



**FRONT STREET GROWTH FUND**  
**A FRONT STREET CAPITAL MUTUAL FUND**

**Interim Management Report of Fund Performance**

**&**

**Interim Financial Statements**

**JUNE 30, 2011**



## **Interim Management Report of Fund Performance As at June 30, 2011 Front Street Growth Fund (formerly Front Street Small Cap Canadian Fund)**

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

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

### **Forward Looking Information**

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

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific that contributes to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund's filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Management Report of Fund Performance, and the Fund undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

### **Management Discussion of Fund Performance**

#### **INVESTMENT OBJECTIVES AND STRATEGIES**

The investment objective of the Fund is to seek capital appreciation through investment in equity securities of companies whose product, service or management team Front Street Capital believes can realize value and growth. Front Street Capital may rely on "top down" fundamental research to identify equity securities of companies in a

particular industry or sector, but portfolio diversification will be driven primarily from the Fund's investments, as opposed to targeting sector weights.

Front Street Capital will employ alternative investment strategies, including event-related special situations investing (including, for instance, investment in securities of issuers undergoing or undertaking tenders, mergers and acquisitions, liquidations, spin-offs and recapitalizations) and the purchase of undervalued shares in the equity markets.

From time to time the Fund may use clearing corporation options and listed warrants ("permitted derivatives") as permitted by Canadian securities regulators and consistent with the investment objectives and strategies of the Fund. The Fund may use these permitted derivatives for hedging and non-hedging purposes.

## **RISK**

Most of the Fund's assets are invested in common shares and other equity securities. The Fund will therefore be subject to stock market risk. The Fund may invest in relatively illiquid securities that may expose the Fund to liquidity risk. The Fund may also be exposed to sector risk due to its investments being concentrated in a limited number of sectors. The Fund may also be exposed to the risks of selling securities short, the risks of investing in derivatives, and the risk associated with investing in securities of junior natural resource companies.

For the six-month period ended June 30, 2011, currency risk proved to have an effect on the Fund's returns, as the Canadian dollar rose about 3.56% during the period against the US dollar, the currency in which most commodities are priced. It is difficult to quantify the impact of this move on the Fund. Typically, a weaker US dollar means lower revenues for Canadian companies. On the other hand, most commodities saw their value rise during the period, as many commodities trade in an inverse relation to the US dollar.

Equity risk also affected the Fund as market volatility reached all time highs. The global recession sent commodities and markets significantly lower, only to see them rebound strongly in 2010. Investors will need to gain confidence in an economic recovery before they return in large numbers to the equity markets.

Interest rate risk was also a factor, as central banks around the world closely monitored economic growth and inflation before raising interest rates. Easy monetary policy combined with the massive amounts of fiscal stimulus that were injected into the global economy may lead to strong inflationary pressures in the future.

Credit risk was another factor this half. In the aftermath of the credit crisis, banks are only now starting to lend, but with much higher fees attached. Many companies that are relying on debt to finance expansion, have had to halt such plans as financing is not currently available. To date, government measures to stimulate bank lending have been met with mixed success.

Political risk became a bigger factor this quarter, negatively affecting the Fund. Civil unrest and governments being overthrown in North Africa and the Middle East drove the share prices of companies operating in those regions lower. We also had numerous countries discussing or actually raising royalties and taxes on resource industries, in an attempt to raise revenues.

## **RESULTS OF OPERATIONS**

For the first six months of 2011, risk aversion was a major factor in equity markets. Investors switched out of small cap stocks into larger capitalized companies. Investors also withdrew funds from companies with international operations and redeployed them to companies that operate in North America. We saw major swings as the economic recovery seemed to stop and start, and as news of the European bank crises and US debt problems hit the market. Overall, we do not believe in a double dip recession and have been adding to equity positions in economically sensitive stocks in anticipation of a recovery.

Fears of oil shortages due to turmoil in Egypt and Libya sent the price of West Texas Oil over \$110 US per barrel; however, the average price of crude oil for July 2011 was approximately USD\$89 per barrel. If these disruptions were to spread to one of the larger oil producers, such as Saudi Arabia, prices would spike dramatically higher, negatively affecting economic growth.

During the six months ended June 30, 2011, the price of gold increased by 8.43%, closing at approximately USD\$1,506 per ounce on June 30, 2011. Over that period, closing prices for the price of gold ranged from USD\$1,324 to USD\$1,549. Slower than expected economic growth and liquidity problems with a number of European banks sent buyers to the metal as a safe-haven investment. Although the metal performed well, equities did not keep pace, with the TSX Global Gold index down 11% during that period.

Those companies that have strong balance sheets are starting to buy assets at compelling valuations. The Fund is long the group, focusing on companies with strong balance sheets or strategic assets, whose values now will look very attractive when the world comes out of its economic slowdown.

## RECENT DEVELOPMENTS

Since the end of the half year resource equity markets continued to be weak performers, with smaller cap stocks in particular underperforming. The impending end of the Quantitative Easing 2 program in the US in July has many investors waiting on the sidelines, attempting to determine how the US economy will perform with reduced government intervention. European central bank issues continued on the front burner, as Greece appears to need a further lifeline from the European Central Bank to avoid going into default.

### Ontario sales tax and GST harmonization

Effective July 1, 2010, Ontario provincial sales tax was harmonized with the federal goods and services tax ("GST"), resulting in a federally administered harmonized sales tax of 13% (the "HST"). Prior to that date, management fees and other service fees charged to the Fund were not subject to Ontario Retail Sales Tax ("ORST"). Under Ontario's harmonization with the GST, these services are now subject to an additional tax of 8%. In addition, other operating costs, such as administrative expenses, audit fees, legal fees, and clearing and settlement and back office fees are subject to an additional tax of 8%. However, investment funds in Canada are required to calculate the HST rate using specific rules. These rules require HST to be calculated using the residency of the shareholders and the current value of their interests, rather than the physical location of the Fund manager. These rules will allow the Fund to use a "blended rate" that will reduce the effect of harmonization, to the extent that the Fund has shareholders resident in provinces not subject to HST.

### International Financial Reporting Standards ("IFRS")

Effective for its fiscal year commencing November 1, 2013, the Fund must adopt IFRS. In preparation thereof, the Manager continues to monitor and implement the Fund's changeover plan and will continue to assess the impact of the implementation as new IFRS guidance become available from the International Accounting Standards Board.

