

Financial statements of

Front Street Canadian Hedge

December 31, 2013

Front Street Canadian Hedge

December 31, 2013

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Independent Auditor's Report

To the Unitholders and Management of Front Street Capital Canadian Hedge (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statement of net assets and statement of investment portfolio as at December 31, 2013, and the statement of operations and statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2013 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 24, 2014

Front Street Canadian Hedge

Statement of net assets
as at December 31, 2013

	2013	2012
	\$	\$
Assets		
Investments owned, at fair value	117,792,886	100,890,462
Cash and cash equivalents (Note 3)	2,944,091	25,804,399
Receivable for investments sold	1,036,307	393,023
Subscriptions receivable	-	114,654
Interest and dividends receivable	243,106	240,367
	122,016,390	127,442,905
Liabilities		
Investments sold short, at fair value	129,756	1,740,995
Currency forward contract	56,195	-
Payable for investments purchased	1,516,061	2,005,094
Accounts payable and accrued liabilities	138,468	107,297
Redemption payables	324,283	1,246,345
Management fees payable (Note 5)	212,972	228,896
	2,377,735	5,328,627
Total net assets	119,638,655	122,114,278
Net Assets, Series "B" (formerly "B2")	107,749,378	106,372,436
Net Assets, Series "F"	11,889,277	15,741,842
Total net assets	119,638,655	122,114,278
Number of units outstanding (Note 6)		
Series "B" (formerly "B2")	6,450,687	7,468,682
Series "F"	610,431	956,030
Net Assets per unit (Note 9)		
Series "B" (formerly "B2")	16.70	14.24
Series "F"	19.48	16.47

Approved on behalf of the Trust,



Gary P. Selke, Chief Executive Officer

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of operations

for the year ended December 31, 2013

	2013	2012
	\$	\$
Investment Income		
Dividends	1,596,039	1,011,763
Interest	617,847	790,011
Security lending income	58,703	16,901
	2,272,589	1,818,675
Expenses		
Management fees (Note 5)	2,503,881	2,773,620
Operating	342,408	324,007
Audit fees	37,000	37,092
Dividends paid on investments sold short	29,202	80,645
Trustee fees	13,198	1,929
Legal fees	10,893	12,832
	2,936,582	3,230,125
Net investment loss	(663,993)	(1,411,450)
Realized and unrealized gain (loss) on investments		
Commissions and other portfolio transaction costs (Note 2)	(1,358,968)	(2,106,458)
Net realized gain (loss) on investments, including foreign exchange adjustments	7,712,314	(5,056,902)
Net change in unrealized appreciation in value of investments	13,406,886	9,892,409
Net gain on investments	19,760,232	2,729,049
Increase in net assets from operations	19,096,239	1,317,599
Increase in Series "B" (formerly "B2")	16,554,254	829,803
Increase in Series "F"	2,541,985	487,796
Increase in net assets from operations	19,096,239	1,317,599
Increase in Net Assets from operations per unit (Note 2)		
Series "B" (formerly "B2")	2.38	0.11
Series "F"	2.91	0.38

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of changes in net assets
for the year ended December 31, 2013

	2013			2012
	Series B (formerly B2)	Series F	Total	Total
Increase in net assets from operations	16,554,254	2,541,985	19,096,239	1,317,599
Capital transactions (Note 6)				
Sale of units	-	-	-	501,963
Redemption of units	(15,177,312)	(6,394,550)	(21,571,862)	(19,699,765)
	(15,177,312)	(6,394,550)	(21,571,862)	(19,197,802)
(Decrease) increase in net assets	1,376,942	(3,852,565)	(2,475,623)	(17,880,203)
Net assets, beginning of year	106,372,436	15,741,842	122,114,278	139,994,481
Net assets, end of year	107,749,378	11,889,277	119,638,655	122,114,278

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of investment portfolio
as at December 31, 2013

