



**MANAGEMENT REPORT OF FUND PERFORMANCE AND  
FINANCIAL STATEMENTS**

OCTOBER 31, 2005

A FRONT STREET CAPITAL MUTUAL FUND

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**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE  
AS AT OCTOBER 31, 2005  
FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

*This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements for the investment fund. You can 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, 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 investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the investment fund.*

## **MANAGEMENT DISCUSSION OF FUND PERFORMANCE**

### **INVESTMENT OBJECTIVE 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 Funds 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 Funds. 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 shares 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 slightly adverse effect on the Fund's returns, as the Canadian dollar strengthened, relative to the U.S. dollar, over the one-year 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. While market volatility was high overall, the high 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 2005. Sector allocation to the materials (60%) and energy (37%) 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 which had high appreciation potential.

The Fund benefited from strong inflows of capital throughout the year. 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 benign interest rate environment, has led to steady economic growth, albeit at higher commodity price levels.



## RELATED PARTY TRANSACTIONS

The Fund is managed by Front Street Capital (“FSC”).

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.

## 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 SPECIAL OPPORTUNITIES CANADIAN FUND LTD. CLASS A

<b>Years ended October 31,</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>The Fund’s Net Asset Value (NAV) per Share</b>					
<b>Net asset value, beginning of year</b>	3.81	3.24	1.98	–	–
<b>Increase (decrease) from operations:</b>					
Total revenue	0.01	–	–	–	–
Total expenses	-0.25	-0.20	-0.51	–	–
Realized gains (losses)	0.89	1.11	0.47	–	–
Unrealized gains (losses)	1.05	-0.34	1.30	–	–
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>1.70</b>	<b>0.57</b>	<b>1.26</b>	<b>–</b>	<b>–</b>
<b>Distributions:</b>					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	-0.49	–	–	–	–
Return of capital	–	–	–	–	–
<b>Total distributions <sup>(2)</sup></b>	<b>-0.49</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net asset value, end of year</b>	<b>5.02</b>	<b>3.81</b>	<b>3.24</b>	<b>–</b>	<b>–</b>



<b>Years ended October 31,</b>	2005	2004	2003	2002	2001
	\$	\$	\$	\$	\$
<b>Ratios and Supplemental Data Class A</b>					
Net assets (000's) <sup>(3)</sup>	13,086	3,163	206	–	–
Number of shares outstanding	2,608,335	829,036	63,753	–	–
Management expense ratio <sup>(4)</sup>	5.56%	5.60%	24.11%	–	–
Management expense ratio before waivers or absorptions	5.56%	5.60%	24.11%	–	–
Portfolio turnover rate <sup>(5)</sup>	46%	169%	3%	–	–
Trading expense ratio <sup>(6)</sup>	0.52%	–%	–%	–	–

**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD. CLASS B**

<b>Years ended October 31,</b>	2005	2004	2003	2002	2001
	\$	\$	\$	\$	\$
<b>The Fund's Net Asset Value (NAV) per Share</b>					
<b>Net asset value, beginning of year</b>	3.81	3.24	1.41	1.37	1.75
<b>Increase (decrease) from operations:</b>					
Total revenue	0.01	–	–	–	–
Total expenses	-0.26	-0.20	-0.51	-0.07	-0.23
Realized gains (losses)	0.94	1.11	0.47	–	–
Unrealized gains (losses)	1.01	-0.34	1.87	0.11	0.17
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	1.70	0.57	1.83	0.04	-0.06
<b>Distributions:</b>					
From income (excluding dividends)					
From dividends	–	–	–	–	–
From capital gains	-0.49	–	-0.32	–	–
Return of capital	–	–	–	–	–
<b>Total distributions <sup>(2)</sup></b>	-0.49	–	–	–	-0.32
<b>Net asset value, end of year</b>	5.02	3.81	3.24	1.41	1.37
<b>Ratios and Supplemental Data Class B</b>					
Net assets (000's) <sup>(3)</sup>	77,803,004	38,916	27,003	10,078	4,183
Number of shares outstanding	15,507,923	10,201,392	8,344,445	7,144,686	3,053,308
Management expense ratio <sup>(4)</sup>	5.56%	5.60%	24.11%	4.86%	14.97%
Management expense ratio before waivers or absorptions	5.56%	5.60%	24.11%	4.86%	14.97%
Portfolio turnover rate <sup>(5)</sup>	46%	169%	3%	1%	1%
Trading expense ratio <sup>(6)</sup>	0.52%	–%	–%	–%	–%



