



**FRONT STREET SMALL CAP CANADIAN FUND**  
**A FRONT STREET CAPITAL MUTUAL FUND**

**Management Report of Fund Performance**

**and**

**Annual Financial Statements**

December 31, 2006

# **Annual Management Report of Fund Performance As at December 31, 2006 Front Street Small Cap Canadian Fund**

*This Annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements for Front Street Small Cap Canadian Fund, a Front Street Capital mutual fund (the "Fund"). The annual financials of the Fund are attached behind this report and you can also get a copy of the annual financial statements at your request, and at no cost, by calling 1-800-513-2832, by writing to us at Front Street Capital 2004, 87 Front Street East, Suite 400, Toronto, Ontario M5E 1B8 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 Annual 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 Annual 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 contribute 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 Annual 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 will be invested in common shares and other equity securities. The Fund will therefore be subject to stock market risk. Since the Fund may also invest in foreign securities, this may expose the Fund, to a limited extent, to the risk of investments in foreign securities and foreign currency risk. The Fund invests in relatively illiquid securities that may expose the Fund to liquidity risk. The Fund offers three series of units and is therefore subject to series 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 industrial, technology and natural resource companies. These risks are all further described on page A-1 of the Simplified Prospectus.

Currency risk proved to have a minimal effect on the Fund’s returns, as the Canadian dollar traded in a relatively narrow range, relative to the U.S. dollar, over the period. Currency risk impacted principally the Fund’s investments, which had revenue in US\$. Volatility in currency markets continues to be high, suggesting uncertainty going forward on this front.

Equity risk also affected Fund volatility. Specifically, the threat of oil-supply disruptions kept the price of oil high, only to reverse when the U.S. Federal Reserve Board signaled it was raising rates threatening a slowdown in U.S. consumption. While market volatility was high overall, the price of oil and gas was a positive factor that contributed to Canadian equity market performance, particularly in the energy sector.

Interest-rate risk was also a factor, as global central banks and bond and equity markets closely monitored the U.S. Federal Reserve’s monetary policy activities and public communications for indications as to when the current cycle of monetary policy tightening may be ending. As higher borrowing costs tend to slow the economy, rising interest rates tend to have a negative impact on the outlook for corporate-profit growth and therefore equity market performance.

The Fund has multiple risks associated with equity markets. Investors whose primary concern is preservation of capital should not be invested in this Fund. The Fund is suitable only for investors seeking long-term growth with a high tolerance for risk and volatility and a long-term investment horizon.

## **RESULTS OF OPERATIONS**

The Fund’s investment advisor continued to focus on long-term capital appreciation for the portfolio during fiscal 2006. Sector allocation to the materials and energy sectors significantly contributed to the returns for the year. Company concentration was not evident as the investment advisor continued its long-standing commitment to a diversity of names while maintaining a focus on the sectors that had high appreciation potential.

The Fund benefited from strong inflows of capital through fiscal 2006. The investment advisor was able to allocate the incremental capital profitably as investment opportunities were numerous.

Interest rate increases had only a slight negative impact for the Fund. Currency volatility also had a slight negative impact as revenues denominated in US\$ declined when converted to C\$ on most investee company’s income

statements. Notwithstanding this, the Fund had the benefit of a strong equity market for resource stocks as demand for commodities continued to grow in a supply-constrained environment.

## RECENT DEVELOPMENTS

The Fund anticipates that volatility will continue in the equity markets for the foreseeable future. The perception exists that inventory levels are tight in most commodity groups leading to an inability to cushion any shocks to the system. This reality, coupled with a relatively benign interest rate environment, has led to steady economic growth, albeit at higher commodity price levels.

## RELATED PARTY-TRANSACTIONS

Front Street Capital (“FSC”) provides or arranges for the provision of all general management and administrative services required by the Fund in its day-to-day operations, including providing or arranging the provision of investment advice, establishment of brokerage arrangements relating to the purchase and sale of the investment portfolio, and bookkeeping, record-keeping and other administrative services for the Fund.

The Fund’s portfolio advisor (the “Portfolio Advisor”) is Front Street Investment Management, Inc. (“FSIMI”). FSIMI is an affiliate of FSC and has entered into a Sub-Advisory Agreement to provide advisory services to the Fund.