Number of Shares/Units Par Value		Average cost \$	Fair value \$	% of net assets %
Investments - Long Positions				
Equities				
Energy				
714,747	African Petroleum Corporation Limited	693,430	61,070	
154,891	Bellatrix Exploration Limited	1,040,521	1,203,503	
14,800	Bonterra Energy Corporation	739,201	801,272	
56,150	Canadian Natural Resources Limited	1,750,597	2,017,850	
79,072	Caracal Energy Inc.	344,873	615,715	
40,000	Cardinal Energy Limited	420,000	462,000	
10	Cenovus Energy Inc.	310	304	
32,599	Coastal Energy Company	-	614,491	
113,400	Crew Energy Inc.	700,397	716,688	
14	Estrella International Energy Services Limited Warrants January 24, 2016 (private)	-	39	
61,000	High Arctic Energy Services Inc.	199,470	225,700	
199,000	Long Run Exploration Limited	1,035,761	1,056,690	
152,600	McCoy Corporation	1,042,052	1,031,576	
82,300	North American Energy Partners Inc.	526,158	510,207	
395,280	Parex Resources Inc.	1,989,210	2,593,037	
1,551,064	Petroamerica Oil Corporation Warrants October 8, 2014	-	7,755	
282,740	RMP Energy Inc.	1,323,203	1,586,171	
75,950	Suncor Energy Inc.	2,535,099	2,830,058	
45,400	Surge Energy Inc.	292,926	305,542	
43,400	Trinidad Drilling Limited	299,432	427,490	
501,817	Verano Energy Limited (private)	1,428,231	110,400	
144,720	Whitecap Resources Inc.	1,428,110	1,826,366	
345,610	Xtreme Drilling and Coil Services Corporation	1,113,059	1,244,196	
Total Energy		18,902,040	20,248,120	16.92%
Materials				
41,700	Canfor Corporation	898,572	1,105,884	
71,300	Confifex Timber Inc.	551,085	608,189	
21,880	E. I. du Pont de Nemours and Company	1,335,448	1,511,605	
660,000	ECI Exploration and Mining Inc. (private)	750,000	6,600	
330,000	ECI Exploration and Mining Inc. warrants (private)	-	-	
16,965	EcoSynthetix Inc.	111,166	46,314	
443,294	Govi Highpower Exploration Inc. (private)	869,698	235,689	
960,000	Guatavita Gold Corporation (private)	240,000	-	
57,969	International Forest Products Limited 'A'	577,017	775,046	
102,400	Intertape Polymer Group Inc.	959,086	1,432,576	
420,000	Kombat Copper Inc. Warrants March 1, 2015 (private)	-	8,311	
29,300	LyondellBasell Industries NV 'A'	2,122,712	2,500,916	
1,254,622	TiCan Titane Metals Company Inc. 'A' (private)	313,656	12,546	
280,000	Tolima Gold Inc. Warrants December 5, 2016 (private)	-	3,428	
140,000	Unigold Inc. Warrants March 8, 2014 (private)	-	-	
530,000	Western Forest Products Inc.	699,600	1,012,300	
275,600	Western Forest Products Inc. Warrants July 31, 2014 (private)	35,828	88,192	
202,900	Zincore Metals Inc. Warrants June 15, 2014 (private)	-	-	
Total Materials		9,463,868	9,347,596	7.81%
Industrials				
1,722	3801110 Canada Inc. (private)	17	17	
345,000	Air Canada 'B'	1,383,316	2,556,450	
21,700	Boyd Group Income Fund	561,011	717,836	
235,392	Dirtt Environmental Solutions Limited	416,418	600,250	
344,400	Enwave Corporation Units (Restricted April 21, 2014)	482,160	437,250	
172,200	Enwave Corporation Warrants December 20, 2015 (private)	-	42,543	
70,979	GENIVAR Inc.	1,807,577	2,238,678	
60,500	Superior Plus Corporation	677,610	746,570	
103,136	Vicwest Inc.	1,383,833	1,340,768	
Total Industrials		6,711,942	8,680,362	7.26%
Information Technology				
122,331	Absolute Software Corporation	779,315	839,191	
700	Apple Inc.	383,531	417,445	
1,400	Avago Technologies Limited	62,845	78,752	
66,462	Avigilon Corporation	1,032,991	2,043,707	
139,200	BSM Technologies Inc.	186,598	437,088	
1,512	C.O.R.E. Holdings Inc. 'B' (private)	500,261	-	
16,350	Ciena Corporation	391,641	416,043	
605,300	COM DEV International Limited	2,257,771	2,251,716	
62,290	Embotics Corporation Preferred Class 'A' (private)	267,558	202,443	
98,018	Embotics Corporation Private Placement (private)	1,049,233	318,559	
3,600	Enghouse Systems Limited	77,122	117,900	
6,200	Facebook Inc. 'A'	204,315	360,231	
114,900	Halogen Software Inc.	1,453,270	1,458,081	
7,100	JDS Uniphase Corporation	93,384	97,997	
318,900	Mobidia Technology Inc. 'A' Series 3 Preferred (private)	350,790	398,625	
691,000	PNI Digital Media Inc.	561,655	808,470	
252,739	Pure Technologies Limited	626,461	1,675,660	