**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD. CLASS F**

Years ended October 31,	2005	2004	2003	2002	2001
	\$	\$	\$	\$	\$
<b>The Fund's Net Asset Value (NAV) per Share</b>					
<b>Net asset value, beginning of year</b>	3.81	3.24	1.98	–	–
<b>Increase (decrease) from operations:</b>					
Total revenue	0.01	–	–	–	–
Total expenses	-0.26	-0.20	-0.51	–	–
Realized gains (losses)	0.94	1.11	0.47	–	–
Unrealized gains (losses)	1.03	-0.34	1.30	–	–
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>1.72</b>	<b>0.57</b>	<b>1.26</b>	<b>–</b>	<b>–</b>
<b>Distributions:</b>					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	-0.49	–	–	–	–
Return of capital	–	–	–	–	–
<b>Total distributions <sup>(2)</sup></b>	<b>-0.49</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net asset value, end of year</b>	<b>5.04</b>	<b>3.81</b>	<b>3.24</b>	<b>–</b>	<b>–</b>
<b>Ratios and Supplemental Data:</b>					
Net assets (000's) <sup>(3)</sup>	2,522	668	25	–	–
Number of shares outstanding	500,814	175,094	7,713	–	–
Management expense ratio <sup>(4)</sup>	5.98%	5.60%	24.11%	–	–
Management expense ratio before waivers or absorptions	5.98%	5.60%	24.11%	–	–
Portfolio turnover rate <sup>(5)</sup>	46%	169%	3%	–	–
Trading expense ratio <sup>(6)</sup>	0.52%	–%	–%	–	–

- (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.



## PAST PERFORMANCE

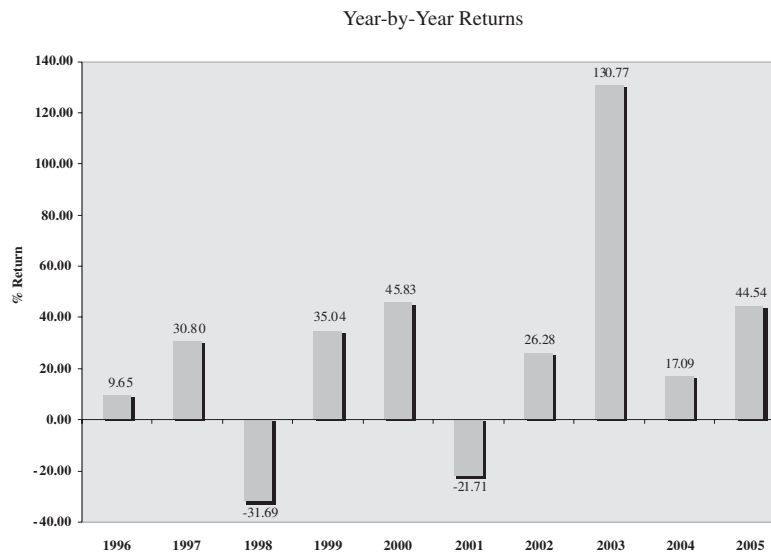
The past performance of the Fund is set out below and includes year-by-year returns and annual compound returns.

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*

The bar chart below shows the Fund's annual total return in each of the past 10 financial years. It illustrates how the Fund's performance has changed from year to year. This chart shows, in percentage terms, how much an investment made the first day of each financial year would have grown or decreased by the last day of each financial year.