As a result of providing investment advisory and management services, FSC receives a monthly management fee, based on the average net assets of each Series, calculated daily and payable monthly.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of FSC, 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, 2006, Tuscarora Capital Inc. received \$17,273 in commission on portfolio transactions for the Fund

## 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 annual financial statements.

### FRONT STREET SMALL CAP CANADIAN FUND SERIES A

Year ended	Dec-06	Dec-05	Dec-04	Dec-03	Dec-02
	\$	\$	\$	\$	\$
<b>The Fund's Net Asset Value (NAV) per Unit</b>					
Net asset value, beginning of period	5.98	4.18	3.36	2.21	-
<b>Increase (decrease) from operations:</b>					
Total revenue	0.08	0.01	-	-	-
Total expenses	(0.27)	(0.11)	(0.04)	(0.32)	-
Realized gains (losses)	1.00	0.27	0.10	0.47	-
Unrealized gains (losses)	0.38	0.30	0.10	1.00	-
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>1.19</b>	<b>0.47</b>	<b>0.16</b>	<b>1.15</b>	<b>-</b>
<b>Distributions:</b>					
From income (excluding dividends)	-	-	-	-	-

From dividends	-	-	-	-	-
From capital gains	(0.52)	(0.18)	-	-	-
Return of capital	-	-	-	-	-
<b>Total distributions<sup>(2)</sup></b>	<b>(0.52)</b>	<b>(0.18)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net asset value, end of period</b>	<b>6.70</b>	<b>5.98</b>	<b>4.18</b>	<b>3.36</b>	<b>-</b>

#### Ratios and Supplemental Data

Net assets (000's) <sup>(3)</sup>	81,531	36,460	8,553	2,576	-
Number of units outstanding	12,168,022	6,099,596	2,048,559	63,753	-
Management expense ratio <sup>(4)</sup>	4.10%	8.53%	11.25%	12.44%	-
Management expense ratio before waivers or absorptions	2.61%	2.71%	6.03%	3.33%	-
Portfolio turnover rate <sup>(5)</sup>	66.03%	59.30%	98.30%	1.70%	-
Trading expense ratio <sup>(6)</sup>	0.33%	0.57%	0.35%	0.00%	-

#### FRONT STREET SMALL CAP CANADIAN FUND SERIES B

Year ended	Dec-06	Dec-05	Dec-04	Dec-03	Dec-02
	\$	\$	\$	\$	\$
<b>The Fund's Net Asset Value (NAV) per Unit</b>					
Net asset value, beginning of period	5.98	4.18	3.36	2.07	1.94
<b>Increase (decrease) from operations:</b>					
Total revenue	0.08	0.02	0.01	-	-
Total expenses	(0.27)	(0.30)	(0.18)	(0.32)	(0.30)
Realized gains (losses)	1.04	0.74	0.43	0.47	-
Unrealized gains (losses)	0.26	0.82	0.43	1.14	0.75
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>1.11</b>	<b>1.28</b>	<b>0.69</b>	<b>1.29</b>	<b>0.45</b>

#### Distributions:

From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(0.52)	(0.18)	-	-	(0.32)
Return of capital	-	-	-	-	-
<b>Total distributions<sup>(2)</sup></b>	<b>(0.52)</b>	<b>(0.18)</b>	<b>-</b>	<b>-</b>	<b>(0.32)</b>
<b>Net asset value, end of period</b>	<b>6.70</b>	<b>5.98</b>	<b>4.18</b>	<b>3.36</b>	<b>2.07</b>

#### Ratios and Supplemental Data

Net assets (000's) <sup>(3)</sup>	158,841	99,387	29,977	15,688	7,765
Number of units outstanding	23,704,773	16,626,989	7,179,576	4,669,205	3,743,685
Management expense ratio <sup>(4)</sup>	4.10%	8.53%	11.25%	12.44%	13.77%
Management expense ratio before waivers or absorptions	2.61%	2.71%	6.03%	3.33%	5.03%
Portfolio turnover rate <sup>(5)</sup>	66.03%	59.30%	98.30%	1.74%	3.00%
Trading expense ratio <sup>(6)</sup>	0.33%	0.57%	0.35%	0.00%	0.00%