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of investment portfolio
as at December 31, 2013

Number of Shares/Units Par Value		Average cost	Fair value	% of net assets
		\$	\$	%
912,500	QHR Corp	498,418	1,149,750	
15,200	Qualcomm Inc.	1,033,605	1,199,779	
6,229,600	Quindell PLC	1,681,466	2,112,640	
133,409	Redknee Solutions Inc.	233,611	855,152	
98,400	Redline Communications Group Inc.	573,458	290,280	
45,000	Redline Communications Group Inc. Warrants July 30, 2015 (private)	-	30,341	
184,900	Sandvine Corporation	385,944	541,757	
200,000	Stockhouse Media Corporation (private)	2,476	-	
292,445	The Descartes Systems Group Inc.	1,887,911	4,108,852	
42,800	ViXS Systems Inc.	129,141	128,400	
1,564,439	Wi2Wi Corporation	750,931	336,354	
	Total Information Technology	17,455,702	22,675,213	18.95%
	Financials			
99,562	Altus Group Limited	1,342,170	1,672,642	
27,800	American International Group Inc.	1,349,401	1,509,102	
262,734	Bank of America Corporation	3,937,952	4,349,938	
2,600	Bank of Montreal	181,906	184,028	
10,700	Canadian Imperial Bank of Commerce	959,839	970,490	
34,975	Citigroup Inc.	1,880,052	1,937,270	
50,000	Element Financial Corporation	680,416	699,000	
20,200	GMP Capital Inc.	121,601	141,602	
105,800	Great-West Lifeco Inc.	3,253,400	3,458,602	
7,900	JPMorgan Chase & Company	462,819	491,177	
127,200	Manulife Financial Corporation	2,287,100	2,664,840	
9,200	MetLife Inc.	508,884	527,394	
71,400	Royal Bank of Canada	4,848,239	5,096,532	
80,000	Sun Life Financial Inc.	2,594,121	3,000,800	
65,900	The Bank of Nova Scotia	4,086,975	4,377,737	
60,300	The Toronto-Dominion Bank	5,362,212	6,035,427	
25,000	Wells Fargo & Company	1,090,774	1,206,642	
	Total Financials	34,947,861	38,323,223	32.03%
	Telecommunication Services			
7,000	Mitel Networks Corporation	60,774	74,956	
1,260,000	QuStream Corporation Warrants March 7, 2014 (private)	-	1	
30,000	Verizon Communications Inc.	1,520,499	1,566,960	
589,470	XMG Studio Inc. (private)	559,997	235,788	
	Total Telecommunication Services	2,141,270	1,877,705	1.57%
	Consumer Discretionary			
423,099	Amaya Gaming Group Inc.	1,745,927	3,359,406	
42,000	Amaya Gaming Group Inc. Warrants April 30, 2015 (private)	-	206,220	
120,600	Bauer Performance Sports Limited	1,211,902	1,702,872	
8,800	BRP Inc./CA Subordinate Voting Shares	241,573	263,648	
1,500	Canadian Tire Corporation Limited 'A'	145,004	149,190	
142,000	Committed Capital Acquisition Corporation	738,428	865,209	
20,000	Committed Capital Acquisition Corporation (Restricted)	103,845	116,986	
112,000	Committed Capital Acquisition Warrants October 13, 2016 (private)	-	126,242	
217,500	DHX Media Limited	378,372	1,218,000	
500,000	GeoMonkey Inc. Private Placement (private)	247,439	-	
24,800	Lions Gate Entertainment Corporation	859,749	835,439	
20,617	Magna International Inc.	1,725,340	1,795,312	
1,500	MEGA Brands Inc.	21,070	22,605	
1,248,400	MEGA Brands Inc. Warrants March 30, 2015	314,021	337,068	
420,000	Virgin Gaming Limited Private Common (private)	334,758	290,296	
	Total Consumer Discretionary	8,067,428	11,288,493	9.44%
	Consumer Staples			
9,800	Alimentation Couche-Tard Inc. 'B'	694,182	779,198	
8,100	Atrium Innovations Inc.	148,500	195,615	
9,698	Crumbs Bake Shop Inc.	9,996	8,250	
		852,678	983,063	0.82%
	Consumer Services			
50,000	Patent Properties Unit	155,055.00	159,503.00	0.13%
	Utilities			
2,191,988	Trilliant Inc. (Restricted)	1,925,881	811,036	
217,640	U.S. Geothermal Inc. Warrants September 16, 2015 (private)	-	-	
	Total Utilities	1,925,881	811,036	0.68%
	Total Equities - Long	100,623,725	114,394,314	95.61%
	Corporate Bonds			
925,000	Crumbs Bake Shop Inc. Convertible Note 6.50% May 7, 2018 (private)	929,854	786,883	
500,000	Delavaco Real Estate Opportunites Corporation Convertible Debentures January 1, 2099 (private)	498,226	531,677	
1,400,000	Estrella International Energy Services Limited Convertible Debentures 12.00% December 31, 2015 (private)	1,400,000	1,400,000	
1,558,000	Gran Colombia Gold Corporation 5.00% August 11, 2018	1,544,440	497,012	
244,000	Oak Point Energy Limited 15.00% Convertible Debentures March 31, 2014 (private)	244,000	183,000	
	Total Corporate Bonds	4,616,520	3,398,572	2.84%
	Transaction costs	(166,218)	-	
	Total Investments - Long	105,074,027	117,792,886	98.45%