### *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 October 31, 2005, 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 Special Opportunities Canadian Fund Ltd. <sup>(1)</sup>	22.24%	31.02%	57.48%	44.54%
S&P/TSX Composite Index	8.82%	1.50%	18.44%	17.05%

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

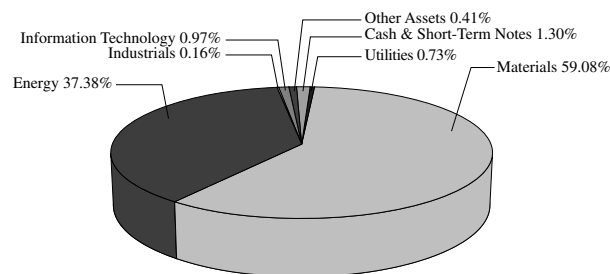




### ***Annual Compound Returns (cont'd)***

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 OCTOBER 31, 2005**



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

Profico Energy Management	5.8%
Western Prospector Group Ltd.	5.8%
Duvernay Oil Corp.	5.6%
IntlRoyalty Corporation	4.5%
EuroZinc Mining Corporation	4.2%
Balloch Resources Ltd.	3.7%
Major Drilling Group International	3.6%
Shore Gold Inc.	3.6%
Red Back Mining Inc.	3.1%
Cyries Energy Inc.	2.3%
East Asia Minerals Corporation	2.2%
Centurion Energy International	2.1%
Entree Gold Inc.	2.1%
Serica Energy PLC	2.1%
Amerigo Resources Ltd.	1.8%
Valiant Energy Inc.	1.8%
International Sovereign Energy	1.6%
Southern Cross Resources Inc.	1.6%
Falcon Oil & Gas Ltd.	1.5%
Storm Exploration Inc.	1.5%
Southern Arc Minerals Inc.	1.4%
NEMI Northern Energy & Mining	1.4%
UrAsia Energy (BVI) Ltd.	1.3%
Savanna Energy Services Corp.	1.3%
Stratic Energy Corporation	1.3%

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 Manager.



**FINANCIAL STATEMENTS**

**FRONT STREET  
SPECIAL OPPORTUNITIES  
CANADIAN FUND LTD.**

**OCTOBER 31, 2005 AND 2004**

*(Amended – See Note 13)*



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **Front Street Special Opportunities Canadian Fund Ltd.** are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles using information available to January 9, 2006 and management's best estimates and judgments.

Management has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

The Board of Directors discharges its duties relating to the financial statements primarily through its Audit Committee, which comprises members of the Board of Directors. The Audit Committee meets with management and the external auditors to review both the financial statements and the results of the audit examination. The external auditors have unrestricted access to the Audit Committee. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

These financial statements have been approved by the Board of Directors and have been audited by Ernst & Young LLP, Chartered Accountants, on behalf of the shareholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

Normand G. Lamarche  
*Chief Executive Officer*  
*Front Street Special Opportunities Canadian Fund Ltd.*

Gary P. Selke  
*Chief Financial Officer*  
*Front Street Special Opportunities Canadian Fund Ltd.*

Dated: January 9, 2006



## AUDITORS' REPORT

To the Shareholders of  
**Front Street Special Opportunities Canadian Fund Ltd.**

We have audited the accompanying statement of net assets of **Front Street Special Opportunities Canadian Fund Ltd.** as at October 31, 2005, the statements of retained earnings, operations and changes in net assets for the year then ended and the statement of portfolio investments as at October 31, 2005. 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 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 net assets of the Fund as at October 31, 2005, the results of its operations and the changes in its net assets for the year then ended, and the portfolio investments as at October 31, 2005, in accordance with Canadian generally accepted accounting principles.

The financial statements as at October 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated December 20, 2004.

Vancouver, Canada,  
January 9, 2006, except as to Note 13 which is as of March 2, 2006.