**FRONT STREET SMALL CAP CANADIAN FUND SERIES F**

<b>Year ended</b>	<b>Dec-06</b>	<b>Dec-05</b>	<b>Dec-04</b>	<b>Dec-03</b>	<b>Dec-02</b>
	\$	\$	\$	\$	\$
<b>The Fund's Net Asset Value (NAV) per Unit</b>					
<b>Net asset value, beginning of period</b>	5.97	4.18	3.36	2.21	-
<b>Increase (decrease) from operations:</b>					
Total revenue	0.08	-	-	-	-
Total expenses	(0.20)	(0.01)	(0.01)	(0.32)	-
Realized gains (losses)	0.97	0.02	0.01	0.47	-
Unrealized gains (losses)	0.17	0.02	0.01	1.00	-
<b>Total increase (decrease) from operations<sup>(1)</sup></b>	<b>1.02</b>	<b>0.03</b>	<b>0.01</b>	<b>1.15</b>	<b>-</b>
<b>Distributions:</b>					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(0.48)	(0.20)	-	-	-
Return of capital	-	-	-	-	-
<b>Total distributions<sup>(2)</sup></b>	<b>(0.48)</b>	<b>(0.20)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net asset value, end of period</b>	<b>6.80</b>	<b>5.97</b>	<b>4.18</b>	<b>3.36</b>	<b>-</b>
<b>Ratios and Supplemental Data</b>					
Net assets (000's) <sup>(3)</sup>	9,087	2,852	820	149	-
Number of units outstanding	1,337,207	477,382	196,503	44,374	-
Management expense ratio <sup>(4)</sup>	2.97%	7.63%	11.25%	12.44%	-
Management expense ratio before waivers or absorptions	1.56%	1.91%	6.03%	3.33%	-
Portfolio turnover rate <sup>(5)</sup>	66.03%	59.30%	98.30%	1.74%	-
Trading expense ratio <sup>(6)</sup>	0.33%	0.57%	0.35%	0.00%	-

(1) Net asset value and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(2) Distributions were paid in cash and/or reinvested in additional shares of the Fund.

(3) This information is provided as at period end of the year shown.

(4) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

(5) 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 year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

(6) 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.

## 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 Fund uses the management fees to pay for sales and trailing commissions to registered dealers.

	Series A	Series B	Series F
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.

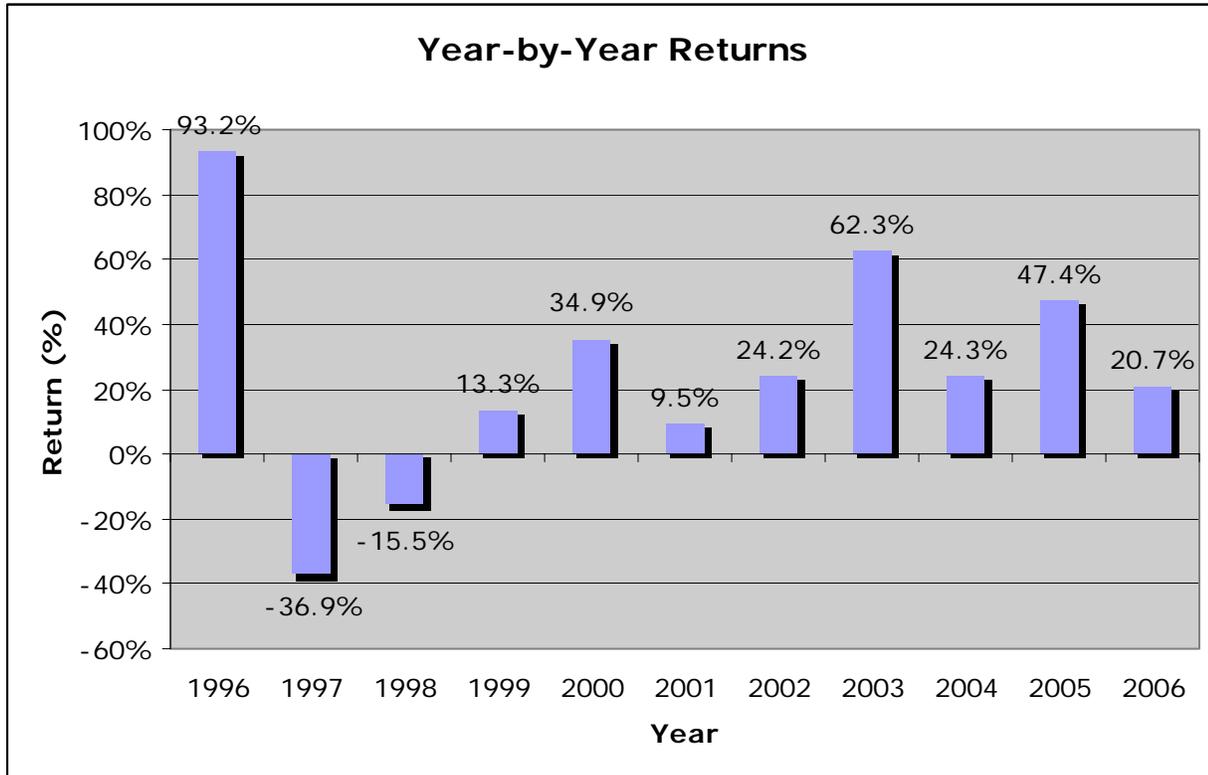
## PAST PERFORMANCE

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



- Based on the initial period from inception date (commencement of operations) to December 31, 2006.

## ANNUAL COMPOUND RETURNS

The following table shows the Fund's historical annual compound total return for the past 10, five, three and one financial year periods ended on December 31, 2006, as compared to the performance of the S&P/TSX Composite Index.

