



FRONT STREET CANADIAN HEDGE

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 Hedge

Statement of Net Assets

As at June 30, 2012 (unaudited) and December 31, 2011 (audited)

	2012	2011
	\$	\$
Assets		
Investments owned, at fair value	72,471,157	125,481,160
Cash (Note 3)	58,382,375	16,305,785
Receivable for investments sold	7,243,810	2,141,646
Interest and dividends receivable	561,054	316,229
	138,658,396	144,244,820
Liabilities		
Investments sold short, at fair value	6,127,723	2,485,856
Payable for investments purchased	8,174,378	796,378
Accounts payable and accrued liabilities	101,115	92,655
Redemption payables	290,408	646,558
Management fees payable (Note 5)	208,906	228,892
	14,902,530	4,250,339
Total Net Assets	123,755,866	139,994,481
Net Assets, Series "B" (formerly "B2")	104,678,620	115,169,113
Net Assets, Series "F"	19,077,246	24,825,368
Number of units outstanding (Note 6)		
Series "B" (formerly "B2")	7,690,207	8,115,871
Series "F"	1,217,290	1,523,019
Net Assets per unit (Note 9)		
Series "B" (formerly "B2")	\$ 13.61	\$ 14.19
Series "F"	15.67	16.30

Approved on behalf of the Trust,



Gary P. Selke, Chief Executive Officer

Front Street Canadian Hedge

Statement of Operations

For the six month periods ended June 30, 2012 and 2011 (unaudited)

	2012	2011
	\$	\$
Investment Income		
Interest	541,256	336,235
Dividends	372,057	245,004
Security lending income	9,741	-
	923,054	581,239
Expenses		
Management fees (Note 5)	1,441,229	1,870,498
Operating	83,957	69,753
Dividends paid on investments sold short	60,667	52,388
Audit fees	18,390	29,208
Legal fees	7,458	7,439
Trustee fees	6,362	5,951
	1,618,063	2,035,237
Net investment loss	(695,009)	(1,453,998)
Realized and unrealized gain (loss) on investments		
Commissions and other portfolio transaction costs (Note 2)	(1,222,205)	(1,444,369)
Net realized gain (loss) on investments, including foreign exchange adjustments	(1,622,679)	24,570,467
Net change in unrealized depreciation in value of investments	(1,008,456)	(37,032,371)
Net loss on investments	(3,853,340)	(13,906,273)
Decrease in Net Assets from operations	(4,548,349)	(15,360,271)
Decrease in Net Assets from operations per unit (Note 2)		
Series "B" (formerly "B2")	\$ (0.51)	\$ (1.46)
Series "F"	(0.37)	(3.16)

Front Street Canadian Hedge

Statement of Changes in Net Assets

For the six month periods ended June 30, 2012 and 2011 (unaudited)

	2012			2011
	Series B (formerly B2)	Series F	Total	Total
Decrease in Net Assets from operations	(4,017,210)	(531,139)	(4,548,349)	(15,360,271)
Capital transactions (Note 6)				
Sale of units	-	387,309	387,309	25,873,017
Redemption of units	(6,473,283)	(5,604,292)	(12,077,575)	(7,366,054)
	(6,473,283)	(5,216,983)	(11,690,266)	18,506,963
Increase (decrease) in Net Assets	(10,490,493)	(5,748,122)	(16,238,615)	3,146,692
Net Assets, beginning of period	115,169,113	24,825,368	139,994,481	170,556,762
Net Assets, end of period	104,678,620	19,077,246	123,755,866	173,703,454