The Manager has reviewed the current IFRS against the Fund's current accounting policies and financial statement presentation under Canadian generally accepted accounting principles ("Canadian GAAP"), and does not expect the adoption of IFRS will have a material effect on the Fund's net asset value per share for all series of shares. The primary impact of IFRS on accounting policies and implementation decisions will be on the financial statement presentation and note disclosures in the Fund's financial statements. In particular, the Fund will be required to present a statement of shareholders' equity and a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

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



## RELATED PARTY-TRANSACTIONS

Management fees of \$4,631,818 (June 30, 2010 - \$2,744,966) were paid to the Manager during the period. Performance fees of \$Nil (June 30, 2010 - \$Nil) were also paid to the Manager during the period. Included in accrued expenses are \$493,240 (December 31, 2010 - \$538,006) of management fees payable to the Manager. Performance fees payable to Manager amounted to \$Nil (December 31, 2010 - \$45,310).

522,771.63 (December 31, 2010 - 522,771.63) of series B units outstanding at period end representing 2.27% (December 31, 2010 - 2.75%) of the total series B units of the Fund are held by the Partners of the Manager. 16,760.55 (December 31, 2010 - 16,760.55) of series B units outstanding at period end representing 0.07% (December 31, 2010 - 0.09%) of the total series B units of the Fund are held by relatives of the Partners of the Manager.

41,543.24 (December 31, 2010 - 32,955.42) of series F units outstanding at period end representing 0.95% (December 31, 2010 - 0.91%) of the total series F units of the Fund are held by the Partners of the Manager. 4,408.20 (December 31, 2010 - 4,408.20) of series F units outstanding at period end representing 0.10% (December 31, 2010 - 0.12%) of the total series F units of the Fund are held by relatives of the Partners of the Manager.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution only basis. During the period ended June 30, 2011, Tuscarora Capital Inc., a company under common control to the Manager, received \$9,040 (June 30, 2010 - \$26,835) in commissions on portfolio transactions for the Fund.

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

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five financial years. This information is derived from the Fund's audited financial statements and for the interim financial statements for the first six months of 2011.

Series A						
The Fund's Net Assets per Unit <sup>(1)</sup>	June 30	December 31				
	2011	2010	2009	2008	2007	2006
<b>Net assets, beginning of the period</b>	\$ 10.14	\$ 6.98	\$ 3.05	\$ 6.56	\$ 6.70	\$ 5.98
<b>Increase (decrease) from operations:</b>						
Total revenue	0.05	0.07	0.04	0.05	0.09	0.08
Total expenses	(0.13)	(0.85)	(0.11)	(0.24)	(0.19)	(0.27)
Realized gains (losses) for the period	0.42	1.80	0.49	(0.38)	0.10	1.00
Unrealized gains (losses) for the period	(0.34)	2.16	3.51	(3.19)	(0.13)	0.38
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	0.00	3.18	3.93	(3.76)	(0.13)	1.19
<b>Distributions to Unitholders:</b>						
From income (excluding dividends)	—	—	—	—	—	—
From dividends	—	—	—	—	—	—
From capital gains	—	—	—	—	—	(0.52)
Return of capital	—	—	—	—	—	—
<b>Total distributions to Unitholders <sup>(3)</sup></b>	—	—	—	—	—	(0.52)
<b>Net assets, end of the period</b>	\$ 10.25	\$ 10.14	\$ 6.98	\$ 3.05	\$ 6.56	\$ 6.70

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements]
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the average number of units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

#### Ratios and Supplemental Data

Total net asset value (000's) <sup>(1)</sup>	164,345	138,101	88,760	38,871	79,411	81,531
Number of units outstanding <sup>(1)</sup>	15,991,236	13,531,055	12,580,413	12,625,181	12,097,480	12,168,022
Management expense ratio <sup>(2)</sup>	2.43%	10.77%	2.46%	4.20%	2.73%	4.10%
Management expense ratio before waivers or absorptions	2.43%	10.77%	2.46%	4.20%	2.73%	4.10%
Trading expense ratio <sup>(3)</sup>	0.22%	0.29%	0.46%	0.34%	0.26%	0.33%
Portfolio turnover rate <sup>(4)</sup>	19.56%	70.29%	89.37%	65.94%	56.05%	66.03%
Net asset value per unit	\$ 10.28	\$ 10.21	\$ 7.06	\$ 3.08	\$ 6.60	\$ 6.70

- (1) This information is provided as at end of the period shown
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs ) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessary a relationship between a high turnover rate and the performance of a fund.



Series B The Fund's Net Assets per Unit <sup>(1)</sup>	June 30 2011	December 31 2010	December 31 2009	December 31 2008	December 31 2007	December 31 2006
<b>Net assets, beginning of the period</b>	\$ 10.13	\$ 6.98	\$ 3.05	\$ 6.56	\$ 6.70	\$ 5.98
<b>Increase (decrease) from operations:</b>						
Total revenue	0.05	0.07	0.04	0.05	0.09	0.08
Total expenses	(0.13)	(0.83)	(0.11)	(0.24)	(0.19)	(0.27)
Realized gains (losses) for the period	0.43	1.78	0.49	(0.39)	0.20	1.04
Unrealized gains (losses) for the period	(0.40)	2.05	3.52	(2.94)	(0.18)	0.26
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.05)</b>	<b>3.07</b>	<b>3.94</b>	<b>(3.52)</b>	<b>(0.08)</b>	<b>1.11</b>
<b>Distributions to Unitholders:</b>						
From income (excluding dividends)	—	—	—	—	—	—
From dividends	—	—	—	—	—	—
From capital gains	—	—	—	—	—	(0.52)
Return of capital	—	—	—	—	—	—
<b>Total distributions to Unitholders <sup>(3)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(0.52)</b>
<b>Net assets, end of the period</b>	<b>\$ 10.25</b>	<b>\$ 10.13</b>	<b>\$ 6.98</b>	<b>\$ 3.05</b>	<b>\$ 6.56</b>	<b>\$ 6.70</b>

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements]
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the average number of units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

#### Ratios and Supplemental Data

Total net asset value (000's) <sup>(1)</sup>	236,866	194,261	130,009	53,203	125,183	158,841
Number of units outstanding <sup>(1)</sup>	23,065,397	19,038,235	18,426,847	17,279,941	19,070,322	23,704,773
Management expense ratio <sup>(2)</sup>	2.43%	10.54%	2.45%	4.15%	2.73%	4.10%
Management expense ratio before waivers or absorptions	2.43%	10.54%	2.45%	4.15%	2.73%	4.10%
Trading expense ratio <sup>(3)</sup>	0.22%	0.29%	0.46%	0.34%	0.26%	0.33%
Portfolio turnover rate <sup>(4)</sup>	19.56%	70.29%	89.37%	65.94%	56.05%	66.03%
Net asset value per unit	\$ 10.27	\$ 10.20	\$ 7.06	\$ 3.08	\$ 6.60	\$ 6.70

- (1) This information is provided as at end of the period shown
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs ) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessary a relationship between a high turnover rate and the performance of a fund.