	Past 10 Years	Past 5 Years	Past 3 Years	Past Year
Front Street Small Cap Canadian Fund <sup>(1)</sup>	18.5%	34.9%	30.3%	20.7%
S&P/TSX Composite Index	7.8%	11.3%	14.1%	14.5%

(1) Prior to July 23, 1999, the advisor to the Fund was MOF Management Ltd.

The S&P/TSX Composite Index is a float market capitalization that tracks the performance of some of the largest and most widely held Canadian stocks listed on the Toronto Stock Exchange (TSX). Prior to May 1, 2002, this index was called the TSE 300 Composite Index. The Fund outperformed the S&P/TSX Composite Index for each of the past 10, five, three and one year financial periods.

**Summary of Investment Portfolio as at December 31, 2006**

***Portfolio by Category***

	Percentage of Net Asset Value
<b>Cash and Short-Term Notes</b>	<b><u>6.1</u></b>
<b>Equities</b>	
Materials	53.1
Energy	37.0
Financial Services	2.9
Industrials	0.6
Information Technology	0.4
Utilities	0.2
Telecommunication Services	<u>0.0</u>
<b>Total Equities</b>	<b><u>94.2</u></b>
<b>Total Investments Portfolio</b>	<b><u>94.2</u></b>
<b>Total Investments Portfolio Including Cash and Short-Term</b>	<b><u>100.3</u></b>
<b>Other Assets</b>	<b><u>(0.3)</u></b>
<b>Total Net assets</b>	<b><u>100.0</u></b>

### ***Top 25 Investments***

	Percentage of Net Asset Value
Lundin Mining Corporation	4.6%
Sherritt International Corporation	4.3%
Goldcorp Inc.	4.2%
ProEx Energy Limited	4.1%
Ivanhoe Mines Limited	3.6%
Lionore Mining International Limited	3.6%
Guyana Goldfields Inc.	3.0%
Aur Resources Inc.	2.9%
Silver Wheaton Corporation	2.9%
North West Upgrading Inc.	2.8%
Atlas Energy Limited	2.8%
Peerless Energy Inc.	2.7%
Minefinders Corporation Limited	2.7%
Gabriel Resources Limited	2.5%
Kereco Energy Limited	2.5%
Calfrac Well Services Limited	2.3%
Precision Drilling Trust	2.1%
Endeavour Mining Capital Corporation	1.9%
FNX Mining Company Inc.	1.8%
Baytex Energy Trust	1.8%
Savanna Energy Services Corporation	1.7%
Uranium Power Corporation	1.7%
Petrofac Limited	1.7%
Wave Energy Limited	1.6%
ShawCor Limited	1.5%

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 the Investment Advisor.



**FRONT STREET SMALL CAP CANADIAN FUND**

**ANNUAL FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

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## MANAGEMENT REPORT

### Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Small Cap Canadian Fund have been prepared by the management of Front Street Capital 2004, the Manager of the Fund, and approved by the Board of Directors of Front Street Small Cap Canadian Fund. Management is responsible for the information and representations contained in these financial statements.

The Manager maintains processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 2 to the financial statements.

The Board of Directors of Front Street Small Cap Canadian Fund is responsible for reviewing the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Board of Directors approves the audited financial statements for publication.

Segal LLP are the external auditors of Front Street Small Cap Canadian Fund. They are appointed by the Manager of the Fund. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out below.

On behalf of Management of Front Street Capital 2004,  
Manager of the Fund



Gary P. Selke  
Chief Executive Officer



Normand G. Lamarche  
Chief Financial Officer

March 9, 2007

## **AUDITORS' REPORT**

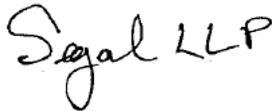
### **To the Unitholders of Front Street Small Cap Canadian Fund (the "Fund")**

We have audited the statements of net assets of the Front Street Small Cap Canadian Fund, (the "Fund") as at December 31, 2006 and the statements of operations and changes in net assets for the year then ended and statement of investment portfolio as at December 31, 2006. 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 management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 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.

The prior year's figures, which have been presented for comparative purposes only, were reported on without reservation by another firm of chartered accountants.

A handwritten signature in black ink that reads "Segal LLP". The signature is written in a cursive, flowing style.

Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
March 9, 2007

# FRONT STREET SMALL CAP CANADIAN FUND

## STATEMENTS OF NET ASSETS AS AT DECEMBER 31, 2006

	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Investments, at current value (cost - \$194,906,517; 2005 - \$105,818,628)	\$ 235,215,762	\$ 136,973,690
Cash and cash equivalents	15,098,146	2,962,048
Accounts receivable related to units issued	511,003	1,553,089
Accrued dividends and interest receivable	<u>203,708</u>	<u>86,359</u>
	<u>\$ 251,028,619</u>	<u>\$ 141,575,186</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 541,732	\$ 267,299
Performance fees payable	5,258	1,895,216
Liability for units redeemed	<u>1,023,239</u>	<u>714,298</u>
	<u>1,570,229</u>	<u>2,876,813</u>
<b>Net assets representing unitholders' equity</b>	<u>\$ 249,458,390</u>	<u>\$ 138,698,373</u>
<b>Net assets applicable to outstanding units allocated as follows:</b>		
Net asset value, Series A	\$ 81,530,943	\$ 36,459,726
Units outstanding, Series A, note 3	12,168,022	6,099,596
Net asset value per unit, Series A	<u>6.70</u>	<u>5.98</u>
Net asset value, Series B	\$ 158,840,823	\$ 99,386,625
Units outstanding, Series B, note 3	23,704,773	16,626,989
Net asset value per unit, Series B	<u>6.70</u>	<u>5.98</u>
Net asset value, Series F	\$ 9,086,624	\$ 2,852,022
Units outstanding, Series F, note 3	1,337,207	477,382
Net asset value per unit, Series F	<u>6.80</u>	<u>5.97</u>

**On behalf of the Board:**



Gary P. Selke  
Chief Executive Officer



Normand G. Lamarche  
Chief Financial Officer

See accompanying notes to the financial statements

# FRONT STREET SMALL CAP CANADIAN FUND

## STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
<b>Investment income</b>		
Interest income	\$ 1,915,454	\$ 199,572
Dividends	594,604	340,727
Less: Foreign withholding taxes	<u>(11,176)</u>	<u>(15,495)</u>
	<u>2,498,882</u>	<u>524,804</u>
<b>Expenses</b>		
Management fees, note 4	4,345,993	1,738,201
Performance fees, note 4	3,093,787	4,702,742
Custodial fees	556,484	156,302
Administration fees	165,362	79,247
Securityholder reporting costs	164,001	35,766
Legal fees	56,871	42,982
Audit fees	27,101	52,099
Trustees' fees	12,651	10,701
Other expenses	<u>12,553</u>	<u>42,491</u>
	<u>8,434,803</u>	<u>6,860,531</u>
<b>Net investment loss for the year</b>	<u>(5,935,921)</u>	<u>(6,335,727)</u>
<b>Realized and unrealized gain on investments</b>		
Realized gain on sale of investments	31,943,521	16,829,446
Change in unrealized appreciation of value of investments	<u>9,154,183</u>	<u>22,943,005</u>
<b>Net gain on investments for the year</b>	<u>41,097,704</u>	<u>39,772,451</u>
<b>Net increase in net assets from operations for the year</b>	<u>\$ 35,161,783</u>	<u>\$ 33,436,724</u>
Net assets from operations applicable to outstanding units allocated as follows:		
Increase in net assets from operations, Series A	\$ 10,585,764	\$ 8,892,955
Increase in net assets from operations per unit, Series A	<u>\$ 1.19</u>	<u>\$ 2.08</u>
Increase in net assets from operations, Series B	\$ 23,506,591	\$ 23,755,707
Increase in net assets from operations per unit, Series B	<u>\$ 1.11</u>	<u>\$ 2.04</u>
Increase in net assets from operations, Series F	\$ 1,069,428	\$ 788,062
Increase in net assets from operations per unit, Series F	<u>\$ 1.02</u>	<u>\$ 2.15</u>

See accompanying notes to the financial statements

## FRONT STREET SMALL CAP CANADIAN FUND

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
<b>Series A</b>		
<b>Net increase in net assets from operations</b>	\$ 10,585,764	\$ 8,892,955
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	<u>(5,919,097)</u>	<u>(1,039,946)</u>
<b>Unitholder Transactions</b>		
Capital contributions	49,090,504	23,545,927
Redemptions	(14,581,547)	(4,532,475)
Units issued on reinvestment of distributions	<u>5,895,593</u>	<u>1,039,946</u>
	<u>40,404,550</u>	<u>20,053,398</u>
<b>Net increase in net assets for the year</b>	45,071,217	27,906,407
Net assets, beginning of year	<u>36,459,726</u>	<u>8,553,319</u>
<b>Net assets, end of year</b>	<u>\$ 81,530,943</u>	<u>\$ 36,459,726</u>
<b>Series B</b>		
<b>Net increase in net assets from operations</b>	\$ 23,506,591	\$ 23,755,707
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	<u>(11,531,164)</u>	<u>(2,834,650)</u>
<b>Unitholder Transactions</b>		
Capital contributions	88,347,523	60,057,812
Redemptions	(52,367,957)	(14,403,672)
Units issued on reinvestment of distributions	<u>11,499,205</u>	<u>2,834,650</u>
	<u>47,478,771</u>	<u>48,488,790</u>
<b>Net increase in net assets for the year</b>	59,454,198	69,409,847
Net assets, beginning of year	<u>99,386,625</u>	<u>29,976,778</u>
<b>Net assets, end of year</b>	<u>\$ 158,840,823</u>	<u>\$ 99,386,625</u>