“Ernst & Young LLP”  
*Chartered Accountants*

**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

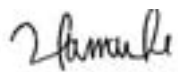
**STATEMENTS OF NET ASSETS**

**AS AT OCTOBER 31**

	2005 \$	2004 \$
<b>Assets</b>		
Investments, at fair value (cost – \$73,733,082; 2004 – \$33,606,833)	91,806,458	38,776,295
Cash and cash equivalents	1,217,731	1,983,810
Accounts receivable relating to securities issued	1,093,498	1,036,941
Accounts receivable relating to portfolio assets sold	–	1,948,196
Accrued incentive arrangements and performance compensation	–	19,425
Amounts receivable relating to accrued income	605	–
	<u>94,118,292</u>	<u>43,764,667</u>
<b>Liabilities</b>		
Accrued expenses [note 9]	152,633	129,590
Liabilities for securities redeemed	130,871	350,074
Liabilities for portfolio assets purchased	424,000	538,000
	<u>707,504</u>	<u>1,017,664</u>
<b>Net assets representing shareholders' equity</b>	<u>93,410,788</u>	<u>42,747,003</u>
<b>Shareholders' equity represented by:</b>		
Share capital	57,461,108	24,505,335
Retained earnings	17,876,304	13,072,206
Unrealized appreciation of investments	18,073,376	5,169,462
<b>Total representing net assets applicable to outstanding shares</b>	<u>93,410,788</u>	<u>42,747,003</u>
<b>Net assets applicable to outstanding shares allocated as follows:</b>		
Net asset value, Series A	13,085,976	3,162,619
Shares outstanding, Series A [note 4]	2,608,335	829,036
Net asset value per share, Series A	5.02	3.81
Net asset value, Series B	77,803,004	38,916,432
Shares outstanding, Series B [note 4]	15,507,923	10,201,392
Net asset value per share, Series B	5.02	3.81
Net asset value, Series F	2,521,808	667,952
Shares outstanding, Series F [note 4]	500,814	175,094
Net asset value per share, Series F	5.04	3.81

See accompanying notes

On behalf of the Board:



Normand G. Lamarche



Gary P. Selke

**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**STATEMENTS OF RETAINED EARNINGS**

**YEARS ENDED OCTOBER 31**

	2005 \$	2004 \$
<b>Retained earnings, beginning of year</b>	13,072,206	3,592,206
Investment loss for the year	(3,993,413)	(2,079,903)
Realized gain on sale of investments [note 6]	14,679,145	11,559,903
Distributions to unitholders	(5,881,634)	–
<b>Retained earnings, end of year</b>	<b>17,876,304</b>	<b>13,072,206</b>

See accompanying notes



**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**STATEMENTS OF OPERATIONS**

**YEARS ENDED OCTOBER 31**

	2005 \$	2004 \$
<b>Investment income</b>		
Dividend revenue	79,237	–
Interest revenue	62,397	4,954
	<u>141,634</u>	<u>4,954</u>
<b>Expenses</b>		
Management fees [notes 5 and 9]	1,498,530	810,897
Performance fees [notes 5 and 9]	2,343,414	879,695
Audit fees	26,750	24,610
Directors' fees	11,451	–
Custodial fees	77,040	92,397
Legal fees	53,365	116,334
Securityholder reporting costs	26,049	–
Administration fees	94,916	160,924
Other expenses	3,532	–
	<u>4,135,047</u>	<u>2,084,857</u>
Investment loss for the year	(3,993,413)	(2,079,903)
<b>Realized and unrealized gain on investments</b>		
Realized gain on sale of investments [note 6]	14,679,145	11,559,903
Change in unrealized appreciation of value of investments	12,903,914	(4,668,729)
Net gain on investments for the year	<u>27,583,059</u>	<u>6,891,174</u>
<b>Increase in net assets from operations for the year</b>	<u>23,589,646</u>	<u>4,811,271</u>
<b>Net assets from operations applicable to outstanding shares allocated as follows:</b>		
Increase in net assets from operations, Series A	2,611,929	116,684
Increase in net assets from operations per share, Series A	1.43	0.22
Increase in net assets from operations, Series B	20,273,661	4,668,397
Increase in net assets from operations per share, Series B	1.51	0.48
Increase in net assets from operations, Series F	704,056	26,190
Increase in net assets from operations per share, Series F	1.70	0.22