**Front Street Canadian Hedge
Statement of Investment Portfolio
As at June 30, 2012 (unaudited)**

Number of Shares/ Units		Average Cost	Fair Value	% of net assets
		\$	\$	%
Investments - Long Positions				
Canadian Equities				
Energy				
200,000	Americas Petrogas Inc. Restricted	700,000	364,000	
864,000	Anglo Canadian Oil Corporation Warrants September 24, 2012	-	1	
416,500	Argosy Energy Inc.	965,161	99,960	
500,000	ArPetrol Limited	84,307	12,500	
2,082,800	Arpetrol Limited Warrants January 11, 2013	-	2	
52,000	Athabasca Oil Corporation	543,774	579,280	
308,400	Brownstone Energy Inc. Warrants September 11, 2012	-	-	
169,900	C&C Energia Limited	920,645	941,246	
54,900	Canadian Natural Resources Limited	1,512,652	1,498,221	
87,980	Canyon Services Group Inc.	938,300	863,964	
2,428	Estrella International Energy Services Limited	1,133	194	
14	Estrella International Energy Services Limited Warrants December 23, 2015	-	8,603	
400	Fission Energy Corporation	336	164	
114,450	Fission Energy Corporation Warrants December 2, 2012	-	-	
359,500	Griffiths Energy International Inc. Restricted	1,797,000	2,157,000	
840,000	Kombat Copper Inc. Restricted	420,000	210,000	
420,000	Kombat Copper Inc. Warrants March 1, 2015	-	55,768	
12,000	Legacy Oil + Gas Inc.	64,594	67,080	
195,750	Lipari Energy Inc. Warrants March 11, 2014	-	979	
409,100	Mira Resources Corporation Warrants August 16, 2012	-	-	
501,817	P1 Energy Corporation Private Placement	1,428,231	602,180	
216,380	Parex Resources Inc.	1,180,528	1,014,822	
165,800	Petroamerica Oil Corporation Warrants November 19, 2012	-	1,658	
3,868,900	Petroamerica Oil Corporation Warrants October 8, 2014	-	270,823	
321,876	Renegade Petroleum Limited	1,239,333	836,878	
282,710	Sonde Resources Corporation	923,051	474,953	
519,942	Strad Energy Services Limited	2,208,932	2,266,947	
15,400	Suroco Energy Inc.	18,817	19,414	
2,740,000	Suroco Energy Inc. Warrants July 9, 2012	-	19,827	
36,000	Touchstone Exploration Inc.	18,629	7,200	
1,465,900	Tuscany International Drilling Inc.	1,387,543	535,054	
13,140	Whitecap Resources Inc.	92,647	88,169	
748,859	Xtreme Drilling and Coil Services Corporation	3,079,213	1,168,220	
	Total Energy	19,524,826	14,165,107	11.45%
Materials				
8,000	Barrick Gold Corporation	297,897	306,080	
1,250,000	Billabong Gold Restricted	500,000	250,000	
1,400,000	Cabo Drilling Corporation	216,147	133,000	
337,500	Cabo Drilling Corporation Warrants March 17, 2013	-	-	
105,000	Colossus Minerals Inc.	-	159,600	
660,000	ECI Exploration and Mining Inc. Restricted	750,000	660,000	
330,000	ECI Exploration and Mining Inc. Warrants February 22, 2012	-	-	
141,400	EcoSynthetix Inc.	1,235,010	544,390	
50,250	First Quantum Minerals Limited	954,618	901,988	
8,600	Goldcorp Inc.	344,389	328,778	
960,000	Guatavita Gold Corporation Restricted	240,000	124,800	
245,000	Hana Mining Limited	330,750	154,350	
39,760	HudBay Minerals Inc.	309,882	310,923	
86,169	International Forest Products Limited 'A'	381,288	438,600	
653,572	La Camera Mining Inc. 'B' Restricted Special Warrants Private Placement	326,786	13,071	
14,500	Labrador Iron Mines Holdings Limited	41,227	35,815	
833,333	Landrill International Inc. Warrants August 17, 2012	-	1	
328,993	Lundin Mining Corporation	1,457,513	1,385,061	
706,607	Mega Graphite Inc. Private Placement	672,003	1,059,911	
124,720	Osisko Mining Corporation	982,135	868,051	
1,107,170	Portage Minerals Inc.	112,101	22,143	
20,800	Potash Corporation of Saskatchewan Inc.	836,231	923,728	
933,350	Potash Ridge Corporation Restricted	420,013	420,013	
141,300	Quaterra Resources Inc. Warrants October 27, 2012	-	10,799	
95,000	Roxgold Inc. Restricted June 28, 2012	175,750	50,350	
63,550	Salazar Resources Limited Warrants September 10, 2012	-	-	
121,102	South American Silver Corporation Warrants July 15, 2012	-	19,801	
51,975	Southeast Asia Mining Corporation Special Warrants Private Placement	93,875	-	

**Front Street Canadian Hedge
Statement of Investment Portfolio
As at June 30, 2012 (unaudited)**

Number of Shares/ Units		Average Cost	Fair Value	% of net assets
		\$	\$	%
1,254,622	TiCan Titane Metals Company Inc. 'A'	313,656	12,546	
560,000	Tolima Gold Inc.	364,000	86,800	
280,000	Tolima Gold Inc. Warrants December 8, 2013	-	10,116	
130,000	U308 Corporation Warrants February 15, 2013	-	-	
280,000	Unigold Inc. Restricted	84,000	79,576	
140,000	Unigold Inc. Warrants March 8, 2014	-	18,367	
100,000	Western Copper and Gold Corporation Warrants December 22, 2012	20,000	500	
600	Yamana Gold Inc.	7,954	9,402	
202,900	Zincore Metals Inc. Warrants June 15, 2014	-	4,505	
	Total Material	11,467,225	9,343,065	7.55%
	Industrial			
1,722	3801110 Canada Inc.	17	17	
254,669	CAE Inc.	2,522,711	2,508,490	
235,392	Dirtt Environmental Solutions Limited	416,418	353,088	
	Total Industrial	2,939,146	2,861,595	2.31%
	Information Technology			
46,180	Absolute Software Corporation	220,683	250,757	
55,100	Avigilon Corporation	218,642	369,170	
126,700	Cortex Business Solutions Inc. Warrants November 30, 2012	-	2,241	
98,018	Embotics Corporation Private Placement	1,049,233	421,477	
318,900	Mobidia Technology Inc. 'A' Series 3 Preferred	350,790	318,900	
464,135	Pure Technologies Limited	1,098,330	2,051,477	
1,260,000	QuStream Corporation Warrants March 7, 2014	-	1	
114,001	Sylogist Limited	224,297	222,302	
563,638	The Descartes Systems Group Inc.	3,420,840	4,875,469	
456,786	TransGaming Inc.	319,750	107,345	
307,143	TransGaming Inc. Warrants December 23, 2012	-	6,086	
708,200	VIQ Solutions Inc.	354,282	127,476	
534,105	Wi-LAN Inc.	2,838,203	2,675,866	
1,245,885	Wireless Matrix Corporation	982,449	784,908	
	Total Information Technology	11,077,499	12,213,475	9.87%
	Financials			
7,560	Bank of Montreal	424,623	424,872	
59,320	Canadian Imperial Bank of Commerce	4,247,816	4,244,346	
83,700	Cap-Ex Ventures Limited Warrants March 30, 2013	-	-	
8,300	Royal Bank of Canada	430,952	432,928	
100	Sun Life Financial Inc.	2,320	2,212	
17,100	The Bank of Nova Scotia	898,448	900,657	
60,760	The Toronto-Dominion Bank	4,809,701	4,841,358	
	Total Financials	10,813,860	10,846,373	8.76%
	Telecommunication Services			
589,470	XMG Studio Inc. Restricted	559,997	559,997	0.45%
	Health Care			
244,753	IMRIS Inc.	1,382,391	758,734	0.61%
	Consumer Discretionary			
241,980	Amaya Gaming Group Inc.	595,359	917,104	
42,000	Amaya Gaming Group Inc. Warrants April 30, 2015	-	63,000	
165,040	Bauer Performance Sports Limited	1,243,990	1,330,222	
56,160	Martinrea International Inc.	450,403	448,718	
441,427	Vesta Capital Corporation Warrants August 31, 2012	-	-	
214,000	ViXS Systems Inc.	21,500	-	
7,229,070	Wi2Wi Corporation	36,245	36,145	
	Total Consumer Discretionary	2,347,497	2,795,189	2.26%
	Utilities			
900	Boralex Inc. 'A'	7,935	7,515	
2,191,988	Trilliant Inc. Restricted	1,925,881	1,315,193	
	Total Utilities	1,933,816	1,322,708	1.07%
	Total Canadian Equities - Long	62,046,257	54,866,243	44.33%

