
<b>Balance, Beginning of year</b>	12,130,738	–	12,130,738	947,950
<b>Issued:</b>				
On new subscriptions	1,220,767	1,489,683	2,710,450	11,262,526
<b>Redeemed</b>	(2,806,694)	–	(2,806,694)	(79,737)
<b>Balance, End of year</b>	10,544,811	1,489,683	12,034,494	12,130,738



## FRONT STREET CANADIAN HEDGE

### NOTES TO FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2005

#### 8. EXPENSES

The Manager may pay out of the Fund property all expenses relating to the operation of the Fund and the carrying on of its business. These expenses may include management fees, performance fees, 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. 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 investment portfolio.

As at December 31, 2005, distributions for Common Units amounted to \$5,147,924 and for F Units amounted to \$733,370.

#### 10. 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 Fund 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.

#### 11. BROKERAGE COMMISSIONS

Total brokerage commissions paid by the Fund during the year ended December 31, 2005 were \$2,660,039.

#### 12. FILING EXEMPTION

The Fund is relying on the exemption pursuant to section 2.11 of National Instrument 81-106, not to file its financial statements with the Ontario Securities Commission.

#### 13. BROKERAGE COMMISSIONS

The Fund has reclassified the comparative figures, where necessary, to conform to the current year's presentation.





## **FRONT STREET CAPITAL**

**87 FRONT STREET EAST, SUITE 400**

**TORONTO, ONTARIO M5E 1B8**

**TOLL FREE: 1-800-513-2832**

**[WWW.FRONTSTREETCAPITAL.COM](http://WWW.FRONTSTREETCAPITAL.COM)**