See accompanying notes



FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

**STATEMENTS OF CHANGES IN NET ASSETS**

YEARS ENDED OCTOBER 31

Class A	2005 \$	2004 \$
<b>Increase in net assets from operations</b>	2,611,929	116,684
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	(457,501)	–
<b>Unitholder transactions</b>		
Proceeds from the issuance of units	8,689,887	3,103,540
Aggregate amounts paid on redemption of securities	(1,371,782)	(263,907)
Securities issued on reinvestment of distributions	450,824	–
	7,768,929	2,839,633
<b>Increase in net assets for the year</b>	9,923,357	2,956,317
Net assets, beginning of year	3,162,619	206,302
<b>Net assets, end of year</b>	13,085,976	3,162,619
	2005 \$	2004 \$
<b>Increase in net assets from operations</b>	20,273,661	4,668,397
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	(5,258,424)	–
<b>Unitholder transactions</b>		
Proceeds from the issuance of units	40,782,097	24,348,087
Aggregate amounts paid on redemption of securities	(22,118,343)	(17,102,116)
Securities issued on reinvestment of distributions	5,207,581	–
	23,871,335	7,245,971
<b>Increase in net assets for the year</b>	38,886,572	11,914,368
Net assets, beginning of year	38,916,432	27,002,064
<b>Net assets, end of year</b>	77,803,004	38,916,432

See accompanying notes





FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

**STATEMENTS OF CHANGES IN NET ASSETS (CONT'D)**

YEARS ENDED OCTOBER 31

<b>Class F</b>	2005 \$	2004 \$
<b>Increase in net assets from operations</b>	704,056	26,190
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	(165,709)	–
<b>Unitholder transactions</b>		
Proceeds from the issuance of units	2,903,496	740,610
Aggregate amounts paid on redemption of securities	(1,702,988)	(123,806)
Securities issued on reinvestment of distributions	115,001	–
	1,315,509	616,804
<b>Increase in net assets for the year</b>	1,853,856	642,994
Net assets, beginning of year	667,952	24,958
<b>Net assets, end of year</b>	2,521,808	667,952
	2005 \$	2004 \$
<b>Total</b>		
<b>Increase in net assets from operations</b>	23,589,646	4,811,271
<b>Distributions to unitholders</b>		
From realized gains on portfolio assets sold	(5,881,634)	–
<b>Unitholder transactions</b>		
Proceeds from the issuance of units	52,375,480	28,192,237
Aggregate amounts paid on redemption of securities	(25,193,113)	(17,489,829)
Securities issued on reinvestment of distributions	5,773,406	–
	32,955,773	10,702,408
<b>Increase in net assets for the year</b>	50,663,785	15,513,679
Net assets, beginning of year	42,747,003	27,233,324
<b>Net assets, end of year</b>	93,410,788	42,747,003