Front Street Canadian Hedge
Statement of Investment Portfolio
As at June 30, 2012 (unaudited)

Number of Shares/ Units		Average Cost	Fair Value	% of net assets
		\$	\$	%
Global Equities				
United States				
1,054,796	American Apparel Inc.	905,410	918,849	
1,512	C.O.R.E. Holdings Inc. 'B' Private Placement	500,261	-	
112,000	Committed Capital Acquisition Corporation	568,067	484,972	
500,000	GeoMonkey Inc. Private Placement	247,439	25,471	
443,294	GoviEx Uranium Inc.	869,698	406,485	
107,740	Gran Tierra Energy Inc.	533,983	530,081	
443,294	High Power Exploration Inc. Private Placement	-	-	
127,500	Inviro Medical Inc. Private Placement	290,052	12,990	
200,000	Stockhouse Media Corporation Private Placement	2,476	-	
283,019	U.S. Geothermal Inc.	323,095	109,574	
217,640	U.S. Geothermal Inc. Warrants September 16, 2015	-	8,392	
420,000	Virgin Gaming Limited Private Common	334,758	342,333	
Total United States		4,575,239	2,839,147	2.29%
Australia				
803,400	African Petroleum Corporation Limited	749,159	1,005,528	
52,612	Berkeley Resources Limited Option	-	4,939	
350,000	Lachlan Star Limited	-	104,613	
1,035,562	Macarthur Minerals Limited	2,233,169	419,403	
177,800	Macarthur Minerals Limited Warrants February 24, 2013	-	-	
239,500	Mawson West Limited	324,464	158,070	
695,950	Talison Lithium Limited	2,865,099	2,623,732	
Total Australia		6,171,891	4,316,285	3.49%
Bermuda				
42,400	Continental Gold Limited Warrants September 16, 2012	67,133	16,960	
Total Bermuda		67,133	16,960	0.01%
British Virgin Island				
609,000	Frontier Rare Earths Limited	1,227,127	292,320	
85,850	Frontier Rare Earths Limited Warrants November 30, 2012	30,232	429	
67,400	Talon Metals Corporation Warrants October 29, 2012	33,700	-	
Total British Virgin Island		1,291,059	292,749	0.24%
Cayman Islands				
5	Coastal Energy Company Warrants January 23, 2014	-	1,145,498	
116,500	Greenfields Petroleum Corporation	987,523	570,850	
Total Cayman Islands		987,523	1,716,348	1.39%
Total Global Equities		13,092,845	9,181,489	7.42%
Canadian Bonds				
840,000	Amaya Gaming Group Inc. 10.500% April 30, 2014	840,000	1,108,800	
1,750,000	Colossus Minerals Inc. 9.000% December 31, 2016	1,750,000	1,435,000	
230,000	Embotics Corporation 10.000% Convertible Debentures November 5, 2012	230,000	230,000	
1,400,000	Estrella International Energy Services Limited Convertible Debentures 12.000% December 31, 2015	1,400,000	1,400,000	
3,600,000	Gran Columbia Gold Corporation 5.000% August 11, 2018	3,568,667	2,934,284	
1,260,000	QuStream Corporation Notes 10.000% March 7, 2014	1,252,075	378,000	
Total Canadian Bonds		9,040,742	7,486,084	6.05%
United States Bond				
920,000	P1 Energy Inc. 12.000% Convertible Debentures September 30, 2013	952,154	937,341	
Total United States Bond		952,154	937,341	0.76%
Total Bonds		9,992,896	8,423,425	6.81%
Transaction costs		(143,180)	-	
Total Investments - Long		84,988,818	72,471,157	58.56%