Series F The Fund's Net Assets per Unit <sup>(1)</sup>	June 30 2011	December 31 2010	December 31 2009	December 31 2008	December 31 2007	December 31 2006
<b>Net assets, beginning of the period</b>	\$ 10.57	\$ 7.23	\$ 3.15	\$ 6.72	\$ 6.80	\$ 5.97
<b>Increase (decrease) from operations:</b>						
Total revenue	0.06	0.07	0.05	0.05	0.09	0.08
Total expenses	(0.07)	(0.80)	(0.12)	(0.25)	(0.13)	(0.20)
Realized gains (losses) for the period	0.43	1.85	0.51	(0.40)	0.06	0.97
Unrealized gains (losses) for the period	(0.40)	2.18	3.56	(3.39)	(0.12)	0.17
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	0.02	3.30	4.00	(3.99)	(0.10)	1.02
<b>Distributions to Unitholders:</b>						
From income (excluding dividends)	—	—	—	—	—	—
From dividends	—	—	—	—	—	—
From capital gains	—	—	—	—	—	(0.48)
Return of capital	—	—	—	—	—	—
<b>Total distributions to Unitholders <sup>(3)</sup></b>	—	—	—	—	—	(0.48)
<b>Net assets, end of the period</b>	\$ 10.75	\$ 10.57	\$ 7.23	\$ 3.15	\$ 6.72	\$ 6.80

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements]
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the average number of units outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

#### Ratios and Supplemental Data

Total net asset value (000's) <sup>(1)</sup>	47,306	38,703	24,038	4,713	13,553	9,087
Number of units outstanding <sup>(1)</sup>	4,390,100	3,636,859	3,289,636	1,480,689	2,006,235	1,337,207
Management expense ratio <sup>(2)</sup>	1.32%	9.91%	2.29%	4.10%	1.89%	2.97%
Management expense ratio before waivers or absorptions	1.32%	9.91%	2.29%	4.10%	1.89%	2.97%
Trading expense ratio <sup>(3)</sup>	0.22%	0.29%	0.46%	0.34%	0.26%	0.33%
Portfolio turnover rate <sup>(4)</sup>	19.56%	70.29%	89.37%	65.94%	56.05%	66.03%
Net asset value per unit	\$ 10.78	\$ 10.64	\$ 7.31	\$ 3.18	\$ 6.76	\$ 6.80

- (1) This information is provided as at end of the period shown
- (2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs ) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
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## MANAGEMENT AND PERFORMANCE FEES

Until April 2005, the Fund paid FSIMI a monthly management fee equal to 1/12 of 2% of the net asset value of the Fund calculated and paid at the end of each month payable monthly in arrears. Commencing in May 2005, the Fund began to pay FSIMI a monthly management fee equal to 1/12 of 2% of the net asset value of the Fund calculated and paid at the end of each month payable monthly in arrears for series A and B shares; the Fund commenced paying FSIMI a monthly management fee equal to 1/12 of 1% of the net asset value of the Fund calculated and paid at the end of each month payable monthly in arrears for Series F shares.

The Manager uses the management fees to pay for sales and trailing commissions to registered dealers.

	<b>Series A</b>	<b>Series B</b>	<b>Series F</b>
Annual Rates	2.00%	2.00%	1.00%
As a percentage of management fees			
Dealer Compensation	25%	50%	-
Investment management, admin & other	75%	50%	100%

The Manager is also entitled to a performance fee if the percentage gain in the net asset value of a series of the Fund (as adjusted for any prior return deficiencies) over the preceding calendar quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the S&P/TSX Composite Index (the “Benchmark”) over the same period. The fee will be equal to this excess return per security multiplied by the number of securities outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per security of the Fund (including distributions) is greater than all previous values at the end of each previous calendar quarter. The starting reference point for the next calendar quarter’s calculation will be based on the higher of either the Benchmark performance adjusted net asset value per security or the adjusted actual net asset value per security, both with respect to the previous quarter in which a performance fee was payable.

## PAST PERFORMANCE

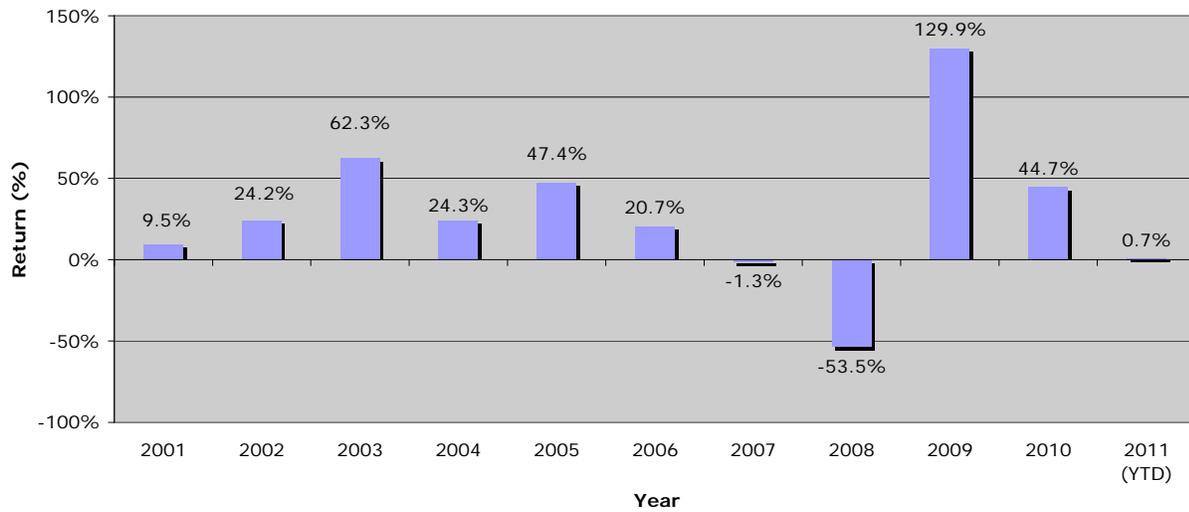
The past performance of the Fund is set out below and includes year-by-year returns.

