

## **FRONT STREET SMALL CAP CANADIAN FUND**

Financial Statements

December 31, 2004 and 2003

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# ELLIS FOSTER

CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

To the Unitholders and Trustee of

### FRONT STREET SMALL CAP CANADIAN FUND

We have audited the accompanying statements of net assets of **Front Street Small Cap Canadian Fund** as at December 31, 2004 and 2003, the statements of operations and changes in net assets for the years then ended and the statement of portfolio investments as at December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 at December 31, 2004 and 2003, the results of its operations and the changes in its net assets for the years then ended and the portfolio investments as at December 31, 2004, in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

"ELLIS FOSTER"  
Chartered Accountants



*A partnership of incorporated professionals*

*An independently owned and operated member of Moore Stephens North America Inc., a member of Moore Stephens International Limited  
- members in principal cities throughout the world*

## FRONT STREET SMALL CAP CANADIAN FUND

Statements of Net Assets  
December 31, 2004 and 2003

	2004	2003
<b>ASSETS</b>		
<b>Investments</b> , at market value (cost - \$28,936,164; 2003 - \$14,226,426)	\$ 37,148,220	\$ 18,329,141
<b>Cash and cash equivalents</b>	2,490,288	668,693
<b>Due from broker</b>	49,850	-
<b>Subscriptions receivable</b>	203,125	153,671
<b>Dividends and interest receivable</b>	33,662	-
	<u>39,925,145</u>	<u>19,151,505</u>
<b>LIABILITIES</b>		
<b>Management and performance fees payable</b>	502,136	714,713
<b>Accounts payable and accrued liabilities</b>	45,655	24,075
<b>Redemptions payable</b>	26,802	-
<b>Net assets representing unitholders' equity</b>	<u>\$ 39,350,552</u>	<u>\$ 18,412,717</u>
<b>Net assets applicable to outstanding units allocated as follows:</b>		
<b>Net asset value, Series A</b>	\$ 8,553,319	\$ 2,576,041
<b>Units outstanding, Series A (note 5)</b>	2,048,559	766,725
<b>Net asset value per unit, Series A</b>	\$ 4.18	\$ 3.36
<b>Net asset value, Series B</b>	\$ 29,976,778	\$ 15,687,588
<b>Units outstanding, Series B (note 5)</b>	7,179,576	4,669,205
<b>Net asset value per unit, Series B</b>	\$ 4.18	\$ 3.36
<b>Net asset value, Series F</b>	\$ 820,455	\$ 149,088
<b>Units outstanding, Series F (note 5)</b>	196,503	44,374
<b>Net asset value per unit, Series F</b>	\$ 4.18	\$ 3.36

Approved on Behalf of Front Street Capital, as Manager, by:

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Gary P. Selke  
Chief Executive Officer

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Normand G. Lamarche  
Chief Financial Officer

## FRONT STREET SMALL CAP CANADIAN FUND

Statements of Operations  
Years Ended December 31, 2004 and 2003

	2004	2003
<b>Investment income</b>		
Interest	\$ 13,745	\$ 9,629
Dividends	67,536	21,418
	81,281	31,047
<b>Expenses</b>		
General and administrative	101,807	34,631
Goods and services tax	110,120	90,954
Management fees (notes 6 and 10)	549,256	223,947
Performance fees (notes 6 and 10)	732,987	943,063
Professional fees	130,995	123,423
Trustee fees	61,208	27,819
	1,686,373	1,443,837
<b>Net investment loss for the year</b>	<b>(1,605,092)</b>	<b>(1,412,790)</b>
<b>Realized and unrealized gain on investments</b>		
Realized gain on sale of investments (note 7)	4,091,899	3,184,062
Change in unrealized appreciation of value of investments	4,109,341	3,961,585
<b>Net gain on investments for the year</b>	<b>8,201,240</b>	<b>7,145,647</b>
<b>Increase in net assets from operations for the year</b>	<b>\$ 6,596,148</b>	<b>\$ 5,732,857</b>
<b>Earnings per unit:</b>		
<b>Series A</b>	<b>\$ 0.86</b>	<b>\$ 1.30</b>
<b>Series B</b>	<b>\$ 0.86</b>	<b>\$ 1.30</b>
<b>Series F</b>	<b>\$ 0.86</b>	<b>\$ 1.30</b>