Front Street Canadian Hedge
Statement of Investment Portfolio
As at June 30, 2012 (unaudited)

Number of Shares/ Units		Average Cost	Fair Value	% of net assets
		\$	\$	%
Investments - Short Positions				
Canadian Equities				
Energy				
(200,000)	Americas Petrogas Inc.	(470,712)	(376,000)	
(18,205)	Calfrac Well Services Limited	(494,207)	(416,348)	
(82,100)	Ensign Energy Services Inc.	(1,161,033)	(1,152,684)	
(11,100)	MEG Energy Corporation	(389,662)	(406,926)	
(11,400)	Pacific Rubiales Energy Corporation	(260,642)	(245,898)	
(6,400)	Trilogy Energy Corporation	(141,217)	(151,424)	
	Total Energy	(2,917,473)	(2,749,280)	(2.22)%
Materials				
(10,400)	Alamos Gold Inc.	(160,517)	(165,880)	
(14,000)	Dalradian Resources Inc.	(13,142)	(9,800)	
(37)	Entree Gold Inc.	(28)	(24)	
(300)	Inmet Mining Corporation	(14,180)	(12,522)	
(93,000)	Roxgold Inc.	(124,117)	(51,150)	
	Total Material	(311,984)	(239,376)	(0.19)%
Financials				
(23,200)	National Bank of Canada	(1,716,233)	(1,689,192)	
	Total Financials	(1,716,233)	(1,689,192)	(1.37)%
Information Technology				
(8,600)	Open Text Corporation	(427,798)	(438,085)	
	Total Information Technology	(427,798)	(438,085)	(0.35)%
	Total Canadian Equities - Short	(5,373,488)	(5,115,933)	(4.13)%
Global Equities				
Bermuda				
(500)	Continental Gold Limited	(3,275)	(3,305)	
	Total Bermuda	(3,275)	(3,305)	0.00%
	Total Global Equities - Short	(3,275)	(3,305)	0.00%
Written Call Options				
(240)	Bank of Montreal 56 WCO July/2012	(13,200)	(21,600)	
(240)	Barrick Gold Corporation 41 WCO July/2012	(22,640)	(4,157)	
(330)	Canadian Imperial Bank of Commerce 72 WCO July/2012	(20,220)	(25,410)	
(120)	Canadian Pacific Railway Company 76 WCO July/2012	(7,080)	(8,160)	
(240)	First Quantum Minerals Limited 18 WCO July/2012	(15,360)	(20,400)	
(300)	First Quantum Minerals Limited 19 WCO July/2012	(15,450)	(13,500)	
(180)	Potash Corporation of Saskatchewan Inc. 45 WCO August/2012	(22,165)	(24,941)	
(180)	Royal Bank of Canada 52 WCO July/2012	(14,594)	(17,820)	
(240)	Royal Bank of Canada 53 WCO July/2012	(9,600)	(11,760)	
(345)	The Toronto-Dominion Bank 80 WCO July/2012	(24,495)	(24,150)	
	Total Written Call Options	(164,804)	(171,898)	(0.14)%