With respect to the charts displayed below, please note the following:

- (a) the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional shares of the Fund;
- (b) the return or performance information does not take into account sales, redemption, distribution or other optional charges or income taxes payable that would have reduced returns or performance; and
- (c) how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

## YEAR-BY-YEAR RETURNS

Year-by-Year Returns



## Summary of Investment Portfolio as at June 30, 2011

### Portfolio by Category

	Percentage of Transactional Net Asset Value
<b>LONG POSITIONS</b>	
Energy	53.5%
Materials	32.4%
Industrials	5.8%
Cash and cash equivalents	4.9%
Brazil	4.7%
Australia	2.4%
United States	2.0%
Corporate Bonds	1.6%
Financials	1.1%
Utilities	0.1%
<b>SHORT POSITIONS</b>	
United States	-6.7%
Energy	-1.4%
Other assets net of liabilities	-0.4%
	100.0%

### Top 25 Holdings

	Percentage of Transactional Net Asset Value
<b>LONG POSITIONS</b>	
Laricina Energy Limited	7.3%
Athabasca Oil Sands Corporation	6.7%
Whitecap Resources Inc.	6.6%
Lundin Mining Corporation	6.5%
PHX Energy Services Corporation	5.2%
Crew Energy Inc.	5.0%
HRT Participacoes em Petroleo SA	4.7%
Angle Energy Inc.	4.4%
Xinergy Limited	4.3%
Ensign Energy Services Inc.	4.3%
CanElson Drilling Inc.	3.8%
Bankers Petroleum Limited	3.1%
Trican Well Service Limited	2.9%
Baytex Energy Corporation	2.8%
Kinross Gold Corporation	2.5%
Western Areas NL	2.4%
Surge Energy Inc.	2.4%
Barrick Gold Corporation	2.3%
Goldcorp Inc.	2.3%
Advantage Oil & Gas Limited	2.1%
The Dow Chemical Company	2.0%
Shamaran Capital Inc.	1.5%
North West Upgrading	1.5%
TORC Oil & Gas Limited	1.4%
<b>SHORT POSITIONS</b>	
SPDR Gold Trust	-6.7%
	81.3%
<b>TOTAL TRANSACTIONAL NET ASSET VALUE (000)</b>	<b>\$448,517</b>

The information contained in the foregoing list may change due to the ongoing portfolio transactions of the Fund.  
 A quarterly update may be obtained by contacting FSC.



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## **INTERIM FINANCIAL STATEMENTS**

### **FRONT STREET GROWTH FUND**

FOR THE SIX MONTHS ENDED JUNE 30, 2011

#### **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.



## **INTERIM FINANCIAL STATEMENTS**

### **FRONT STREET GROWTH FUND**

FOR THE SIX MONTHS ENDED JUNE 30, 2011

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

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**FRONT STREET GROWTH FUND**

**STATEMENT OF NET ASSETS  
AS AT JUNE 30, 2011 (UNAUDITED) AND DECEMBER 31, 2010 (AUDITED)**

	2011	2010
<b>ASSETS</b>		
Investments, at fair value ( cost - \$355,648,304: 2010- \$246,512,357)	\$ 463,248,574	\$ 369,119,448
Accounts receivable relating to portfolio assets sold	—	14,234,629
Accounts receivable relating to units issued	1,020,761	1,159,034
Accounts receivable relating to accrued income	477,630	636,256
Cash and cash equivalents	22,047,060	—
	<u>\$ 486,794,025</u>	<u>\$ 385,149,367</u>
<b>LIABILITIES</b>		
Bank indebtedness	\$ —	\$ 8,377,168
Obligations from portfolio assets sold short, at fair value	36,326,766	6,222,084
Accounts payable relating to units redeemed	621,330	1,170,568
Accrued expenses	589,144	794,865
Performance fees payable	—	45,310
Liabilities for portfolio assets purchased	1,749,099	38,520
	<u>39,286,339</u>	<u>16,648,515</u>
<b>Net assets representing unitholders' equity</b>	<u>\$ 447,507,686</u>	<u>\$ 368,500,852</u>
<b>Net assets applicable to outstanding units allocated as follows:</b>		
Net assets, Series A	\$ 163,974,827	\$ 137,146,688
Units outstanding, Series A, note 3	15,991,236	13,531,055
Net assets per unit, Series A	<u>\$ 10.25</u>	<u>\$ 10.14</u>
Net assets, Series B	\$ 236,333,293	\$ 192,918,591
Units outstanding, Series B, note 3	23,065,397	19,038,235
Net assets per unit, Series B	<u>\$ 10.25</u>	<u>\$ 10.13</u>
Net assets, Series F	\$ 47,199,566	\$ 38,435,573
Units outstanding, Series F, note 3	4,390,100	3,636,859
Net assets per unit, Series F	<u>\$ 10.75</u>	<u>\$ 10.57</u>

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



Gary P. Selke  
Management Committee Member



Normand G. Lamarche  
Management Committee Member

See accompanying notes to the financial statements

**FRONT STREET GROWTH FUND**

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

	2011	2010
<b>Investment income</b>		
Dividends	\$ 1,377,785	\$ 848,844
Interest	858,649	58,204
Less: foreign withholding taxes	<u>(35,454)</u>	<u>(9,538)</u>
	<u>2,200,980</u>	<u>897,510</u>
<b>Expenses</b>		
Management fees, note 4 and 6	4,631,818	2,744,966
Bank indebtedness	343,136	298,287
Custodial fees	45,259	29,393
Audit fees	19,836	19,340
Legal fees	19,836	14,876
Unitholder reporting costs	17,356	20,420
Independent review committee	<u>9,917</u>	<u>11,735</u>
	<u>5,087,158</u>	<u>3,139,017</u>
<b>Net investment loss for the period</b>	<u>(2,886,178)</u>	<u>(2,241,507)</u>
<b>Realized and unrealized gains (losses) on investments</b>		
Net realized gain on sale of investments	18,027,623	24,252,481
Loss from derivatives	-	(313,042)
Transaction costs, note 5 and 6	(492,961)	(341,119)
Change in the unrealized depreciation of the value of investments	<u>(15,777,904)</u>	<u>(25,614,350)</u>
<b>Net gain (loss) on investments for the period</b>	<u>1,756,758</u>	<u>(2,016,030)</u>
<b>Net decrease in net assets from operations for the period</b>	<u>\$ (1,129,420)</u>	<u>\$ (4,257,537)</u>
Increase (decrease) in net assets from operations applicable to outstanding units allocated as follows:		
Decrease in net assets from operations, Series A	\$ (20,073)	\$ (1,415,538)
Decrease in net assets from operations per unit, Series A	<u>\$ 0.00</u>	<u>\$ (0.11)</u>
Decrease in net assets from operations, Series B	\$ (1,201,829)	\$ (2,378,385)
Decrease in net assets from operations per unit, Series B	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>
Increase (decrease) in net assets from operations, Series F	\$ 92,482	\$ (463,614)
Increase (decrease) in net assets from operations per unit, Series F	<u>\$ 0.02</u>	<u>\$ (0.13)</u>