See accompanying notes to the financial statements

## FRONT STREET SMALL CAP CANADIAN FUND

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
<b>Series F</b>		
<b>Net increase in net assets from operations</b>	<u>\$ 1,069,428</u>	<u>\$ 788,062</u>
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	<u>(601,788)</u>	<u>(93,008)</u>
<b>Unitholder Transactions</b>		
Capital contributions	8,436,318	2,404,788
Redemptions	(3,268,602)	(1,161,283)
Units issued on reinvestment of distributions	<u>599,246</u>	<u>93,008</u>
	<u>5,766,962</u>	<u>1,336,513</u>
<b>Net increase in net assets for the year</b>	6,234,602	2,031,567
Net assets, beginning of year	<u>2,852,022</u>	<u>820,455</u>
<b>Net assets, end of year</b>	<u>\$ 9,086,624</u>	<u>\$ 2,852,022</u>
<b>Total fund</b>		
<b>Net increase in net assets from operations</b>	<u>\$ 35,161,783</u>	<u>\$ 33,436,724</u>
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	<u>(18,052,049)</u>	<u>(3,967,604)</u>
<b>Unitholder Transactions</b>		
Capital contributions	145,874,345	86,008,527
Redemptions	(70,218,106)	(20,097,430)
Units issued on reinvestment of distributions	<u>17,994,044</u>	<u>3,967,604</u>
	<u>93,650,283</u>	<u>69,878,701</u>
<b>Net increase in net assets for the year</b>	110,760,017	99,347,821
Net assets, beginning of year	<u>138,698,373</u>	<u>39,350,552</u>
<b>Net assets, end of year</b>	<u>\$ 249,458,390</u>	<u>\$ 138,698,373</u>

See accompanying notes to the financial statements

## FRONT STREET SMALL CAP CANADIAN FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2006

	Number of Shares / Units	Cost \$	Market Value \$
<b>Materials (53.2%)</b>			
Abacus Mining & Exploration Corporation	3,825,000	\$ 2,295,000	\$ 2,371,500
Abacus Mining & Exploration Corporation Warrants February 17, 2008	1,912,500	-	-
Amerigo Resources Limited	150,000	321,471	325,500
Aur Resources Inc.	302,000	3,007,821	7,326,520
Barrick Gold Corporation	24,290	617,525	870,797
Blackstone Ventures Inc.	2,555,454	843,300	1,916,591
Blackstone Ventures Inc. Warrants April 13, 2007	2,272,727	-	568,182
Breakwater Resources Limited	1,390,085	726,573	2,557,756
Dynatec Corporation	579,200	752,670	1,233,696
Endeavour Mining Capital Corporation	650,800	2,354,465	4,620,680
Endeavour Mining Capital Corporation Warrants November 10, 2008	50,000	-	151,000
Entree Gold Inc.	560,200	764,672	1,008,360
FNX Mining Company Inc.	246,200	3,181,424	4,498,074
Fortress Minerals Corporation	500,000	300,000	640,000
Fronterra Copper Corporation	250,000	1,317,500	1,242,500
Full Metal Mineral Limited	837,500	732,500	1,809,000
Full Metal Mineral Limited Restricted	210,000	483,000	426,384
Full Metal Mineral Limited Warrants October 27, 2007	105,000	-	-
Gabriel Resources Limited	1,243,700	3,216,510	6,293,122
GBS Gold International Inc.	450,000	945,000	1,566,000
General Minerals Corporation Warrants June 25, 2008	78,000	-	4,680
Goldcorp Inc.	316,500	6,748,494	10,479,315
Golden Patriot Mining Inc.	200,000	70,000	29,500
Golden Patriot Mining Inc. Warrants February 10, 2007	214,286	-	-
Guyana Goldfields Inc.	619,867	1,113,566	7,388,815
Hudbay Minerals Inc.	100,000	1,537,140	2,184,000
Ivanhoe Mines Limited	778,800	7,254,229	8,956,200
Lionore Mining International Limited	673,100	3,981,623	8,918,575
Lundin Mining Corporation	264,626	10,598,271	11,378,918
Major Drilling Group International Inc.	107,900	1,764,814	2,814,032
Minefinders Corporation Limited	640,300	5,506,815	6,652,717
Minera Andes Inc.	500,000	555,400	760,000
Northern Mining Explorations Limited Restricted	1,000,000	750,000	750,000
Northern Mining Explorations Limited Warrants January 14, 2009	500,000	-	-
Northern Orion Resources Inc.	339,800	1,128,238	1,440,752
Rio Narcea Gold mines Limited	444,700	1,021,405	1,276,289
Sherritt International Corporation	860,000	8,371,487	10,655,400

