



FRONT STREET
Mining Opportunities Fund

FRONT STREET MINING OPPORTUNITIES FUND

**FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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DECEMBER 31, 2007**

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AUDITORS' REPORT

To the Unitholders of Front Street Mining Opportunities Fund

We have audited the statement of net assets of the Front Street Mining Opportunities Fund, (the "Fund") as at December 31, 2007 and the statements of operations and changes in net assets for the year then ended and the statement of investment portfolio as at December 31, 2007. These financial statements are the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 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.



Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 4, 2008

FRONT STREET MINING OPPORTUNITIES FUND

STATEMENT OF NET ASSETS AS AT DECEMBER 31, 2007

	2007	2006
ASSETS		
Investments, at fair value (cost - \$61,246,905; 2006 - \$54,434,142)	\$ 86,145,607	\$ 80,744,903
Cash and cash equivalents	3,730,929	-
Accounts receivable relating to accrued income	115,856	9,923
Accounts receivable relating to units issued	<u>-</u>	<u>415,174</u>
	<u>\$ 89,992,392</u>	<u>\$ 81,170,000</u>
LIABILITIES		
Bank indebtedness	\$ -	\$ 1,047,963
Obligations from portfolio assets sold short, at fair value	3,114,770	-
Accounts payable and accrued liabilities	238,291	221,922
Performance fees payable	3,481,604	7,061,484
Accounts payable relating to units redeemed	<u>1,800,230</u>	<u>591,479</u>
	<u>8,634,895</u>	<u>8,922,848</u>
Net assets representing unitholders' equity	<u>\$ 81,357,497</u>	<u>\$ 72,247,152</u>
Number of units outstanding , note 3	<u>3,080,138</u>	<u>3,079,697</u>
Net assets per unit	<u>\$ 26.41</u>	<u>\$ 23.46</u>

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



Normand G. Lamarche
Management Committee Member



Gary P. Selke
Management Committee Member

See accompanying notes to the financial statements

FRONT STREET MINING OPPORTUNITIES FUND

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007

	2007	2006
Investment income		
Dividends	\$ 548,488	\$ 746,099
Interest	<u>280,297</u>	<u>114,136</u>
	<u>828,785</u>	<u>860,235</u>
Expenses		
Performance fees, note 4	3,481,604	7,061,484
Management fees, note 4	1,762,534	1,239,857
Operating costs	146,275	123,845
Interest expense	129,099	26,218
Audit fees	21,999	22,000
Trustees' fees	7,500	10,000
Legal fees	4,838	22,000
Non-deductible carrying charges incurred on short sales	<u>-</u>	<u>6,862</u>
	<u>5,553,849</u>	<u>8,512,266</u>
Net investment loss	<u>(4,725,064)</u>	<u>(7,652,031)</u>
Net realized gain on investments		
Net realized gain on the sale of investments	18,470,378	16,864,432
Transaction costs, notes 2 and 5	(286,091)	-
Change in the unrealized appreciation (depreciation) of the value of investments	<u>(377,353)</u>	<u>15,611,377</u>
	<u>17,806,934</u>	<u>32,475,809</u>
Net increase in net assets from operations for the year	<u>\$ 13,081,870</u>	<u>\$ 24,823,778</u>

See accompanying notes to the financial statements

FRONT STREET MINING OPPORTUNITIES FUND

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	2007	2006
Net assets, beginning of year	\$ 72,247,152	\$ 42,183,465
Adoption of new accounting policy, notes 2 and 9	<u>(907,978)</u>	<u>-</u>
Adjusted net assets, beginning of year	<u>71,339,174</u>	<u>42,183,465</u>
Net increase in net assets from operations	<u>13,081,870</u>	<u>24,823,778</u>
Distributions to unitholders		
From realized gain on portfolio assets sold	<u>(3,221,313)</u>	<u>-</u>
Unitholder transactions		
Capital contributions	9,389,652	13,728,636
Redemptions	(12,442,775)	(8,488,727)
Units issued on reinvestment of distributions	<u>3,210,889</u>	<u>-</u>
	<u>157,766</u>	<u>5,239,909</u>
Net increase in net assets for the year	<u>10,018,323</u>	<u>30,063,687</u>
Net assets, end of year	<u>\$ 81,357,497</u>	<u>\$ 72,247,152</u>