See accompanying notes

**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**STATEMENT OF PORTFOLIO INVESTMENTS**

**AS AT OCTOBER 31, 2005**

Quantity	Name of Company	Cost \$	Fair Value \$
	<b>Materials (60.1%)</b>		
770,000	Adastra Mineral Inc.	742,220	924,000
898,233	Amerigo Resources Ltd.	1,174,270	1,679,695
700,000	Ascendant Copper Corporation	700,000	700,000
379,000	Asia Gold Corp.	1,225,790	511,650
1,250,000	Balloch Resources Ltd.	1,562,500	3,404,000
250,000	Bema Gold Corporation	715,000	742,500
823,867	bcMetals Corporation	878,432	403,693
62,500	bcMetals Corporation (warrants)	1	1
50,000	bcMetals Corporation (warrants)	1	1
95,000	Bolivar Gold Corp. (warrants)	1	14,250
127,281	BrazMin Corp.	159,101	140,009
350,000	BrazMin Corp. (warrants)	1	1
430,700	Capstone Gold Corp.	336,293	409,165
1,112,500	Cline Mining Corporation	445,000	878,875
556,250	Cline Mining Corporation (warrants)	1	161,312
200,000	Desert Sun Mining Corp.	460,600	454,000
600,000	Dynatec Corporation	750,000	900,000
50,000	East Asia Minerals Corporation	68,000	55,000
2,000,000	East Asia Minerals Corporation (subscription agmt)	2,500,000	2,024,000
1,150,000	Entrée Gold Inc.	1,389,850	1,978,000
715,000	Everton Resources Inc.	250,250	250,250
357,500	Everton Resources Inc. (warrants)	1	1
300,000	First Uranium Corporation (units)	300,000	300,000
800,000	Fortress Minerals Corp.	497,340	552,000
1,080,000	Golden China Resources Corporation	450,000	302,400
225,000	Golden China Resources Corporation (warrants)	1	1
200,000	Grande Cache Gold Corporation	1,466,000	744,000
225,000	Guyana Goldfields Inc.	744,275	740,250
200,000	High Plains Uranium Inc. (special warrants)	1,205,800	1,179,844
1,080,000	International Royalty Corporation	4,646,862	4,212,000
70,000	Lundin Mining Corporation	842,100	875,000
200,000	Major Drilling Group International Inc.	3,306,000	3,336,000
100,000	Maxy Gold Corp. (warrants)	1	1
625,000	Metalex Ventures Ltd.	1,293,750	425,000
149,800	Minefinders Corporation Ltd.	1,450,064	880,824
450,000	Miranda Gold Corporation	405,000	480,240
225,000	Miranda Gold Corporation (warrants)	1	1

**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

**AS AT OCTOBER 31, 2005**

Quantity	Name of Company	Cost \$	Fair Value \$
426,000	Moto Goldmines Limited	585,990	1,248,910
99,000	Moto Goldmines Limited (subscription receipts)	267,300	280,367
240,000	Moto Goldmines Limited (units)	271,860	679,680
105,000	Moto Goldmines Limited (warrants)	1	162,750
75,000	Moto Goldmines Limited (warrants)	1	116,250
33,000	Moto Goldmines Limited (warrants)	1	1
724,200	NEMI Northern Energy & Mining Inc.	1,321,417	1,303,560
700,000	NEMI Northern Energy & Mining Inc. (warrants)	1	1
37,900	New Gold Inc.	173,203	265,300
750,000	Northgate Minerals Corporation	1,115,450	1,147,500
800,000	Oriel Resources PLC	968,080	400,000
781,250	PetroWorld Corp.	617,187	570,706
197,500	Quadra Mining Ltd.	1,081,170	987,500
1,438,000	Red Back Mining Inc.	3,076,050	2,876,000
1,100,000	Revett Minerals Inc.	944,000	616,000
1,277,000	Rubicon Minerals Corp.	830,050	932,210
638,500	Rubicon Minerals Corp. (warrants)	1	1
463,727	Shore Gold Inc.	1,398,089	3,329,559
2,500,000	Simberi Gold Corporation	625,000	112,500
333,333	Southern Arc Minerals Inc.	600,000	1,333,333
1,225,000	Southern Cross Resources Inc.	1,512,875	1,457,750
70,400	Storonoway Diamond Corporation	71,263	60,544
72,000	Toquima Minerals Corporation	25,200	25,200
206,600	UEX Corporation	801,362	731,364
1,134,100	Western Prospector Group Ltd.	2,658,646	5,386,975
200,000	Western Prospector Group Ltd. (warrants)	1	630,000
368,250	Wolfden Resources Inc.	972,605	872,752
		<b>49,881,309</b>	<b>55,184,677</b>
	<b>Energy (38.0%)</b>		
150,000	Alberta Clipper Energy Inc.	700,500	615,000
3,750	Arsenal Energy Inc.	1,500	5,925
400,000	Candax Energy Inc. (special warrants)	100,000	220,000
194,000	Centurion Energy International Inc.	2,485,349	1,998,200
48,148	Cordero Energy Inc.	125,900	269,629
145,500	Cyries Energy Inc.	1,078,280	2,156,310
133,900	Duvernay Oil Corp.	2,274,108	5,242,185
4,400,000	EuroZinc Mining Corporation	2,452,312	3,960,000

FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

**STATEMENT OF PORTFOLIO INVESTMENTS (CONT'D)**

AS AT OCTOBER 31, 2005

Quantity	Name of Company	Cost \$	Fair Value \$
2,580,000	Falcon Oil & Gas Ltd.	778,800	1,419,000
586,000	Grove Energy Ltd.	669,153	339,880
400,000	International Sovereign Energy Corp.	768,863	1,520,000
60,000	Mahalo Energy Ltd.	150,000	150,000
131,600	Midnight Exploration Ltd.	456,061	501,396
780,000	Mitra Energy Limited	306,614	297,617
460,000	Norwood Resources Ltd.	685,759	483,000
43,500	Profico Energy Management Ltd.	935,468	5,437,500
43,500	Range Royalty LP Class B	65,032	253,605
50,200	Savanna Energy Services Corp.	379,734	1,217,350
983,200	Serica Energy PLC	1,040,598	1,917,240
256,900	Storm Exploration Inc.	1,523,417	1,379,553
1,596,036	Stratic Energy Corporation	1,167,094	1,197,027
962,500	TAG Oil Ltd. (subscription receipts)	1,251,250	850,465
850,000	UrAsia Energy (BVI) Ltd.	1,275,000	1,249,500
402,241	Valiant Energy Inc.	1,382,849	1,657,233
113,248	Zenas Energy Corporation	286,862	583,227
		22,340,503	34,920,842
	<b>Information Technology (1.0%)</b>		
1,000,000	General Strategies Ltd.	500,000	500,000
960,000	Peer 1 Network Enterprises, Inc.	320,000	384,000
		820,000	884,000
	<b>Utilities (0.7%)</b>		
671,939	Ozz Corporation	488,570	671,939
		488,570	671,939
	<b>Industrial (0.2%)</b>		
1,000,000	Environmental Applied Research Tech. House Corp.	202,700	145,000
		202,700	145,000
		73,733,082	91,806,458

See accompanying notes



**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2005 AND 2004**

**1. ABOUT THE FUND**

Front Street Special Opportunities Canadian Fund Ltd. (the “Fund”) is an open-ended mutual fund corporation which was formed under the Canada Business Corporations Act pursuant to the registration of articles of amalgamation effective April 12, 1990. The Fund’s principal investment objective is capital appreciation primarily through investments in publicly traded equity securities including those of junior issuers.

The Fund is managed by Front Street Capital (the “Fund Manager”).

**2. SIGNIFICANT ACCOUNTING POLICIES**

**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 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 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 the investments.

**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.

**Investment transactions and income recognition**

Investment transactions are accounted for on a 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.



**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2005 AND 2004**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'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 share of a fund. For financial statement reporting purposes, earnings (loss) per share 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.

**Income taxes**

The Fund is subject to taxation on its income at rates determined by legislation in effect from time to time. The Fund is a mutual fund corporation as defined by the Income Tax Act (Canada). The Fund may realize refundable taxes on hand by payment of taxable dividends and capital gains dividends or on the redemption of shares.

It is the policy of the Fund to distribute each fiscal period an amount sufficient to reduce income taxes payable by the Fund.

**Net asset value per share**

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

**Earnings (loss) per share**

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



**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2005 AND 2004**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP 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.

**3. FINANCIAL INSTRUMENTS**

The Fund's financial instruments consist of investments, cash and cash equivalents, accounts receivable relating to securities issued, accounts receivable relating to portfolio assets sold, accrued incentive arrangements and performance compensation, amounts receivable relating to accrued income, accrued expenses, liabilities for securities redeemed, and liabilities for portfolio assets purchased. 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.