See accompanying notes to the financial statements

**FRONT STREET GROWTH FUND****STATEMENT OF CHANGES IN NET ASSETS  
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2011 (UNAUDITED)**

	2011	2010
<b>Series A</b>		
Net assets, beginning of period	\$ 137,146,688	\$ 87,824,544
Net decrease in net assets from operations	(20,073)	(1,415,538)
<b>Unitholder transactions</b>		
Capital contributions	39,182,736	15,421,355
Bank indebtedness	(12,334,524)	(12,174,436)
	26,848,212	3,246,919
Net increase in net assets for the period	26,828,139	1,831,381
Net assets, end of period	\$ 163,974,827	\$ 89,655,925
<b>Series B</b>		
Net assets, beginning of period	\$ 192,918,591	\$ 128,640,300
Net decrease in net assets from operations	(1,201,829)	(2,378,385)
<b>Unitholder transactions</b>		
Capital contributions	69,063,299	23,342,291
Redemptions	(24,446,768)	(19,061,642)
	44,616,531	4,280,649
Net increase in net assets for the period	43,414,702	1,902,264
Net assets, end of period	\$ 236,333,293	\$ 130,542,564

**FRONT STREET GROWTH FUND****STATEMENT OF CHANGES IN NET ASSETS  
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2011 (UNAUDITED)**

	2011	2010
<b>Series F</b>		
<b>Net assets, beginning of period</b>	\$ <u>38,435,573</u>	\$ <u>23,786,561</u>
<b>Net increase (decrease) in net assets from operations</b>	<u>92,482</u>	<u>(463,614)</u>
<b>Unitholder transactions</b>		
Capital contributions	12,578,103	3,781,857
Redemptions	<u>(3,906,592)</u>	<u>(2,320,486)</u>
	<u>8,671,511</u>	<u>1,461,371</u>
<b>Net increase in net assets for the period</b>	<u>8,763,993</u>	<u>997,757</u>
<b>Net assets, end of period</b>	<u>\$ 47,199,566</u>	<u>\$ 24,784,318</u>
<b>Total</b>		
<b>Net assets, beginning of period</b>	\$ <u>368,500,852</u>	\$ <u>240,251,405</u>
<b>Net decrease in net assets from operations</b>	<u>(1,129,420)</u>	<u>(4,257,537)</u>
<b>Unitholder transactions</b>		
Capital contributions	120,824,138	42,545,503
Redemptions	<u>(40,687,884)</u>	<u>(33,556,564)</u>
	<u>80,136,254</u>	<u>8,988,939</u>
<b>Net increase in net assets for the period</b>	<u>79,006,834</u>	<u>4,731,402</u>
<b>Net assets, end of period</b>	<u>\$ 447,507,686</u>	<u>\$ 244,982,807</u>

See accompanying notes to the financial statements

**FRONT STREET GROWTH FUND**  
**STATEMENT OF INVESTMENT PORTFOLIO**  
**AS AT JUNE 30, 2011 (UNAUDITED)**

	Number of Shares/ Units	Cost \$	Fair Value \$
<b>Long positions ( 103.5% )</b>			
<b>Domestic (92.7% )</b>			
<b>Energy (53.4% )</b>			
Advantage Oil & Gas Limited	1,250,000	\$ 9,785,550	\$ 9,550,000
Angle Energy Inc.	1,968,051	16,624,601	19,680,510
Antrim Energy Inc.	856,200	905,635	933,258
Bank indebtedness	1,976,454	23,615,247	29,943,279
Bankers Petroleum Limited	1,842,850	13,800,714	12,678,808
Bankers Petroleum Limited Warrants	250,000	300,000	1,237,500
Baytex Energy Corporation	236,050	4,785,526	12,373,741
Crew Energy Inc.	1,491,372	17,751,306	22,221,443
Dolomite Energy Inc. Private Placement	1,300,000	559,500	561,600
Ensign Energy Services Inc.	1,016,814	17,082,317	19,431,316
Gasfrac Energy Services, Inc.	548,680	3,085,784	4,817,410
Laricina Energy Limited Private Placement	765,804	12,909,120	32,546,670
P1 Energy Private Placement	583,033	1,749,099	1,749,099
PHX Energy Services Corporation	2,137,091	20,493,191	23,272,921
Pacific Coal Resources Limited Warrants	700,000	-	77,000
Precision Drilling Corporation	174,351	1,791,823	2,407,787
Renegade Petroleum Limited	960,520	4,085,507	2,939,191
Shamaram Capital Inc.	8,858,349	6,675,413.00	6,555,178
Surge Energy Inc.	1,082,338	6,389,164	10,487,855
TORC Oil & Gas Limited Private Placement	1,569,164	4,707,492	6,276,656
Trican Well Service Limited	578,430	8,562,579	13,095,655
Xtreme Coil Drilling Corporation	1,468,829	6,904,814	6,125,017
		<u>182,564,382</u>	<u>238,961,894</u>
<b>Materials (32.4%)</b>			
Barrick Gold Corporation	235,000	\$ 10,259,544	\$ 10,265,967
Capstone Mining Corporation	1,581,789	4,715,334	5,646,987
Conifex Timber Inc.	279,989	2,309,909	2,701,894
East Asia Minerals Corporation	1,123,500	281,156	3,426,675
Goldcorp Inc.	219,500	10,322,333	10,215,406
Golden Predator Corporation	2,250,000	1,260,000	2,182,500
Golden Predator Corporation Warrants	1,500,000	-	304,079
IAMGOLD Corporation	101,575	1,745,455	1,838,508
Kinross Gold Coporation	748,000	10,402,831	11,382,624
Lithium Americas Corporation	3,715,340	6,312,671	6,204,618
Lithium Americas Corporation Warrants	333,333	-	106,128
Lundin Mining Corporation	3,948,430	20,884,219	29,178,898
Mansfield Minerals Inc.	759,500	235,445	1,313,935
Peregrine Diamonds Limited	98,647	147,971	166,713
Quadra FNX Mining Limited	346,301	4,751,122	4,952,104
Sherritt International Corporation	945,989	6,525,373	5,798,913
Silvermex Resources Inc.	550,000	210,250	330,000
Whitecap Resources Inc.	4,755,390	24,741,158	29,626,080
Xinergy Limited	4,493,573	11,263,232	19,502,107
		<u>116,368,003</u>	<u>145,144,136</u>