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of investment portfolio
as at December 31, 2013

Number of Shares/Units Par Value		Average cost \$	Fair value \$	% of net assets %
Investments - Short Positions				
Materials				
(350)	Allied Nevada Gold Corporation	(1,486)	(1,323)	
(5,000)	Yamana Gold Inc.	(52,883)	(45,831)	
	Total Materials	(54,369)	(47,154)	(0.04)%
	Total Equities - Short	(54,369)	(47,154)	(0.04)%
Written Call Options				
(200)	Canadian Natural Resources Limited Dec/33 WCO	(4,167)	(5,317)	
(123)	Qualcomm Inc. Dec/72.5 WCO	(9,943)	(8,894)	
(180)	Royal Bank of Canada Dec/70 WCO	(9,000)	(7,920)	
(252)	The Bank of Nova Scotia Jan/65 WCO	(17,640)	(37,044)	
	Total Written Call Options	(40,750)	(59,175)	(0.05)%
Written Put Options				
(102)	Bank of Montreal Jan/68 WPO	(5,712)	(1,428)	
(210)	Cenovus Energy Inc. Jan/30 WPO	(17,430)	(6,300)	
(110)	Ciena Corporation Jan/20 WPO	(5,034)	(702)	
(409)	Suncor Energy Inc. Jan/34 WPO	(27,833)	(11,307)	
(123)	The Bank of Nova Scotia Jan/65 WPO	(20,664)	(3,690)	
	Total Written Put Options	(76,673)	(23,427)	(0.02)%
	Total Options	(117,423)	(82,602)	(0.07)%
	Transaction costs	(1,124)		
	Total Investments Sold Short	(172,916)	(129,756)	(0.11)%
	Total Investments	104,901,111	117,663,130	98.34%
	Currency forward contract (Schedule 1)		(56,195)	(0.04)%
	Other assets, less liabilities		2,031,720	1.70%
	Total Net Assets		119,638,655	100.00%

Foreign Currency Forward Contracts (Schedule 1)
as at December 31, 2013

Currency code	Amounts sold	Currency code	Amount receivable	Currency code	Equivalent value at December 31, 2013	Maturity date	Unrealized gain (loss) \$
GBP	997,107	CAD	1,703,294	CAD	1,759,489	27-Feb-14	(56,195)

The counterparty is Barclays Bank and has a credit rating of A-.

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Notes to the financial statements

December 31, 2013

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, formed a Trust 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 B Units (the "B Units"), formerly Series B2 Units and Series F Units (the "F Units").

The Trust is not 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 year 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 Chartered Professional Accountants of Canada ("CPA Canada") 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

December 31, 2013

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 (i.e., as prices) or indirectly (i.e., 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 CPA Canada 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 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

December 31, 2013

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 investments, including foreign exchange adjustments" 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 year.