**Front Street Canadian Hedge
Statement of Investment Portfolio
As at June 30, 2012 (unaudited)**

Number of Shares/ Units		Average Cost	Fair Value	% of net assets
		\$	\$	%
	Written Put Options			
(59)	Apple Inc. 535 WPO July/2012	(151,754)	(7,995)	
(1,170)	Athabasca Oil Corporation 10 WPO July/2012	(70,800)	(22,230)	
(240)	Bank of Montreal 56 WPO July/2012	(15,360)	(16,560)	
(225)	Barrick Gold Corporation 36 WPO July/2012	(37,648)	(13,296)	
(390)	Barrick Gold Corporation 38 WPO July/2012	(66,889)	(53,642)	
(240)	Barrick Gold Corporation 39 WPO July/2012	(31,159)	(47,927)	
(90)	Calfrac Well Services Limited 22 WPO July/2012	(5,310)	(4,050)	
(240)	Cameco Corporation 21 WPO July/2012	(10,800)	(5,280)	
(240)	Canadian Imperial Bank of Commerce 72 WPO July/2012	(27,120)	(26,400)	
(375)	Canadian Natural Resources Limited 26 WPO July/2012	(45,445)	(22,924)	
(680)	Canadian Natural Resources Limited 27 WPO July/2012	(119,032)	(69,281)	
(300)	Celtic Exploration Limited 13 WPO August/2012	(14,700)	(22,500)	
(240)	Celtic Exploration Limited 12 WPO July/2012	(16,560)	(3,600)	
(300)	Cenovus Energy Inc. 31 WPO July/2012	(20,100)	(12,600)	
(240)	Ensign Energy Services Inc. 13 WPO July/2012	(8,160)	(3,600)	
(420)	First Quantum Minerals Limited 18 WPO July/2012	(33,930)	(35,700)	
(250)	First Quantum Minerals Limited 19 WPO July/2012	(20,345)	(36,250)	
(240)	Goldcorp Inc. 35 WPO July/2012	(17,256)	(10,515)	
(300)	Goldcorp Inc. 38 WPO July/2012	(35,019)	(45,543)	
(500)	Legacy Oil + Gas Inc. 7 WPO July/2012	(17,000)	(50,000)	
(900)	Lundin Mining Corporation 4 WPO July/2012	(14,850)	(13,500)	
(90)	MEG Energy Corporation 32 WPO August/2012	(10,682)	(8,550)	
(120)	MEG Energy Corporation 34 WPO July/2012	(5,886)	(7,200)	
(180)	National Bank of Canada 70 WPO July/2012	(11,880)	(5,940)	
(240)	National Bank of Canada 72 WPO July/2012	(14,496)	(20,880)	
(300)	Osisko Mining Corporation 7 WPO July/2012	(10,200)	(12,000)	
(500)	Osisko Mining Corporation 8 WPO July/2012	(17,000)	(57,500)	
(150)	Pacific Rubiales Energy Corporation 20 WPO August/2012	(14,100)	(14,250)	
(180)	Potash Corporation of Saskatchewan Inc. 36 WPO July/2012	(30,764)	(1,100)	
(300)	Potash Corporation of Saskatchewan Inc. 38 WPO July/2012	(52,125)	(3,000)	
(150)	Potash Corporation of Saskatchewan Inc. 40 WPO July/2012	(17,555)	(4,585)	
(240)	Potash Corporation of Saskatchewan Inc. 42 WPO July/2012	(32,643)	(16,628)	
(300)	Royal Bank of Canada 49 WPO July/2012	(45,000)	(5,700)	
(150)	Royal Bank of Canada 50 WPO July/2012	(11,400)	(4,650)	
(150)	Royal Bank of Canada 52 WPO July/2012	(9,600)	(13,500)	
(240)	Suncor Energy Inc. 27 WPO August/2012	(19,317)	(18,584)	
(150)	Suncor Energy Inc. 28 WPO July/2012	(16,879)	(7,641)	
(120)	Teck Resources Limited 'B' 28 WPO July/2012	(26,132)	(3,912)	
(360)	The Bank of Nova Scotia 52 WPO July/2012	(47,880)	(18,720)	
(250)	The Mosaic Company 45 WPO July/2012	(73,731)	(5,604)	
(700)	The Toronto-Dominion Bank 76 WPO July/2012	(199,900)	(33,600)	
(300)	Trilogy Energy Corporation 22 WPO July/2012	(14,700)	(16,500)	
(10)	Whitecap Resources Inc. 6 WPO July/2012	(290)	(150)	
(600)	Whitecap Resources Inc. 7 WPO July/2012	(17,400)	(33,000)	
	Total Written Put Options	(1,478,797)	(836,587)	(0.68)%
	Total Options	(1,643,601)	(1,008,485)	(0.82)%
	Transaction costs	(23,093)		
	Total Investments Sold Short	(7,043,457)	(6,127,723)	(4.95)%
	Total Investments	77,945,361	66,343,434	53.61%
	Other assets, less liabilities		57,412,432	46.39%
		77,945,361	123,755,866	100.00%

Front Street Canadian Hedge

Discussion of financial instrument risk management

June 30, 2012 (unaudited)

Risk management

The investment objective of the Trust is to provide high long-term total investment returns with relatively moderate risk, through a combination of long-term capital growth and current income. The Trust invests primarily in common shares and trust units of Canadian and foreign companies.

Credit risk

As at June 30, 2012, the Trust had no significant investments in debt instruments and/or derivatives.

Interest rate risk

The Trust may invest in fixed and floating rate securities. The income of the Trust 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, there were 6.81% (December 31, 2011- 5.35%) of investments owned which are held in bonds. The remaining portion of the Trust's assets is substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

Other price risk

As at June 30, 2012, 44% (December 31, 2011 - 79%) of the Trust's net assets were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately \$5 million (December 31, 2011 - \$11 million) respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

The Trust holds assets denominated in currencies other than Canadian Dollars which is the functional currency. The Trust is therefore exposed to currency risk, as the value of the securities denominated in other currencies fluctuates due to change in exchange rates.

The table below summarizes the Fund's exposure to currency risk due to concentration of assets in foreign currencies:

	June 30, 2012			
	Financial instruments	Cash	Total	Percentage of NAV (%)
	\$	\$	\$	%
Currency				
Australian dollar	1,010,467	-	1,010,467	0.82
United States dollar	6,698,459	384,928	7,083,387	5.72
Total	7,708,926	384,928	8,093,854	6.54

	December 31, 2011			
	Financial instruments	Cash	Total	Percentage of NAV (%)
	\$	\$	\$	%
Currency				
Australian dollar	4,448,356	-	4,448,356	3.18
United States dollar	5,720,307	194,608	5,914,915	4.23
Total	10,168,663	194,608	10,363,271	7.41

Front Street Canadian Hedge

Discussion of financial instrument risk management

June 30, 2012 (unaudited)

Currency risk (continued)

The amounts in the above table are based on the fair value of the Trust's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivable and receivable for equities sold) and financial liabilities (including payables for equities purchased) that are denominated in foreign currencies do not expose the Trust to significant currency risk.