**FRONT STREET GROWTH FUND**  
**STATEMENT OF INVESTMENT PORTFOLIO**  
**AS AT JUNE 30, 2011 (UNAUDITED)**

	Number of Shares/ Units	Cost \$	Fair Value \$
<b>Industrial (5.8%)</b>			
Calmena Energy Services Inc.	200,000	\$ 158,680	\$ 99,000
CanElson Drilling Inc.	4,560,975	15,916,119	16,693,169
GWR Global Water Resources Corporation	438,517	3,290,612	2,631,102
North West Upgrading Private Placement	3,112,500	<u>5,072,013</u>	<u>6,536,250</u>
		<u>24,437,424</u>	<u>25,959,521</u>
<b>Utilities (0.1%)</b>			
Trilliant Inc.	671,939	\$ <u>488,570</u>	\$ <u>403,163</u>
<b>Financials Services (1.0%)</b>			
GMP Capital Inc.	225,000	\$ 1,367,172	\$ 2,864,250
Gluskin Sheff + Associates Inc.	75,000	<u>1,387,500</u>	<u>1,410,000</u>
		<u>2,754,672</u>	<u>4,274,250</u>
<b>Total Domestic</b>		<u>\$ 326,613,051</u>	<u>\$ 414,742,964</u>
<b>Global (9.2%)</b>			
<b>Australia (2.4%)</b>			
Western Areas NL	1,736,707	\$ <u>9,068,682</u>	<u>10,584,636</u>
<b>Brazil (4.8%)</b>			
HRT Participacoes em Petroleo SA	17,700	\$ 2,637,887	\$ 15,315,393
HRT Participacoes em Petroleo SA Warrants	8,850	<u>-</u>	<u>6,187,192</u>
		<u>2,637,887</u>	<u>21,502,585</u>
<b>United States (2.0%)</b>			
Gran Tierra Energy Inc. Warrants	480,887	\$ 192,355.00	\$ 4,809
The Dow Chemical Company	260,167	<u>9,540,939</u>	<u>9,032,095</u>
		<u>9,733,294</u>	<u>9,036,904</u>
<b>Total Global</b>		<u>\$ 21,439,863</u>	<u>\$ 41,124,125</u>
<b>Corporate Bonds (1.6%)</b>			
First Uranium Corporation 7.00% March 31, 2013	3,400,000	\$ 3,400,000	\$ 3,145,000
Xinergy Corporation 9.25% May 15, 2019	4,338,872	<u>4,195,390</u>	<u>4,236,485</u>
		<u>7,595,390</u>	<u>7,381,485</u>
<b>Total Corporate Bonds</b>		<u>\$ 7,595,390</u>	<u>\$ 7,381,485</u>
<b>Total Long Positions</b>		<u>\$ 355,648,304</u>	<u>\$ 463,248,574</u>

**FRONT STREET GROWTH FUND**  
**STATEMENT OF INVESTMENT PORTFOLIO**  
**AS AT JUNE 30, 2011 (UNAUDITED)**

	Number of Shares/ Units	Cost \$	Fair Value \$
<b>Short Position (-8.1%)</b>			
<b>Domestic (-1.4% )</b>			
<b>Energy (-1.4%)</b>			
Birchcliff Energy Limited	(425,800)	\$ (3,951,147)	\$ (5,556,690)
iShares S&P/TSX Capped Energy Fund	(29,000)	<u>(769,153)</u>	<u>(573,330)</u>
		<u>(4,720,300)</u>	<u>(6,130,020)</u>
<b>Total Domestic Short Position</b>		<u>\$ (4,720,300)</u>	<u>\$ (6,130,020)</u>
<b>United States (-6.7%)</b>			
SPDR Gold Trust	(214,400)	<u>(30,098,062)</u>	<u>(30,196,746)</u>
<b>Total Short Position</b>		<u>\$ (34,818,362)</u>	<u>\$ (36,326,766)</u>
<b>Transaction costs</b>		<u>(662,707)</u>	<u>—</u>
<b>Total Investments (95.4%)</b>		<u>\$ 320,167,235</u>	<u>426,921,808</u>
<b>Cash and Cash equivalents (4.9%)</b>			22,047,060
<b>Other assets less liabilities (-0.30%)</b>			<u>(1,461,182)</u>
<b>Net assets (100.0%)</b>			<u>\$ 447,507,686</u>

See accompanying notes to financial statements.

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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### 1. THE FUND

Front Street Growth Fund (formerly Front Street Small Cap Canadian Fund) (the "Fund") changed its name pursuant to a special resolution of the Fund passed on June 20, 2008. The Fund is an open-ended mutual fund trust which was created under the laws of the Province of British Columbia on July 26, 1985.

The Fund is managed by Front Street Capital 2004 (the "Manager"). Front Street Investment Management Inc. (the "Investment Advisor") has been retained by the Manager, on behalf of the Fund, to provide investment advisory and portfolio management services to the Fund. RBC Dexia Investor Services Trust is the trustee (the "Trustee") and custodian of the Fund. Citigroup Fund Services Canada, Inc. provides unitholder recordkeeping services and fund accounting services.

The Fund's principal investment objective is to seek capital appreciation primarily through investment in equity securities of a diversified group of publicly traded companies and to a lesser extent in equity securities of a diversified group of private companies, subject to prescribed limits on illiquid investments.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Financial instruments

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

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

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

In June 2008, the Canadian Securities Administrators adopted changes to National Instrument 81-106 on Investment Fund Continuous Disclosure. The changes are essentially aimed at modifying the requirements pertaining to the calculation of the unit value due to the inclusion of Section 3855, Financial Instruments - Recognition and Measurement of the CICA Handbook. These changes allow the Fund to report two distinct net asset values: one for the financial statements, which is calculated in accordance with Canadian GAAP (called "net assets") and another for all other purposes, such as unit pricing (called "net asset value"). A reconciliation between the net assets per unit and the net asset value per unit is required (see note 9) as well as description of the differences between the valuation principles and practices used by the Manager to calculate the net asset value and those prescribed by Canadian GAAP. These changes were effective September 8, 2008 and have been reflected in these financial statements.

#### b) Valuation of investments

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

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

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

iii) Trust units are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The cost of the trust units is reduced on an annual basis by distributions from the trust and increased by the annual income allocated to the units by the trust.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

##### b) Valuation of investments (Continued...)

- iv) Investments in mutual funds or pooled funds are valued based on the net asset value per unit at the close of the trading on the financial statement date.
- v) The Fund values its investments in limited partnerships at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The Fund calculates the cost value of its investment in limited partnerships using the equity method. Under this method, the limited partnership investments are recorded at cost plus the Fund's pro rata share in undistributed earnings since acquisition.
- vi) The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities which are sold short are valued at the last ask price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter a short sale, the Fund may need to borrow the security for delivery to the buyer.

While the transaction is open, the Fund will also incur a liability for any paid dividends or interest which are due to the lender of the security.