## FRONT STREET SMALL CAP CANADIAN FUND

Statements of Changes in Net Assets  
Years Ended December 31, 2004 and 2003

	2004	2003
<b>Increase in net assets resulting from operations</b>	\$ 6,596,148	\$ 5,732,857
<b>Capital unit transactions</b>		
Issuance of units		
Series A	5,037,477	2,179,527
Series B	14,167,617	13,446,536
Series F	564,511	166,413
	19,769,605	15,792,476
Redemption of units		
Series A	(422,012)	(37,622)
Series B	(4,976,175)	(10,804,777)
Series F	(29,731)	(35,020)
	(5,427,918)	(10,877,419)
<b>Increase in net assets for the year</b>	20,937,835	10,647,914
<b>Net assets, beginning of year</b>	18,412,717	7,764,803
<b>Net assets, end of year</b>	\$ 39,350,552	\$ 18,412,717

## FRONT STREET SMALL CAP CANADIAN FUND

Statement of Portfolio Investments  
December 31, 2004

Quantity	Name of Company	Cost	Market Value
<b>Oil and Gas (46.7%)</b>			
100,000	Atlas Energy Ltd.	\$ 297,000	\$ 340,000
17,900	Calfrac Well Services Ltd.	277,450	845,775
231,900	Clear Energy Inc.	916,957	1,252,260
75,000	Compton Petroleum Corporation	379,800	813,750
190,000	Daylight Energy Trust	756,149	1,824,000
90,000	Deer Creek Energy Limited	725,700	832,500
255,800	Drillers Technology Corp.	346,708	332,540
5,000	Duvernay Oil Corp.	78,918	97,400
95,000	Midnight Oil Exploration Ltd.	378,074	323,000
188,900	NQL Drilling Tools Inc.	176,149	294,684
50,000	OPTI Canada Inc.	1,100,000	971,500
112,100	Real Resources, Inc.	508,598	1,327,264
261,430	Rider Resources Ltd.	1,127,487	2,222,155
103,200	Savanna Energy Services Corp.	1,103,351	1,772,976
283,000	Saxon Energy Services Inc.	849,000	1,273,500
45,000	ShawCor Ltd.	679,800	540,450
635,800	St. Jude Resources Ltd.	1,093,255	1,087,217
100,000	St. Jude Resources Ltd. (Warrants)	1	1
75,000	Thunder Energy Inc.	534,862	562,500
19,500	TriLoch Resources Inc.	56,550	53,625
100,000	West Energy Ltd.	427,000	572,000
		11,812,809	17,339,097
<b>Metals &amp; Minerals (28.8%)</b>			
436,000	Amerigo Resources Ltd.	621,862	841,480
98,500	Aur Resources Inc.	642,194	628,430
3,450,000	Bell Coast Capital Corporation	586,500	1,069,500
1,614,285	Breakwater Resources, Ltd.	740,000	920,141
300,000	Cabo Mining Enterprises Corporation	249,000	261,000
150,000	Cabo Mining Enterprises Corporation (Warrants)	1	1
429,000	Constellation Copper Corporation	366,795	296,010
400,000	Dynatec Corporation	500,000	440,000
200,000	Endeavour Mining Capital Corp.	646,400	660,000
50,000	Endeavour Mining Capital Corp. (Warrants)	1	1
1,692,500	EuroZinc Mining Corporation	1,208,257	1,184,750
12,950	Flint Energy Services Ltd.	294,719	278,425
194,600	General Minerals Corporation	399,685	272,440
428,571	Golden Patriot Mining Inc. (Units)	150,000	150,000
65,000	LionOre Mining International Ltd.	409,959	445,900
171,200	Northern Orion Resources Inc.	561,536	597,488
76,700	Pine Valley Mining Corporation	249,650	528,463
437,620	Silver Wheaton Corporation	925,001	1,662,955
250,000	Silver Wheaton Corporation (Warrants)	1	82,500
471,000	Southern Cross Resources Inc.	194,097	287,310
22,500	Tenke Mining Corp.	78,975	87,975
		8,824,633	10,694,769