As at June 30, 2012, if the Canadian dollar had strengthened or weakened by 5 percent in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$385,000 (December 31, 2011 - \$493,000). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

Liquidity risk

The Trust maintains sufficient cash and marketable securities, and manages liquidity risk through its ability to close out market positions. The following table details the Trust's liquidity analysis for the financial liabilities:

	June 30, 2012		
	Term of less than 1 year	Term of more than 1 year	Total
	\$	\$	\$
Financial assets			
Investments owned	64,047,732	-	64,047,732
Bonds and treasury bills	230,000	8,193,425	8,423,425
Other receivables	7,804,864	-	7,804,864
Cash and cash equivalents	58,382,375	-	58,382,375
Total	130,464,971	8,193,425	138,658,396
Financial liabilities			
Investments sold short	(6,127,723)	-	(6,127,723)
Other financial liabilities	(8,774,807)	-	(8,774,807)
Total	(14,902,530)	-	(14,902,530)
GAAP Net Assets	115,562,441	8,193,425	123,755,866

	December 31, 2011		
	Term of less than 1 year	Term of more than 1 year	Total
	\$	\$	\$
Financial assets			
Investments owned	117,989,991	-	117,989,991
Bonds and treasury bills	608,000	6,883,169	7,491,169
Other receivables	316,229	-	316,229
Cash and cash equivalents	18,447,431	-	18,447,431
Total	137,361,651	6,883,169	144,244,820
Financial liabilities			
Investments sold short	(2,485,856)	-	(2,485,856)
Other financial liabilities	(1,764,483)	-	(1,764,483)
Total	(4,250,339)	-	(4,250,339)
GAAP Net Assets	133,111,312	6,883,169	139,994,481

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

1. Establishment of the investment trust and nature of operations

Front Street Canadian Hedge (the "Trust") 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 January 31, 2005, May 1, 2009 and as of January 29, 2010 (the "Trust Agreement"). Valiant 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 Trust (the "Trustee"). Front Street Capital, a Trust formed pursuant to a Trust Agreement dated as of October 1, 2001, is the manager of the Trust (the "Manager") pursuant to the Trust Agreement.

The Trust'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 Trust'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 Trust will be divided into two series of Units (the "Trust Units"), designated as Series B2 Units (the "B2 Units") and Series F Units (the "F Units"). Effective January 29, 2010, in accordance with the terms of the Trust Agreement governing the Fund, all Series B-1 Units were converted into Series B2 Units and immediately thereafter the Series B2 Units were re-designated as Series B Units.

The Trust 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 Trust.

2. Summary of significant accounting policies

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In applying GAAP, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, investment income and expenses reported during the period. Actual results could differ from these estimates. These estimates are reviewed periodically by management and as adjustments become necessary, they are reported in the Statement of Operations in the period in which they become known.

A net asset value ("Net Asset Value") is calculated on every valuation date for each series of units. The Net Asset Value of a particular series of units is computed by calculating the value of that series' proportionate share of the assets and liabilities of the Trust common to all series less the liabilities of the Trust attributable only to the series. Expenses directly attributable to a series are charged directly to that series. Income, realized and unrealized gains and losses from investment transactions and other expenses are allocated proportionately to each series based upon the relative Net Asset Value of each class/series.

The following summarizes the accounting policies of the Trust:

Financial instruments

In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments - Disclosures, the Trust is required to classify its financial instruments using a fair value hierarchy that reflects the significance of the inputs used to measure fair value into three broad levels. Investments measured at fair value are classified into one of three fair value hierarchy levels, based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

The three fair value hierarchy levels are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie., as prices) or indirectly (ie., derived from prices); and

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Refer to Note 8 for Fair Value Measurements Analysis.

Valuation of investments

In accordance with Accounting Guideline 18 - Investment Companies, the Trust's investments are deemed to be categorized as held for trading, and are required to be recorded at fair value as defined by CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" (Section 3855). The net assets of the Trust for financial reporting purposes ("Net Assets") are calculated in accordance with Section 3855.

Section 14.2 of National Instrument 81-106 ("NI 81-106") issued by the Canadian Securities Administrators requires the Trust to calculate its Net Asset Value for the purchase and redemption of units based on the fair value of the Trust's assets and liabilities. The Trust has not changed their methodology in this respect. In accordance with NI 81-106, the Net Asset Value per unit compared to the Net Assets per unit and an explanation of the differences between such amounts are required in the notes to the financial statements. Refer to Note 9 for such comparison for each class/series.

The fair value of investments for the purpose of calculating Net Assets as at the financial reporting date is determined as follows:

- a) Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets on which the investments are traded, or through recognized investment dealers, are valued at their bid price. Investments held include equities, listed warrants, options, short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments. Investments sold short are valued at their ask price. Investments with no available bid or ask price are valued at their closing sale price.
- b) Investments held or sold short that are not traded in an active market are valued primarily based on the results of valuation techniques, using observable market inputs. The fair value of certain securities may be estimated by the Manager using valuation techniques based on assumptions that are not supported by observable market inputs.
- c) Foreign exchange forward contracts are valued based on the difference between the contract forward rate and the forward bid rate (for currency held) and the forward ask rate (for currency sold short).