- vii) The Fund invests in derivatives which represent financial instruments which may require little or no initial investment and which are settled in the future. These investments are commonly referred to as options or futures contracts. Futures contracts listed upon a principal exchange are valued at their last bid price (for long contracts) and last ask price (for short contracts) at the financial statement date. Contracts with no available bid and ask prices are valued at the fair value as determined by the Manager.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

##### c) Financial instruments disclosure and presentation and fair value measurements

The Fund has adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation, which have replaced Section 3861, Financial Instruments - Disclosure and Presentation. These new standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Fund has managed those risks. See note 10 for additional details.

The Fund adopted the amendments to CICA 3862, Financial Instruments – Disclosures on January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on the inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

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

See note 13 for additional details.

These changes have no impact on the net assets, results of operations or changes in net assets of the Fund.

##### d) Transaction costs

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

##### e) Cash and cash equivalents

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

##### f) Bank indebtedness

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

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

g) Investment transactions and income recognition

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

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

h) Income taxes

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

i) Foreign currency translation

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

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

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

k) Net assets per unit

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

l) Capital disclosures

The Fund has adopted CICA Handbook Section 1535, Capital Disclosures, which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. See note 12 for additional details.

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

#### m) General standards on financial statement presentation

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

#### n) Estimates

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

#### o) Future accounting pronouncements

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

##### International financial reporting standards ("IFRS")

Effective for its fiscal year commencing January 1, 2013, the Fund must adopt IFRS. In preparation thereof, the Manager continues to monitor and implement the Fund's changeover plan and will continue to assess the impact of the implementation as new IFRS guidance become available from the International Accounting Standards Board.

The Manager has reviewed the current IFRS against the Fund's current accounting policies and financial statement presentation under Canadian generally accepted accounting principles ("Canadian GAAP"), and does not expect the adoption of IFRS will have a material effect on the Fund's net asset value per unit for all series of units. The primary impact of IFRS on accounting policies and implementation decisions will be on the financial statement presentation and note disclosures in the Fund's financial statements. In particular, the Fund will be required to present a statement of unitholders' equity and a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

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

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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### 3. UNITS ISSUED AND OUTSTANDING

The authorized capital of the Fund consists of an unlimited number of mutual fund units, available in three series. Redemption and commission fees vary according to each series of units as follows:

#### Series A units

Redemption fees payable to the Manager may be applicable upon the sale of units of this series based on the original cost amount and the time to disposition. A redemption fee of 5% applies to units of this series sold within the first year following acquisition. A redemption fee of 3% applies to units of this series sold within the second year following acquisition. A redemption fee of 1.5% applies to units of this series sold within the third year following acquisition. No redemption fee applies to units of this series sold after the third year following acquisition.

#### Series B units

Commission fees payable to brokers, dealers or advisors may be applicable upon the purchase of units of this series up to 5% of the gross purchase amount, at the discretion of the broker, dealer or advisor.

#### Series F units

No redemption or commission fees are applicable to units of this series.

The Fund allocates income and expenses, and realized and unrealized capital gains and losses to each class of units outstanding based on the average class allocation for the period.

The following unit transactions took place during the period:

	2011	2010
Units outstanding, beginning of the period:		
Series A	13,531,055	12,580,413
Series B	19,038,235	18,426,847
Series F	3,636,859	3,289,636
Units issued during the period:		
Series A	3,613,600	2,091,863
Series B	6,345,597	3,126,818
Series F	1,108,260	491,295
Units redeemed during the period:		
Series A	1,153,419	1,650,536
Series B	2,318,435	2,593,337
Series F	355,019	302,781
Units outstanding, end of the period:		
Series A	15,991,236	13,021,740
Series B	23,065,397	18,960,328
Series F	4,390,100	3,478,149

# FRONT STREET GROWTH FUND

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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### 4. MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee equal to 1/12 of 2% of the net asset value of the Fund calculated and paid at the end of each month in arrears for series A and B units and a monthly management fee equal to 1/12 of 1% of the net asset value of the Fund calculated and paid at the end of each month in arrears for series F units.

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees, custodial fees, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to unitholders. As the Fund has more than one series of units, the unitholders of each series bear their pro rata share of those expenses which are common to the operation of all series, as well as those expenses which are attributable solely to that series.

The Fund pays a performance fee if the percentage gain in the net asset value of a series of the Fund (as adjusted for any prior return deficiencies) over the preceding calendar quarter or quarters since a performance fee was last payable exceed the percentage gain or loss of the benchmark (the "Benchmark") over the same period. The Benchmark for the Fund is the S&P/TSX Composite Index. The fee is equal to this excess return per unit multiplied by the number of units outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per unit of the Fund (including distributions) is greater than all previous values at the end of each previous calendar quarter. The starting reference point for the next calendar quarter's calculation will be based on the higher of either the Benchmark performance adjusted net asset value per unit or the adjusted actual net asset value per unit, both with respect to the previous quarter in which a performance fee was payable.

### 5. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the period ended June 30, 2011 was \$492,961 (June 30, 2010- \$341,119).

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 6. RELATED PARTY TRANSACTIONS

Management fees of \$4,631,818 (June 30, 2010 - \$2,744,966) were paid to the Manager during the period (see note 4). Performance fees of \$Nil (June 30, 2010 - \$Nil) were also paid to the Manager during the period (see note 4). Included in accrued expenses are \$493,240 (December 31, 2010 - \$538,006) of management fees payable to the Manager. Performance fees payable to Manager amounted to \$Nil (December 31, 2010 - \$45,310).

522,771.63 (December 31, 2010 - 522,771.63) of series B units outstanding at period end representing 2.27% (December 31, 2010 - 2.75%) of the total series B units of the Fund are held by the Partners of the Manager. 16,760.55 (December 31, 2010 - 16,760.55) of series B units outstanding at period end representing 0.07% (December 31, 2010 - 0.09%) of the total series B units of the Fund are held by relatives of the Partners of the Manager.

41,543.24 (December 31, 2010 - 32,955.42) of series F units outstanding at period end representing 0.95% (December 31, 2010 - 0.91%) of the total series F units of the Fund are held by the Partners of the Manager. 4,408.20 (December 31, 2010 - 4,408.20) of series F units outstanding at period end representing 0.10% (December 31, 2010 - 0.12%) of the total series F units of the Fund are held by relatives of the Partners of the Manager.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution only basis. During the period ended June 30, 2011. Tuscarora Capital Inc., a company under common control to the Manager, received \$9,040 (June 30, 2010 - \$26,835) in commissions on portfolio transactions for the Fund.