See accompanying notes to the financial statements

FRONT STREET MINING OPPORTUNITIES FUND

STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2007

	Number of Shares / Units	Cost \$	Fair Value \$
Long positions (105.9%)			
Domestic (97.9%)			
Energy (8.0%)			
Crescent Resources Corporation	115,000	\$ 68,678	\$ 30,475
DOT Resources Limited	288,740	41,669	57,748
Southgobi Energy Resources	615,800	545,028	5,499,094
Virgin Resources Limited Private Placement	615,385	<u>400,000</u>	<u>923,078</u>
		<u>1,055,375</u>	<u>6,510,395</u>
Materials (88.3%)			
African Gold Group Inc.	224,000	280,000	208,320
Alexco Resource Corporation	112,000	280,000	596,960
Alhambra Resources Limited	1,365,000	800,081	1,624,350
Amerigo Resources Limited	629,200	1,303,513	1,434,576
Ascendant Copper Corporation	384,500	77,285	80,745
Atna Resources Limited	400,000	540,000	600,000
Aurora Energy Resources Inc.	172,500	754,832	2,328,750
Buffalo Gold Limited Warrants	360,000	-	-
Canadian Gold Hunter Corporation	555,500	499,950	772,145
Capstone Mining Corporation	1,275,600	1,498,830	3,546,168
Chariot Resources Limited	2,502,533	1,110,578	2,227,254
Consolidated Global Diamond Corporation	500,000	100,000	190,000
Consolidated Global Diamond Company Warrants	500,000	-	40,000
Crowflight Minerals Inc.	1,000,000	277,200	610,000
Detour Gold Corporation	285,715	1,000,003	3,471,437
E-Energy Ventures Inc.	3,285,000	720,525	739,125
East Asia Minerals Corporation	223,800	249,086	302,130
Entree Gold Inc.	567,100	1,368,767	1,366,711
Fortuna Silver Mines Inc.	455,000	682,500	1,392,300
Fortuna Silver Mines Inc. Warrants	352,500	-	426,525
GBS Gold International Inc.	850,000	1,275,000	1,071,000
Gabriel Resources Limited	174,100	407,354	337,754
Genco Resources Limited	400,000	1,500,000	1,488,000
Genco Resources Limited Warrants	200,000	-	-
Gold Eagle Mines Limited	40,000	160,000	330,000
Goldcorp Inc.	40,000	996,852	1,350,000
Goldcrest Resources Limited	500,000	462,100	140,000
Goldgroup Resources Inc. Private Placement	800,000	1,000,000	1,000,000

See accompanying notes to the financial statements

FRONT STREET MINING OPPORTUNITIES FUND

**STATEMENT OF INVESTMENT PORTFOLIO
AS AT DECEMBER 31, 2007**

	Number of Shares / Units	Cost \$	Fair Value \$
Long positions (105.9%) (Continued...)			
Domestic (97.9%) (Continued...)			
Materials (88.3%) (Continued...)			
Great Basin Gold Limited	200,000	470,380	522,000
Guyana Goldfields Inc.	274,100	1,330,112	1,979,002
International Royalty Corporation	400,000	1,769,000	2,212,000
Linear Metals Corporation	297,800	446,318	348,426
Lundin Mining Corporation	447,740	4,725,570	4,253,530
Metalex Ventures Limited	555,500	256,919	180,538
Minefinders Corporation Limited	121,400	1,066,848	1,353,610
Mirabela Nickel Limited	300,850	1,407,257	1,775,015
Miranda Gold Corporation	1,062,500	971,324	1,083,750
Nevsun Resources Limited	250,000	750,000	567,500
Nevsun Resources Limited Warrants	125,000	-	-
New Gold Inc. Warrants	200,000	308,000	202,000
Northern Star Mining Corporation	750,000	825,000	622,500
Northern Star Mining Corporation Warrants	375,000	-	-
Paragon Minerals Corporation	133,333	33,279	132,000
Premier Gold Mines Limited	105,000	97,417	252,000
Red Back Mining Inc.	880,300	1,951,047	6,144,495
Revett Minerals Inc.	2,811,400	3,054,489	2,417,804
Roca Mines Inc.	667,250	934,150	2,055,130
Roca Mines Inc. Warrants	700,000	-	581,000
Rolling Rock Resources Corporation Warrants	112,500	-	-
Rubicon Minerals Corporation	684,200	458,225	978,406
Sabina Silver Corporation	200,000	302,000	400,000
Serengeti Resources Inc.	100,000	172,510	95,000
Sherritt International Corporation	197,100	2,059,877	2,601,720
Silver Wheaton Corporation	100,000	1,270,000	1,680,000
Silverstone Resources Corporation	665,885	969,857	1,777,913
Simberi Mining Corp. Warrants	2,625,000	-	3
Simberi Mining Corporation	5,250,000	525,000	341,250
Skygold Ventures Limited	1,100,000	1,485,000	1,353,000
Strategic Resource Acquisition Corporation	475,000	950,000	1,387,000
Sunridge Gold Corporation	760,000	939,084	1,178,000
Teck Cominco Limited 'B'	12,000	507,650	425,160
Trilogy Metals Inc. Subscription Receipt	2,000,000	1,000,000	975,200
Virginia Uranium Special Warrants	500,000	750,000	750,000