See accompanying notes to the financial statements

## FRONT STREET SMALL CAP CANADIAN FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2006

	Number of Shares / Units	Cost \$	Market Value \$
<b>Materials (Continue...)</b>			
Shore Gold Inc.	357,152	1,246,312	2,196,485
Silver Wheaton Corporation	422,420	4,687,700	5,161,972
Silver Wheaton Corporation Warrants August 5, 2009	1,250,000	-	2,162,500
Southwestern Resources Corporation	250,100	2,811,644	1,985,794
Tahera Diamond Corporation	560,000	1,193,000	672,000
Tenke Mining Corporation	50,000	626,500	862,500
Uranium Power Corporation	4,765,000	948,050	4,288,500
UrAsia Energy Limited	370,128	666,230	1,987,587
		<u>84,440,349</u>	<u>132,432,193</u>
<b>Energy (35.9%)</b>			
Atlas Energy Limited	1,691,700	\$ 7,206,239	\$ 6,935,970
Baytex Energy Trust	200,200	3,815,476	4,460,456
Calfrac Well Services Limited	263,000	9,013,800	5,812,300
Celtic Exploration Limited	37,350	430,646	519,539
Cyries Energy Inc.	25,000	323,013	316,500
Highpine Oil & Gas Limited	112,000	2,160,500	1,758,400
Kereco Energy Limited	847,000	10,390,734	6,284,740
Laricina Energy Limited Resources	160,000	2,000,000	2,000,000
Midnight Oil Exploration Limited	655,800	2,183,839	1,554,246
North West Upgrading Inc.	1,000,000	1,000,000	4,000,000
North West Upgrading Inc. Restricted	750,000	3,000,000	3,000,000
North West Upgrading Inc. Warrants December 29, 2007	375,000	-	-
OPTI Canada Inc.	126,000	1,919,927	2,492,280
OZZ Corporation Restricted	671,939	488,570	671,939
Peerless Energy Inc. 'A'	1,677,062	5,926,521	6,792,101
* Petrofac Limited	450,000	2,810,784	4,136,331
Precision Drilling Trust	190,000	7,412,981	5,130,000
ProEx Energy Limited	793,400	10,720,746	10,195,190
Pure Energy Services Limited	260,900	5,395,147	3,496,060
Rider Resources Limited	416,430	4,079,578	3,647,927
Savanna Energy Services Corporation	227,100	4,960,175	4,301,274
Saxon Energy Services Inc.	287,700	1,011,581	1,176,693
ShawCor Limited 'A'	150,200	2,342,273	3,762,510
Stylus Energy Inc.	636,600	2,049,852	2,081,682
Wave Energy Limited	1,750,000	4,112,500	4,112,500
West Energy Limited	670,100	3,746,032	3,631,941
		<u>98,500,914</u>	<u>92,270,579</u>

See accompanying notes to the financial statements

## FRONT STREET SMALL CAP CANADIAN FUND

### STATEMENT OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2006

	Number of Shares / Units	Cost \$	Market Value \$
<b>Financial Services (2.9%)</b>			
Dundee Corporation 'A'	34,300	\$ 1,307,588	\$ 1,692,705
Gluskin Shelf and Associates Inc.	75,000	1,387,500	1,173,750
GMP Capital Trust	80,000	657,000	1,744,000
* streetTRACKS Gold Trust	35,000	<u>2,178,371</u>	<u>2,577,836</u>
		<u>5,530,459</u>	<u>7,188,291</u>
<b>Industrials (0.6%)</b>			
ATS Automation Tooling Systems Inc.	20,100	\$ 261,899	\$ 224,316
IROC Systems Corporation	450,000	1,237,500	945,000
Torr Canada Inc.	500,000	<u>825,000</u>	<u>400,000</u>
		<u>2,324,399</u>	<u>1,569,316</u>
<b>Information Technology (0.4%)</b>			
The Westaim Corporation	618,100	<u>\$ 3,503,121</u>	<u>\$ 1,112,580</u>
<b>Utilities (0.2%)</b>			
MAXIM Power Corporation	81,350	<u>393,168</u>	<u>551,553</u>
<b>Telecommunication Services (0.0%)</b>			
Rutter Inc.	125,000	<u>214,107</u>	<u>91,250</u>
<b>Total Investments (94.3%)</b>		<u><u>\$ 194,906,517</u></u>	235,215,762
<b>Other assets less other liabilities (6.8%)</b>			<u>14,242,628</u>
<b>Net assets (100.0%)</b>			<u><u>\$ 249,458,390</u></u>

\* Non Canadian Holdings

# FRONT STREET SMALL CAP CANADIAN FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2006

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### 1. THE FUND

Front Street Small Cap Canadian Fund (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's principal investment objective is capital appreciation, primarily through investments in publicly traded securities of junior issuers.