# FRONT STREET SMALL CAP CANADIAN FUND

Statement of Portfolio Investments  
December 31, 2004

Quantity	Name of Company	Cost	Market Value
<b>Gold &amp; Precious Minerals (15.1%)</b>			
65,000	Capstone Gold Corp.	\$ 56,576	\$ 76,700
345,400	Entrée Gold Inc.	447,844	500,830
125,000	Entrée Gold Inc. (Warrants)	1	13,750
400,000	Golden China Inc. (Special Warrants)	400,000	400,000
325,000	Guyana Goldfields Inc.	531,400	988,000
166,667	Guyana Goldfields Inc. (Warrants)	1	390,001
50,000	Linear Gold Corporation	421,439	517,500
849,700	Peru Copper Inc.	1,270,348	1,189,580
152,800	Sherritt International Corporation	886,826	1,518,832
		4,014,435	5,595,193
<b>Technology (6.2%)</b>			
77,000	Digital Dispatch Systems Inc.	462,000	304,150
330,000	RDM Corporation	604,623	376,200
175,000	Rutter Inc.	299,750	227,500
75,000	Rutter Inc. (Warrants)	1	1
100,000	Vanguard Response Systems Inc.	520,230	505,000
195,700	The Westaim Corporation	699,217	596,885
260,000	Wireless Matrix Corporation	522,674	150,800
8,200	Workbrain Corporation	129,053	141,367
		3,237,548	2,301,903
<b>Utilities (2.5%)</b>			
813,500	MAXIM Power Corp.	393,168	300,995
620,013	Ozz Corporation	488,570	620,012
51,926	Ozz Corporation (Warrants)	1	1
		881,739	921,008
<b>Financial Services (0.7%)</b>			
15,000	GMP Capital Corp.	165,000	296,250
		\$ 28,936,164	\$ 37,148,220

# FRONT STREET SMALL CAP CANADIAN FUND

Notes to Financial Statements  
December 31, 2004 and 2003

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## 1. About 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 (the "Fund Manager").

## 2. Change in Accounting Policy

In fiscal 2004, the Fund changed its accounting policy to account for investment transactions from a trade date basis to a trade date + 1 basis. The change in accounting policy has been applied retroactively and had no effect on investments at market value or cost, net assets representing unitholders' equity or net asset value per unit, Series A, B or F at December 31, 2003.

## 3. Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund.

### (a) Valuation of Investments

- i) Investments listed on a recognized exchange ("public companies") are valued at the closing sale price for the day on which the Net Asset Value of the Fund is being determined, or if such exchange is not open for trading on that date, then on the last previous date on which such exchange was open for trading.
- ii) Any investment for which a market quotation is not readily available ("private companies") shall be valued at its fair market value as determined by the Fund Manager.
- iii) Investments which are restricted as to transferability are valued at the market 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 the investments.



# FRONT STREET SMALL CAP CANADIAN FUND

Notes to Financial Statements  
December 31, 2004 and 2003

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## 3. Significant Accounting Policies (Cont'd)

### (b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit, commercial paper, bankers' acceptances, and treasury bills with a term to maturity of less than three months from the date of purchase.

### (c) Investment Transactions and Income Recognition

Investment transactions are accounted for on the trade date + 1 basis and realized gains and losses from such transactions are calculated on an average cost basis. The accrual method is used to record income and expenses.

### (d) Generally Accepted Accounting Principles

In October 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1100, "Generally Accepted Accounting Principles" of the CICA *Handbook – Accounting*, which establishes standards for financial reporting and applies to all entities, with the exception of rate-regulated operations.

This section primarily impacts the disclosure of an investment fund's financial statements, and accordingly, has no impact on the valuation of a fund or in the calculation of the net asset value per unit of a fund. For financial statement reporting purposes, earnings (loss) per unit is now included in the statements of operations in accordance with generally accepted accounting principles ("GAAP"). Certain disclosures previously considered GAAP by virtue of general practice in the investment funds industry are not considered GAAP for purposes of inclusion in the funds' financial statements. As a result, financial information including certain performance measurements are now presented and defined in a separate report, Financial Highlights. These measures are considered important from an investor's perspective in assessing fund performance and are included for information purposes. They are not substitutions for GAAP measures, and accordingly, are not included as part of the financial statements of the Fund.