See accompanying notes to the financial statements

FRONT STREET MINING OPPORTUNITIES FUND

**STATEMENT OF INVESTMENT PORTFOLIO
AS AT DECEMBER 31, 2007**

	Number of Shares / Units	Cost \$	Fair Value \$
Long positions (105.9%) (Continued...)			
Domestic (97.9%) (Continued...)			
Materials (88.3%) (Continued...)			
Wallbridge Mining Company Limited	1,037,000	324,295	352,580
Western Prospector Group Limited	26,400	88,324	26,400
Wildcat Silver Corporation	500,000	366,000	105,000
Zazu Metals Corporation	1,857,100	<u>2,754,088</u>	<u>3,064,215</u>
		<u>52,663,476</u>	<u>71,847,397</u>
Financials (1.6%)			
Valencia Ventures Inc.	2,669,500	<u>\$ 1,334,750</u>	<u>\$ 1,334,750</u>
Total Domestic		<u>\$ 55,053,601</u>	<u>79,692,542</u>
Foreign (8.0%)			
United States(2.4%)			
Business Bridge Corporation Private Placement	20	\$ 2,095,909	\$ 1,978,102
Vetana Gold Corporation	500,000	<u>-</u>	<u>-</u>
		<u>2,095,909</u>	<u>1,978,102</u>
Bermuda (0.2%)			
Wexford Energy Limited Private Placement	750,000	<u>\$ 170,484</u>	<u>\$ 148,358</u>
Cayman Islands (0.4%)			
Talon Metals Corporation	437,281	<u>\$ 546,601</u>	<u>\$ 288,605</u>
France (3.0%)			
Foraco International	775,000	<u>\$ 1,860,000</u>	<u>\$ 2,418,000</u>
Bonds (2.0%)			
New Gold Inc. Series D, 10.00%, June 28, 2017	2,000,000	<u>\$ 1,692,000</u>	<u>\$ 1,620,000</u>
Total Foreign		<u>\$ 6,364,994</u>	<u>6,453,065</u>
Total long positions		<u>\$ 61,418,595</u>	<u>\$ 86,145,607</u>

See accompanying notes to the financial statements

FRONT STREET MINING OPPORTUNITIES FUND

**STATEMENT OF INVESTMENT PORTFOLIO
AS AT DECEMBER 31, 2007**

	Number of Shares / Units	Cost \$	Fair Value \$
Short positions (-3.8%)			
United States			
Rio Tinto PLC ADR	(7,500)	<u>\$ (3,403,902)</u>	<u>\$ (3,114,770)</u>
Total short positions		<u>\$ (3,403,902)</u>	<u>\$ (3,114,770)</u>
Transaction costs		<u>(173,182)</u>	<u>-</u>
Total Investments		<u>\$ 57,841,511</u>	83,030,837
Cash and cash equivalents (4.6%)			3,730,929
Other assets less liabilities (-6.7%)			<u>(5,404,269)</u>
Net assets			<u>\$ 81,357,497</u>

See accompanying notes to the financial statements

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

1. THE FUND

Front Street Mining Opportunities (the "Fund") is a mutual fund trust created under the laws of the Province of Ontario pursuant to a trust agreement dated January 3, 2005 (the "Trust Agreement"). HSBC Trust Company (Canada), is the trustee of the Fund (the "Trustee"). Front Street Capital 2004 (the "Manager") is responsible for providing investment advisory and portfolio management. BMO Nesbitt Burns Inc. is the custodian and Citigroup Fund Services Canada Inc. provides fund accounting and unitholder record keeping services.