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Notes to the financial statements

December 31, 2013

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 average number of units outstanding of that series during the year.

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 investments, including foreign exchange adjustments" in the Statement of Operations.

Other assets and liabilities

Receivables for investments sold, interest and dividends receivable, and subscriptions 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

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

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

- a) IAS 32, Financial Instruments: Disclosure and Presentation requires unitholders' equity to be classified as liability unless certain criteria are met. The Trust's unitholders' equity meets the definition of a puttable instrument. The Manager has assessed the Trust's unitholder structure and has determined the liability treatment is the most appropriate classification.
- b) IAS 39 Financial Instruments: Recognition and Measurement which indicates that financial instruments are carried at their fair value as defined in IFRS 13. All of the Company's investments in securities will be classified as fair value through profit or loss ("FVTPL")., any unrealized gain or loss arising due to changes in fair value is included in the statement of comprehensive income. These instruments cannot be reclassified out of the FVTPL category while they are held.
- c) IFRS 7, Financial Instruments: Disclosures requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

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Notes to the financial statements

December 31, 2013

2. Summary of significant accounting policies (continued)

Future accounting standards (continued)

- d) IFRS 13, Fair Value Measurements, that was released in May 2011 provides guidance on the fair value measurements and allows for the possible use of closing prices to value investments. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of closing market prices is appropriate in valuing investments. While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit and Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Trust's financial statements.

The anticipated impact of IFRS on accounting policies and implementation decisions will predominantly be on the financial statement presentation and note disclosures in the Trust's financial statements. The adoption of IFRS is not expected to have a significant impact on the calculation of NAV per share. In particular, the Trust will be required to present a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

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

3. Cash and cash equivalents

Cash is held by a broker in an account holding cash balances and short-term, highly liquid investments with original terms of maturities of 3 months or less.

4. Payable for investments purchased

Payable for investments purchased 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.

Front Street Canadian Hedge

Notes to the financial statements

December 31, 2013

6. Units of the trust (continued)

Authorized (continued)

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.

	December 31, 2013	
	Series B	Series F
	\$	\$
Balance, beginning of year	7,468,682	956,030
Redeemed	(1,017,995)	(345,599)
Balance, end of year	6,450,687	610,431

	December 31, 2012	
	Series B	Series F
	\$	\$
Balance, beginning of year	8,115,871	1,523,019
Subscriptions	-	30,823
Redeemed	(647,189)	(597,812)
Balance, end of year	7,468,682	956,030

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

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.

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.

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Notes to the financial statements

December 31, 2013

7. Financial instruments (continued)

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.

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.

As at December 31, 2013, the Trust had 2.84% (December 31, 2012 - 7.23%) of investments in debt instruments on which credit ratings are not available.

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.

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:

	December 31, 2013		
	Term of less than 1 year	Term of more than 1 year	Total
	\$	\$	\$
Financial assets			
Investment owned	114,394,314	-	114,394,314
Bonds and treasury bills	183,000	3,215,572	3,398,572
Other receivables	1,279,413	-	1,279,413
Cash and cash equivalents	2,944,091	-	2,944,091
Total	118,800,818	3,215,572	122,016,390
Financial liabilities			
Investment sold short	(129,756)	-	(129,756)
Currency forward contract	(56,195)	-	(56,195)
Other financial liabilities	(2,191,784)	-	(2,191,784)
Total	(2,377,735)	-	(2,377,735)
GAAP Net Assets	116,423,083	3,215,572	119,638,655

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Notes to the financial statements

December 31, 2013

7. Financial instruments (continued)

Liquidity risk (continued)

	December 31, 2012		
	Term of less than 1 year	Term of more than 1 year	Total
	\$	\$	\$
Financial assets			
Investment owned	92,061,188	-	92,061,188
Bonds and treasury bills	1,159,122	7,670,152	8,829,274
Other receivables	748,044	-	748,044
Cash and cash equivalents	25,804,399	-	25,804,399
Total	119,772,753	7,670,152	127,442,905
Financial liabilities			
Investment sold short	(1,740,995)	-	(1,740,995)
Other financial liabilities	(3,587,632)	-	(3,587,632)
Total	(5,328,627)	-	(5,328,627)
GAAP Net Assets	114,444,126	7,670,152	122,114,278

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.