**4. SHARES AUTHORIZED AND OUTSTANDING**

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

**Series A shares**

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

**Series B shares**

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

**Series F shares**

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

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



**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2005 AND 2004**

**4. SHARES AUTHORIZED AND OUTSTANDING (CONT'D.)**

	2005	2004
Shares outstanding, beginning of the year:		
Series A	829,036	63,753
Series B	10,201,392	8,344,445
Series F	175,094	7,713
Shares issued during the year:		
Series A	1,878,847	837,158
Series B	9,092,591	6,612,307
Series F	658,799	202,398
Shares reinvested during the year:		
Series A	118,354	–
Series B	1,367,142	–
Series F	30,191	–
Shares redeemed during the year:		
Series A	217,902	71,875
Series B	5,153,202	4,755,360
Series F	363,270	35,017
Shares outstanding, end of year:		
Series A	2,608,335	829,036
Series B	15,507,923	10,201,392
Series F	500,814	175,094

**5. MANAGEMENT AND PERFORMANCE FEES**

The Fund Manager provides investment and management services to the Fund. Until April 2005, the Fund paid 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. Commencing in May 2005, the Fund began to pay 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 for Series A and B shares; the Fund commenced paying the Fund Manager 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 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 shareholders.





**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2005 AND 2004**

**5. MANAGEMENT AND PERFORMANCE FEES (CONT'D)**

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 share multiplied by the number of shares outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per share 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 share or the adjusted actual net asset value per share, both with respect to the previous quarter in which a performance fee was payable.

**6. REALIZED GAIN ON SALE OF INVESTMENTS**

	2005 \$	2004 \$
Proceeds on sale of investments	46,049,509	82,443,721
Less cost of investments sold:		
Cost of investments owned at beginning of year	33,606,833	17,041,203
Investments purchased during the year	71,496,613	87,449,448
Cost of investments owned at end of year	(73,733,082)	(33,606,833)
Investments sold during the year	31,370,364	70,883,818
Realized gain on sale of investments for the year	14,679,145	11,559,903

**7. COMMISSIONS**

The commissions paid in connection with portfolio transactions for the year totalled \$361,055 [2004 - \$561,520].

**8. MANAGEMENT EXPENSE RATIO**

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

The management expense ratio for each series of share capital of the Fund for each of the years in the five-year period ended October 31, 2005 was as follows:



**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2005 AND 2004**

**8. MANAGEMENT EXPENSE RATIO (CONT'D)**

	Series A	Series B	Series F
2005	5.56%	5.56%	5.98%
2004	5.60%	5.60%	5.60%
2003	24.11%	24.11%	24.11%
2002	—	4.86%	—
2001	—	14.97%	—

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

**9. RELATED PARTY TRANSACTIONS**

Management fees of \$1,498,530 [2004 - \$810,897] were paid to the Fund Manager during the year [see note 5]. Performance fees of \$2,343,414 [2004 - \$879,695] were also paid to the Fund Manager during the year [see note 5]. Included in accrued expenses are \$148,143 [2004 - \$71,372] of management fees payable to the Fund Manager.

**10. SUBSEQUENT EVENT**

On December 30, 2005 the Fund declared and paid a capital gains dividend in the amount of \$0.0038749 per share to the shareholders of record on December 29, 2005. Except for those shareholders who have requested that any dividends be paid in cash, the dividend was paid in the form of additional shares at the post-dividend net asset value per share on December 30, 2005.

**11. COMPARATIVE FINANCIAL STATEMENTS**

Certain 2004 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2005 in accordance with National Instrument 81-106, "Investment Fund Continuous Disclosure".

**12. STATEMENT OF PORTFOLIO TRANSACTIONS**

A Statement of Portfolio Transactions (unaudited) for the year ended October 31, 2005 will be provided, without charge, by writing to:

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

**13. STATEMENT OF PORTFOLIO INVESTMENTS**

Certain of the figures contained within the Statement of Portfolio Investments were reclassified to correct for typographical errors.





## **FRONT STREET CAPITAL**

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