The Fund's investment objective is to provide holders of Units ("Unitholders") with long term growth through capital appreciation by investing primarily in a diversified portfolio (the "portfolio") of common shares and common share equivalents of Canadian companies engaged in natural resource industries such as mining and minerals and precious metals. The Fund will also invest in speculative securities of junior issuers and early-stage companies in these sectors. The Fund may invest in companies and machinery and equipment manufacturers, and may invest up to 10% of its assets directly in commodities such as gold, silver, platinum and palladium in the form of bullion, coins, receipts, certificates or permitted gold certificates.

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 were prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies followed by the Fund:

a) Adoption of new accounting standards - Financial instruments

In April 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, Financial Instrument - Recognition and Measurement, effective for financial statements relating to fiscal years beginning on or after October 1, 2006. This section establishes standards for the fair valuation of financial instruments, including the Fund's investments, and the accounting treatment for transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value was based on the last traded price for the day, when available. Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income in the year. Prior to this new standard, these costs were added to the cost of the securities purchased or deducted from the proceeds of sale. Section 3855 has been applied retrospectively without restatement of prior years effective January 1, 2007. The cost of individual investments in the Statement of Investment Portfolio are recorded at total cost including transaction costs. Accordingly, the opening net assets in the Statement of Changes in Net Assets for the year ended December 31, 2007 have been adjusted to reflect these changes in valuation.

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

a) Adoption of new accounting standards - Financial instruments (continued...)

National Instrument 81-106 ("NI 81-106"), Section 14.2 issued by the Canadian Securities Administrators ("CSA") in 2005, requires the daily net asset value ("NAV") of an investment fund to be calculated in accordance with Canadian generally accepted accounting principles ("GAAP"). The CSA had granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) until September 30, 2008. This temporary relief was to permit review of the suitability of these financial reporting requirements for the purposes other than the financial statements, such as the purchase and redemption price of units in an investment fund. The CSA has completed this review and has proposed amendments to NI 81-106 that will permit funds to have two different net asset values: one for financial statements, which will be prepared in accordance with Canadian GAAP (referred to as "net assets"); and another for all the other purposes including unit pricing (referred to as "net asset value"). These financial statements have been prepared on a basis consistent with the proposed amendments including a reconciliation between net assets and net asset value (see note 9).

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 change in the unrealized appreciation (depreciation) of the value of investments. Securities for which reliable quotations are not readily available are valued at fair value, as determined in good faith and pursuant to procedures established by the Manager.
- ii) Any investment for which a market quotation is not readily available ("private companies") shall be valued at cost, in the absence of any subsequent financing, or shall be valued at its fair value as determined by the Manager.
- iii) Investments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided in paragraphs (i) and (ii) 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 used had a ready market existed for investments.

- iv) Short-term investments are valued at amortized cost, which approximates fair value.

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

b) Valuation of investments (continued..)

- v) 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 dividends paid or interest which are due to the lender of the security.

- vi) The fair value of other financial assets and liabilities approximate their carrying values due to the short-term nature of these instruments.

c) Transaction costs

In accordance with Section 3855, 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 securities cost shown on the Statement of Investment Portfolio includes only those transaction costs incurred on the acquisition of portfolio investments. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchase or proceeds from sale of investments. The impact on the net assets of the investment fund is the same regardless of which accounting method is utilized.

d) 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.

e) 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 average cost of the securities on disposition.

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

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

f) 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

g) 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.

h) Net assets per unit

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

i) Organization costs

Organization costs related to the initial issue of units, such as the agent's fees and promotion costs have been charged against unitholders' equity, since they are considered to be capital transactions.

j) 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 amount 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. Actual results may differ from those estimates.