The fair value of investments for the purpose of calculating daily Net Asset Value is determined as follows:

- a) Investments listed upon a recognized public stock exchange are valued at their closing sale price on the valuation date. Investments not traded on that date are valued at the average of the closing bid and ask price.
- b) Investments not listed upon a recognized public stock exchange are valued based upon any available public quotations in common use or at a price estimated to be at fair value on such basis and in such manner established by the Investment Manager.

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

2. Summary of significant accounting policies (continued)

Valuation of investments (continued)

- c) Short-term notes and treasury bills are stated at cost. The cost of the investments, together with the amortized discounts and accrued interest receivable, represents fair value due to their short term to maturity.
- d) Bonds, asset-backed securities and other debt instruments are valued at the average of the closing bid and ask price from recognized investment dealers.
- e) Options are valued at the latest sale price reported by the principal exchange or over-the-counter market on which the contract is traded. If no sale is reported, the average of the latest bid and ask price is used.
- f) Foreign exchange forward contracts are valued based on the difference between the contract forward rate and the forward rate prevailing on the valuation date.

Commissions and other portfolio transaction costs

Commissions and other portfolio 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, and transfer taxes and duties. Such costs are expensed and are included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

Cost of investments

The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding commissions and other portfolio transaction costs.

Investment transactions and income

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date. Realized gains and losses from investment transactions are calculated on an average cost basis.

Translation of foreign currency

The financial statements of the Trust are expressed in Canadian dollars.

- a) Assets including fair value of investments and liabilities denominated in foreign currencies are converted into Canadian dollars at the rate of exchange established on each valuation date.
- b) Purchases and sales of investments, dividends and interest income denominated in foreign currencies are converted into Canadian dollars at the rate of exchange prevailing on the respective dates of such transactions.
- c) Realized exchange gains (losses) on sale of investments denominated in foreign currencies are included in "Net realized gain (loss) on sale of investments" in the Statement of Operations.
- d) Unrealized exchange gains (losses) on investments denominated in foreign currencies are included in "Net change in unrealized appreciation (depreciation) in value of investments" in the Statement of Operations.
- e) Realized and unrealized exchange gains (losses) on assets (other than investments), liabilities and investment income denominated in foreign currencies are included in the Statement of Operations.

Net Asset per unit

The Net Assets per unit is calculated by dividing the Net Assets of a particular series of units by the total number of units of that particular class/series outstanding at the end of the period.

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

2. Summary of significant accounting policies (continued)

Increase in Net Assets from operations per unit

Increase in Net Assets from operations per unit is based on the increase in Net Assets from operations attributed to each series of units, divided by the weighted average number of units outstanding of that series during the period.

Derivative transactions

The Trust may use derivative contracts to enhance returns of the Trust and to manage risks associated with the investments. The value of the contracts are marked to market on the valuation date and the resultant gains and losses, both realized and unrealized, are recognized in the Statement of Operations.

Written call options

The premium received upon writing a call option is recorded as a deferred credit. Upon expiry of the option or when the option is exercised by its holder, the premium is recognized as a gain (loss) and is included in "Net realized gain (loss) on sale of investments" in the Statement of Operations.

Other assets and liabilities

Due from broker and interest and dividends receivable are designated as loans and receivables and recorded at cost or amortized cost. Amounts due to broker, accounts payable and accrued liabilities, management fees payable and performance fee payable are designated as financial liabilities and reported at amortized cost. Financial liabilities are generally settled within three months of issuance. Other assets and liabilities are short-term in nature, and are carried at amortized cost which approximates fair value.

Future accounting standards

In January 2011, the Canadian Accounting Standards Board ("AcSB") amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), permitting investment companies, which includes investment funds, to extend the deferral of the adoption of IFRS to fiscal years beginning on or after January 1, 2014.

The Trust has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training. In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement ("IFRS 13"), which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRS require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires that valuation be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This 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.

Based on the Trust's current assessment of the differences between Canadian GAAP and IFRS, other than the impact due to IFRS 13 noted above, it is not expected that there will be any other impact on the Trust's Net Asset Value per unit or Net Assets per unit. Management has presently determined that the impact of IFRS on the financial statements will be limited to additional note disclosures and potential modifications to presentation, including unitholders' equity. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

3. Cash

Cash is held by a broker in an account holding cash balances and short-term, highly liquid investments with original terms of maturities of 365 days or less.

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

4. Due to broker

Due to broker are margin accounts representing cash loans at market rates of interest with brokers and are secured by the underlying securities owned by the Trust.

5. Related party transactions

Management fees

Management fees equal to one-twelfth of 2.0% of the Series Net Asset Value in respect of the B units and one-twelfth of 1% 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.

Performance fee

The performance fee per unit of the B units or F units is paid to the Manager based on the Trust's annual performance. The performance fee is calculated and accrued monthly as 20% of the Trust performance in excess of the minimum performance as specifically defined in the Trust Agreement, plus applicable taxes.

6. Units of the trust

Authorized

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net asset value per unit calculated on the redemption date.

Units of the Trust surrendered for redemption at least 30 days prior to the last business day of each quarter (a "Valuation Date") will be redeemed at a redemption price equal to the net asset value per unit on such valuation date. Redemption of units prior to the first anniversary of the purchase of such units will be subject to an early redemption fee equal to 1% of the Net Asset value of the units so redeemed.