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 December 31, 2013, there were 2.84% (December 31, 2012 - 7.23%) of investments owned which are held in bonds. The remaining portion of the Trust's assets are substantially non-interest bearing equity investments and the exposure to interest rate changes is minimal.

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.

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Notes to the financial statements

December 31, 2013

7. Financial instruments (continued)

Other price risk (continued)

As at December 31, 2013, 92% (December 31, 2012 - 66%) 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 \$11 million (December 31, 2012 - \$8 million) respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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.

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 Trust's exposure to currency risk due to concentration of assets in foreign currencies:

	December 31, 2013			
	Financial instruments	Cash and cash equivalents	Total	Percentage of NAV (%)
	\$	\$	\$	%
Currency				
Australian dollar	61,070	-	61,070	0.05
British Pound	2,728,355	-	2,728,355	2.28
United States dollar	26,722,003	2,268,569	28,990,572	24.23
Total	29,511,428	2,268,569	31,779,997	26.56

	December 31, 2012			
	Financial instruments	Cash and cash equivalents	Total	Percentage of NAV (%)
	\$	\$	\$	%
Currency				
Australian dollar	1,054,882	-	1,054,882	0.86
United States dollar	8,383,163	1,694,796	10,077,959	8.25
Total	9,438,045	1,694,796	11,132,841	9.11

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Notes to the financial statements

December 31, 2013

7. Financial instruments (continued)

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, receivable for equities sold, and subscription receivable) 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 December 31, 2013, 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 \$1,513,000 (December 31, 2012 - \$530,000). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

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 December 31, 2013 and December 31, 2012:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Equities - long	110,973,912	638,899	2,781,503	114,394,314
Bonds - long	-	497,012	2,901,560	3,398,572
	110,973,912	1,135,911	5,683,063	117,792,886
Liabilities				
Equities - short	(47,154)	-	-	(47,154)
Options - short	(82,602)	-	-	(82,602)
Currency forward contract	-	(56,195)	-	(56,195)
	(129,756)	(56,195)	-	(185,951)

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

	Beginning balance January 1, 2013 (FV)	Net purchases and sales	Net transfers in (out)	Realized gains and losses, net	Unrealized gains and losses, net	Ending balance December 31, 2013 (FV)
	\$			\$	\$	\$
Assets						
Equities	7,282,410	(1,846,507)	(587,916)	(520,741)	(1,545,743)	2,781,503
Bonds	3,056,472	(17,838)	-	(4,463)	(132,611)	2,901,560
	10,338,882	(1,864,345)	(587,916)	(525,204)	(1,678,354)	5,683,063

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Notes to the financial statements

December 31, 2013

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

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Equities - long	82,333,323	2,445,455	7,282,410	92,061,188
Bonds - long	-	5,772,802	3,056,472	8,829,274
	82,333,323	8,218,257	10,338,882	100,890,462
Liabilities				
Equities - short	(993,755)	-	-	(993,755)
Options - short	(747,240)	-	-	(747,240)
	(1,740,995)	-	-	(1,740,995)

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 December 31, 2012 (FV)
	\$			\$	\$	\$
Assets						
Equities	8,933,411	(205,244)	(508,513)	183,271	(1,120,515)	7,282,410
Bonds	2,943,596	364,226	(230,000)	(874,075)	852,725	3,056,472
	11,877,007	158,982	(738,513)	(690,804)	(267,790)	10,338,882

During the year ended December 31, 2013, there were transfers between Level 3 to Level 1 as certain security became listed company. There were no significant transfers between level 1 & 2.

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 3865 adjustment	Net Asset Value Per unit
	\$	\$	\$
At December 31, 2013			
Series B (formerly "B2")	16.70	0.08	16.78
Series F	19.48	0.08	19.56
At December 31, 2012			
Series B (formerly "B2")	14.24	0.07	14.31
Series F	16.47	0.07	16.54

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.

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Notes to the financial statements

December 31, 2013

11. Income taxes

The Trust qualifies as a mutual 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 has \$9,878,659 in non-capital losses available to be applied against taxable income of future years which will expire as follows:

	\$
2028	1,582,276
2030	7,099,485
2032	1,196,898
	<hr/> 9,878,659

The Trust has \$8,855,272 in net capital losses available to be applied against taxable capital gains of future years. These losses do not expire.

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.