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

#### 7. DISTRIBUTION POLICY

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

#### 8. INDEMNIFICATION OF THE MANAGER

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

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 9. RECONCILIATION OF NET ASSET VALUE - ADOPTION OF NEW ACCOUNTING POLICY - FINANCIAL INSTRUMENTS

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

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

As at June 30, 2011

	<u>Net Asset Value</u>			<u>Net Assets per Unit</u>	
	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA
Series A	\$ 164,344,749	\$ (369,922)	\$ 163,974,827	\$ 10.28	\$ 10.25
Series B	236,866,199	(532,906)	236,333,293	10.27	10.25
Series F	47,305,823	(106,257)	47,199,566	10.78	10.75
<b>Total Net Asset Value</b>	<b>\$ 448,516,771</b>	<b>\$ (1,009,085)</b>	<b>\$ 447,507,686</b>		

As at December 31, 2010

	<u>Net Asset Value</u>			<u>Net Assets per Unit</u>	
	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA
Series A	\$ 138,101,414	\$ (954,726)	\$ 137,146,688	\$ 10.21	\$ 10.14
Series B	194,261,013	(1,342,422)	192,918,591	10.20	10.13
Series F	38,703,189	(267,616)	38,435,573	10.64	10.57
<b>Total Net Asset Value</b>	<b>\$ 371,065,616</b>	<b>\$ (2,564,764)</b>	<b>\$ 368,500,852</b>		

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 10. FINANCIAL INSTRUMENTS

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

	As at June 30, 2011 (Unaudited)	As at Dec. 31 2010 (Audited)
<b>Assets</b>		
Held for trading	\$ 463,248,574	\$ 369,119,448
Cash and cash equivalents	22,047,060	-
Loans and receivables	<u>1,498,391</u>	<u>16,029,919</u>
Total Assets	<u>486,794,025</u>	<u>385,149,367</u>
<b>Liabilities</b>		
Held for trading	36,326,766	6,222,084
Other financial liabilities at amortized cost	<u>2,959,573</u>	<u>10,426,431</u>
Total liabilities	<u>39,286,339</u>	<u>16,648,515</u>
Net Assets	<u>\$ 447,507,686</u>	<u>\$ 368,500,852</u>

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

#### Risk management

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

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### Risk management (Continued...)

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The Statement of Investment Portfolio presents the securities held by the Fund as at June 30, 2011, and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

##### i) Market price risk

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

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

##### ii) Currency risk

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

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

Currency	Marketable securities	Cash	Total	Percentage of GAAP NA
Brazilian Real	\$ 21,502,585	\$ -	\$ 21,502,585	4.80%
United States Dollar	14,935,832	4,828,937	19,764,769	4.42%
Australian Dollar	<u>10,584,636</u>	<u>-</u>	<u>10,584,636</u>	<u>2.37%</u>
	<u>\$ 47,023,054</u>	<u>\$ 4,828,937</u>	<u>\$ 51,851,991</u>	<u>11.59%</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### iii) Interest rate risk

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at June 30, 2011, there were investments in short-term investments representing 1.16% (December 31, 2010 - Nil%) of the investments owned, all maturing in less than 30 days. The remaining portion of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

Financial assets	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Held for trading	\$ -	\$ 7,381,485	\$ 455,867,089	\$ 463,248,574
Other receivables	<u>22,047,060</u>	<u>-</u>	<u>1,498,391</u>	<u>23,545,451</u>
Total	<u>\$ 22,047,060</u>	<u>\$ 7,381,485</u>	<u>\$ 457,365,480</u>	<u>\$ 486,794,025</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 36,326,766	\$ 36,326,766
Other financial liabilities	<u>-</u>	<u>-</u>	<u>2,959,573</u>	<u>2,959,573</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,286,339</u>	<u>\$ 39,286,339</u>
GAAP NA				<u>\$ 447,507,686</u>

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010 (Unaudited)

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### iv) Liquidity risk

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

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

Financial assets	0-12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Held for Trading	\$ -	\$ 3,145,000	\$ -	\$ 4,236,485	\$ 455,867,059	\$ 463,248,574
Other receivables	<u>23,545,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,545,451</u>
Total	<u>\$ 23,545,451</u>	<u>\$ 3,145,000</u>	<u>\$ -</u>	<u>\$ 4,236,485</u>	<u>\$ 455,867,059</u>	<u>\$ 486,794,025</u>
Financial liabilities						
Held for Trading	\$ -	\$ -	\$ -	\$ -	\$ 36,326,766	\$ 36,326,766
Other financial liabilities	<u>2,959,573</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,959,573</u>
Total	<u>\$ 2,959,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,326,766</u>	<u>\$ 39,286,339</u>
GAAP NA						<u>\$ 447,507,686</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at June 30, 2011, the fair value of such assets was 10.7% (December 31, 2010 – 8.6%) of the total net assets.

##### v) Cash flow risk

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

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(Unaudited)

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### vi) Credit risk

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

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

As at June 30, 2011, the Fund had 1.6% (December 31, 2010 - 2.3%) of holdings in debt instruments on which credit ratings are not available.

#### 11. CAPITAL MANAGEMENT

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

The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, policies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet participating unitholder redemptions. The Fund's overall strategy for managing capital remains unchanged from 2010.

The Fund does not have any externally imposed capital requirements.

## FRONT STREET GROWTH FUND

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010 (Unaudited)

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#### 12. FAIR VALUE HIERARCHY

The following is a summary of the inputs used as of June 30, 2011 in valuing the Fund's investments and derivatives carried at fair values as discussed in note 2(c):

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Assets at fair value as at June 30, 2011				
Investments, at fair value	\$ 401,196,252	\$ 13,978,884	\$ 48,073,438	\$ 463,248,574
Liabilities at fair value as at June 30, 2011				
Obligations from portfolio assets sold short, at fair value	<u>36,326,766</u>	<u>-</u>	<u>-</u>	<u>36,326,766</u>
	<u>\$ 364,869,486</u>	<u>\$ 13,978,884</u>	<u>\$ 48,073,438</u>	<u>\$ 426,921,808</u>

During the period ended June 30, 2011 reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Equities	Debt Instruments
Balance at January 1, 2011	\$ 26,785,883	\$ 4,970,772
Purchases (sales)	7,388,991	(5,079,247)
Transfers out	-	-
Gains (losses)		
Realized	-	(245,737)
Unrealized	<u>13,898,564</u>	<u>354,212</u>
Balance at June 30, 2011	<u>\$ 48,073,438</u>	<u>\$ -</u>

## **FRONT STREET GROWTH FUND**

### **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**(Unaudited)**

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#### **13. INCOME TAX LOSS CARRYFORWARD**

The Fund has \$2,823,758 in capital losses available to be applied against capital gains of future periods. These losses do not expire.