	Series B	Series F
Balance, beginning of period	8,115,871	1,523,019
Issued		
On new subscriptions	-	23,892
Redeemed	(425,664)	(329,621)
Balance, end of period	7,690,207	1,217,290

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

6. Units of the trust (continued)

Capital disclosure

The capital of the Trust is represented by issued and redeemable units. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Trust's Net Asset Value per unit upon redemption. The Trust has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 7, the Trust endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

7. Financial instruments

Refer to the Discussion of Financial Instrument Risk Management for specific risk disclosure.

Management of financial instrument risks

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust.

Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The fair value of debt instruments and derivatives includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Trust. The Trust has no significant credit risk.

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligation on time or at a reasonable price.

The Trust's exposure to liquidity risk is concentrated in the periodic cash redemptions of units. The Trust primarily invests in securities that are traded in active markets and can be readily disposed of. In addition, the Trust generally retains sufficient cash and cash equivalent positions to maintain liquidity.

The Trust may employ the use of derivatives to moderate certain risk exposures. There is no guarantee that a market will exist for some derivatives and it is possible that the exchanges may impose limits on trading of derivatives. Liabilities are generally settled within 90 days.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is minimal sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates.

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

7. Financial instruments (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

All investments represent a risk of loss of capital. The Investment Manager of the Trust aims to moderate this risk through a careful selection and diversification of securities and other financial instruments in accordance with the Trust's investment objectives and strategy. Except for written options and securities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from written options and securities sold short can be unlimited. The Trust's overall market positions are monitored on a regular basis by the Investment Manager. Financial instruments held by the Trust are susceptible to market price risk arising from uncertainties about future prices of the instruments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Trust. The Trust may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

8. Classification of financial instruments - fair value measurements

The following tables summarize the levels within the fair value hierarchy in which the fair value measurements of the Trust's investments fall as of June 30, 2012 and December 31, 2011:

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Equities - long	52,351,614	2,604,499	9,091,619	64,047,732
Bonds	-	5,478,084	2,945,341	8,423,425
	52,351,614	8,082,583	12,036,960	72,471,157
Liability				
Equities - short	(6,127,723)	-	-	(6,127,723)

The changes in investments measured at fair value using significant level 3 inputs are reflected below:

	Beginning balance January 1, 2012 (FV)	Net purchases and sales	Net transfers in (out)	Realized gains and losses, net	Unrealized gains and losses, net	Ending balance June 30, 2012 (FV)
	\$	\$	\$	\$	\$	\$
Assets						
Equities	8,933,411	296,598	(318,500)	492,657	(312,547)	9,091,619
Bond	2,943,596	-	-	-	1,745	2,945,341
	11,877,007	296,598	(318,500)	492,657	(310,802)	12,036,960

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 Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

8. Classification of financial instruments - fair value measurements (continued)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Equities - long	106,837,380	2,219,199	8,933,411	117,989,990
Bonds	-	4,547,574	2,943,596	7,491,170
	<u>106,837,380</u>	<u>6,766,773</u>	<u>11,877,007</u>	<u>125,481,160</u>
Liability				
Equities - short	(2,485,856)	-	-	(2,485,856)

The changes in investments measured at fair value using significant level 3 inputs are reflected below:

	Beginning balance January 1, 2011 (FV)	Net purchases and sales	Net transfers in (out)	Realized gains and losses, net	Unrealized gains and losses, net	Ending balance December 31, 2011 (FV)
	\$	\$	\$	\$	\$	\$
Assets						
Equities	5,489,828	3,519,910	240,160	(858,132)	541,645	8,933,411
Bond	3,683,701	611,431	(1,428,231)	(1,425)	78,120	2,943,596
	<u>9,173,529</u>	<u>4,131,341</u>	<u>(1,188,071)</u>	<u>(859,557)</u>	<u>619,765</u>	<u>11,877,007</u>

During the period ended December 31, 2011, there were transfers between Level 3 bonds to Level 3 equity as a fixed income security was partially converted to equity. There were also transfers between Level 3 to Level 1 as certain securities became listed companies.

9. Comparison of Net Asset Value and Net Assets

The primary reason for the difference between the Net Asset Value per unit and the Net Assets per unit is described in Note 2 above - Valuation of Investments.

	Net Assets per unit	Section 3855 adjustment	Net Asset Value per unit
	\$	\$	\$
At June 30, 2012			
Series B (formerly "B2")	13.61	0.07	13.68
Series F	15.67	0.08	15.75
At December 31, 2011			
Series B (formerly "B2")	14.19	0.04	14.23
Series F	16.30	0.04	16.34

Front Street Canadian Hedge

Notes to the financial statements

June 30, 2012 (unaudited)

10. Expenses

The Manager has the power to incur and make payment out of the Trust property any charges or expenses which, in the opinion of the Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Trust Agreement, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust is responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

11. Income taxes

The Trust qualifies as a unit fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"), and accordingly, is not subject to tax on its net taxable income for the tax year which ends in December, including net realized capital gains, which is paid or payable to its unitholders as at the end of the tax year. However, such part of the Trust's net income and net realized capital gains as is not so paid or payable, is subject to income tax. It is the intention of the Trust to distribute all of its income and sufficient net realized capital gains so that the Trust will not be subject to income tax. The Trust may be subject to alternative minimum tax, potentially recoverable.

12. Filing exemption

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



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