The Fund is managed by Front Street Capital 2004 (the "Fund 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.

### 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) 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.

#### b) Valuation of investments

- i) Investments listed on an exchange are valued at the closing sale price reported by the principal securities exchange on which the issue is traded or, lacking any sales, at the closing bid prices on the financial statement date. The difference between this amount and cost is shown as change in unrealized appreciation (depreciation) of value of investments. Securities for which reliable quotations are not readily available are valued at current 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 Fund 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 20%.

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.

# FRONT STREET SMALL CAP CANADIAN FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2006

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

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

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

v) Trust units are recorded at the closing bid price reported by the principal securities exchange in which the issue is traded or lacking any sales at the bid price 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 annual income allocated to the units by the trust.

#### c) 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.

#### d) Investment transactions and income recognition

Investment transactions are accounted for on the trade date. Gains or losses arising from the sale of investments are determined using the average cost basis. Income from investments is recorded on the accrual basis. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

#### e) Income taxes

It is the policy of the Fund to allocate and distribute any taxable income annually to the unitholders of the Fund under the terms of the Trust Deed. The Fund is therefore not subject to income tax and, accordingly, are not included as part of the financial statements of the Fund.

#### f) 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.

#### g) Earnings (loss) per unit

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

#### h) Net asset value per unit

The net asset value per unit is calculated by dividing the net asset value of a series of units by the total number of units of the series outstanding at the end of the year.

# FRONT STREET SMALL CAP CANADIAN FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2006

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### 3. UNITS ISSUED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of units which are available in three series and which rank equally in all respects and represent a pro rata interest in the net assets of the Fund. Redemption and commission fees vary according to each series of unit as follows:

#### Series A units

Redemption fees paid to the Fund 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 paid 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 following.

	2006	2005
Units outstanding, beginning of the year:		
Series A	6,099,596	2,048,559
Series B	16,626,989	7,179,576
Series F	477,382	196,503
Units issued during the year:		
Series A	8,241,374	4,927,151
Series B	15,047,316	12,391,412
Series F	1,353,001	491,320
Units redeemed during the year:		
Series A	2,172,948	876,114
Series B	7,969,532	2,943,999
Series F	493,176	210,441
Units outstanding, end of the year:		
Series A	12,168,022	6,099,596
Series B	23,704,773	16,626,989
Series F	1,337,207	477,382

# FRONT STREET SMALL CAP CANADIAN FUND

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2006

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### 4. MANAGEMENT AND PERFORMANCE FEES

The Fund Manager provides investment and management services to the Fund. The Fund pays the Investment Adviser 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. The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are professional fees, printing expenses, filing fees, custodial fees and expenses of making distributions to unitholders.

The Fund pays the Investment Adviser 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 S&P/TSX Composite Index (the "Benchmark") over the same period. The fee will be 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. BROKERAGE COMMISSIONS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended December 31, 2006 was \$682,763 (2005 - \$464,526).

### 6. RELATED PARTY TRANSACTIONS

Management fees of \$4,345,993 (2005 - \$1,738,201) were paid to the Investment Adviser during the year (see note 4). Performance fees of \$3,093,787 (2005 - \$4,702,742) were also paid to the Investment Adviser during the year (see note 4). The year end balance of \$5,258 ( 2005 - \$1,895,216 ) in performance fees payable is payable to the Investment Adviser.

138,831 (2005 - 103,443) representing 0.4% of the units outstanding at year end are held by relatives of the partners of Front Street Capital 2004.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of Front Street Capital 2004 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 October 31, 2006. Tuscarora Capital Inc. received \$17,273 (2005 - \$21,161) in commissions on portfolio transactions for the Fund.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

# FRONT STREET SMALL CAP CANADIAN FUND

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

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### 7. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of investments, at current value, cash and cash equivalents, accounts receivable related to units issued, accrued dividends and interest receivable, accounts payable and accrued liabilities, performance fees payable and liability for 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. Consequently, the cash flows related to interest income and expense and the valuation of debt instruments could vary significantly from current value.

### 8. CREDIT RISK MANAGEMENT

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.

### 9. COMPARATIVE AMOUNTS

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



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