### (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, no provision for income taxes is required in the accompanying financial statements.

### (f) 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 Financial Statements  
December 31, 2004 and 2003

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## 3. Significant Accounting Policies (Cont'd)

### (g) Earnings (Loss) Per Unit

Earnings (loss) per unit is 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) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

## 4. Financial Instruments

The Fund's financial instruments consist of investments, cash and cash equivalents, subscriptions receivable, dividends and interest receivable, amounts due from broker, accounts payable and accrued liabilities, management and performance fees payable, and redemptions payable. It is management's opinion that the Fund is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

## 5. Units Authorized 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 units 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.

## FRONT STREET SMALL CAP CANADIAN FUND

Notes to Financial Statements  
December 31, 2004 and 2003

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### 5. Units Authorized and Outstanding (Cont'd)

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

	2004	2003
Units outstanding, beginning of the year:		
Series A	766,725	-
Series B	4,669,205	3,743,685
Series F	44,374	-
Units issued during the year:		
Series A	1,403,360	781,168
Series B	3,931,769	1,772,422
Series F	160,500	57,530
Units redeemed during the year:		
Series A	121,526	14,443
Series B	1,421,398	846,902
Series F	8,371	13,156
Units outstanding, end of year:		
Series A	2,048,559	766,725
Series B	7,179,576	4,669,205
Series F	196,503	44,374

### 6. Management and Performance Fees

The Fund Manager provides investment and management services to the Fund. The Fund pays the Fund Manager 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 legal and accounting fees, printing expenses, filing fees, custodial fees, and expenses of making distributions to unitholders.

The Fund pays the Fund Manager 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 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.

## FRONT STREET SMALL CAP CANADIAN FUND

Notes to Financial Statements  
December 31, 2004 and 2003

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### 7. Realized Gain on Sale of Investments

	2004	2003
Proceeds on sale of investments	\$ 25,745,499	\$ 19,046,845
Less cost of investments sold:		
Cost of investments owned at beginning of year	14,226,426	7,942,040
Investments purchased during the year	36,363,338	22,147,169
Cost of investments owned at end of year	(28,936,164)	(14,226,426)
Investments sold during the year	21,653,600	15,862,783
Realized gain on sale of investments for the year	\$ 4,091,899	\$ 3,184,062

### 8. Commissions

The commissions paid in connection with portfolio transactions for the year totalled \$239,248 (2003 - \$173,649).

### 9. Management Expense Ratio

The management expense ratio expresses the total of all expenses, fees and taxes (including GST and provincial capital taxes) of the Fund as a percentage of the Fund's average month-end net asset value of the relevant series of units during the year.

The management expense ratio for each series of units of the Fund for each of the years in the five-year period ended December 31, 2004 was as follows:

	Series A	Series B	Series F
2004	11.25%	11.25%	11.25%
2003	12.44%	12.44%	12.44%
2002	-	13.77%	-
2001	-	14.50%	-
2000	-	3.15%	-

The management expense ratio may vary from mutual fund to mutual fund.

# FRONT STREET SMALL CAP CANADIAN FUND

Notes to Financial Statements  
December 31, 2004 and 2003

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## 10. Related Party Transactions

Management fees of \$549,256 (2003 - \$223,947) were paid to the Fund Manager during the year (see note 6). Performance fees of \$732,987 (2003 - \$943,063) were also paid to the Fund Manager during the year (see note 6).

## 11. Income Taxes

The Fund has accumulated non-capital losses for income tax purposes of approximately \$689,555. The losses are available to reduce future taxable income and will expire as follows:

2008	\$ 269,745
2009	419,810
	<hr/>
	\$ 689,555

## 12. Statement of Portfolio Transactions

A Statement of Portfolio Transactions (unaudited) for the year ended December 31, 2004 will be provided, without charge, by writing to:

Front Street Capital  
87 Front Street East  
Suite 400  
Toronto, Ontario  
M5E 1B8