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

3. UNITS ISSUED AND OUTSTANDING

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

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

The following unitholder transactions took place during the year:

	2007	2006
Units outstanding, beginning of year	3,079,697	2,820,278
Units issued during the year	457,216	691,102
Units redeemed during the year	<u>(456,775)</u>	<u>(431,683)</u>
Units outstanding, end of year	<u>3,080,138</u>	<u>3,079,697</u>

4. MANAGEMENT AND PERFORMANCE FEES

The Fund Manager provides investment and management services to the Fund. The Fund pays the Manager a monthly management fee equal to 1/12 of 2% of the net asset value of the Fund calculated based on the weekly Net Asset Value of the Fund, payable within ten business days after end of each month.

The Fund is responsible for payment of all operating and administrative expenses of the Fund. These expenses may include management fees, performance fees, legal, audit, trustee, registrar and transfer agency, advertising costs, interest, operating and administrative costs, unitholder servicing costs, and costs of financial and other reports that are used in complying with the laws, regulations and policies regulating the issue or sale of units.

The Fund pays the Manager a performance fee per unit equal to 20% of the amount by which the aggregate of:

- (a) Net Asset Value per unit at the end of such fiscal year (without regard to any accrual of the Performance Bonus), and
- (b) Any per unit distribution declared during such year;

exceeds the Net Asset Value per unit at the beginning of such fiscal year.

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

5. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended December 31, 2007 was \$286,091 (2006 - \$171,694).

6. RELATED PARTY TRANSACTIONS

Management fees of \$1,762,534 (2006 - \$1,239,857) were paid to the Manager during the year (see note 4). Performance fees of \$3,481,604 (2006 - \$7,061,484) were also paid to the Manager during the year (see note 4). Included in accounts payable and accrued liabilities is \$154,470 (2006 - \$126,967) in management fees payable to the Manager. Included in performance fees payable is \$3,481,604 (2006 - \$7,061,484) in performance fees payable to the Manager.

720,680.400 (2006 - 715,647.675) representing 23.40% (2006 - 23.20%) of the units outstanding at year end are held by the Partners of the Manager.

8,927.420 (2006 - 9,697.421) representing 0.29% (2006 - 0.30%) of the units outstanding at year end are held by the 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 year ended December 31, 2007, Tuscarora Capital Inc, a company under common control to the Manager, received \$29,184 (2006 - \$19,957) 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.

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

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 which have not been delegated to the Fund's investment advisor.

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 commencing December 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 sale 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 NAV. The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

As at December 31, 2007

		<u>Net Asset Value</u>		<u>Net Asset Value</u>		Opening NAV
		GAAP	GAAP	<u>per Share</u>		
Transactional	Section 3855	NA	NA	Transactional	GAAP	Section 3855
NAV	Adjustment			NAV	NA	Adjustment
82,148,412	(790,915)	81,357,497		26.67	26.41	(907,978)

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

10. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of investments at fair value, cash and cash equivalents, accounts receivable relating to accrued income, accounts receivable related to units issued, bank indebtedness, obligations from portfolio asset sold short at fair value, accounts payable and accrued liabilities, performance fees payable and accounts payable relating to units redeemed. It is management's opinion that the Fund is not exposed to significant interest, currency or 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.

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests.

i) Market risk

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

ii) Currency risk

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

iii) Interest rate risk

The Fund is exposed to interest rate risk related to short-term deposits and borrowings as well as investments in government and corporate debt instruments. Consequently, the cash flows related to interest income and expense and the valuation of debt instruments could vary significantly from current value.

iv) Liquidity risk

The risk that an entity will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

v) Cash flow risk

Cash flow risk is 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 in a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

FRONT STREET MINING OPPORTUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

11. 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.

12. COMPARATIVE AMOUNTS

Certain of the prior year figures have been reclassified to conform with the current year's presentation.

13. EXEMPTION FROM REGULATORY FILING REQUIREMENTS

Section 2.11 of National Instrument 81-106 Investment Fund Continuous Disclosure permits Investment Funds that are not reporting issuers to take advantage of an exemption to the requirements to file annual and interim financial statements with the relevant regulatory authorities. Since the Fund is not a reporting issuer, it is relying on this exemption and will not file its financial statements.



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