



**FRONT STREET**

**Special Opportunities Canadian Fund**

**FRONT STREET SPECIAL OPPORTUNITIES CANADIAN  
FUND**

**A FRONT STREET CAPITAL MUTUAL FUND**

**Management Report of Fund Performance**

**and**

**Annual Financial Statements**

October 31, 2007



## **Interim Management Report of Fund Performance As at October 31, 2007**

### **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, 33 Yonge Street, Suite 600, Toronto, Ontario M5E 1G4 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.*

### **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 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 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 in the Simplified Prospectus of the Fund dated June 15, 2007.

Currency risk proved to have an effect on the Fund’s returns, as the Canadian dollar traded in a relatively narrow range, relative to the US 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 US Federal Reserve Board signaled it was raising rates threatening a slowdown in US 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 US 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.

Credit risk was another factor this year. Specifically, a weakening housing market in the United States finally became a crisis in August of 2007 as assets backed by subprime mortgages collapsed, impacting global debt and equity markets. As the autumn progressed, the vicious circle caused by deteriorating credit impacted commercial banks -- holders of bonds and other securities backed by home loans. As a result, lending has been curtailed and the cost of money is higher. Although the Fund did not hold the debt in question, equity markets have been weak due to the general uncertainty and the fact that global growth could decelerate into 2008 as liquidity dries up.

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 the second half of fiscal 2007. Sector allocation to the materials and energy sectors significantly contributed to the returns for the year to date. 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.

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. Credit risk did not impact the Fund directly, other than the impact of the overall market weakness.

### **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. Despite this, and even with a changing interest rate and credit environment, economic growth has continued unabated.

### **Adoption of New Accounting Standards**

Effective November 1, 2006, the Fund has adopted Section 3855, "Financial Instruments – Recognition and Measurement" of the CICA Handbook – Accounting, issued by the Canadian Institute of Chartered Accountants ("CICA"), which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Additionally, Section 14.2 of National Instrument 81-106 ("NI 81-106"), issued by the Canadian Securities Administrators in 2005, requires the daily net asset value of an investment fund to be calculated in accordance with Canadian generally accepted accounting principles ("GAAP").

### **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 an Advisory Agreement to provide advisory services to the Fund.

As a result of providing investment advisory, FSIMI 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. For the year ended October 31, 2007, Tuscarora Capital Inc. received \$41,542 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 and year-to-date interim financial statements.

### FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD. SERIES A

FOR THE YEARS ENDED	October 31, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$
<b>The Fund's Net Assets (NAV) per Share</b>					
Net assets, beginning of year (7)	6.29	5.02	3.81	3.24	1.98
<b>Increase (decrease) from operations:</b>					
Total revenue	0.10	0.05	0.01	-	-
Total expenses	(0.20)	(0.39)	(0.25)	(0.20)	(0.51)
Realized gains (losses)	0.69	1.80	0.89	1.11	0.47
Unrealized gains (losses)	0.32	(0.47)	1.05	(0.34)	1.30
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>0.91</b>	<b>0.99</b>	<b>1.70</b>	<b>0.57</b>	<b>1.26</b>
<b>Distributions:</b>					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(0.75)	-	(0.49)	-	-
Return of capital	-	-	-	-	-
<b>Total distributions <sup>(2)</sup></b>	<b>(0.75)</b>	<b>-</b>	<b>(0.49)</b>	<b>-</b>	<b>-</b>
<b>Net assets, end of year (7)</b>	<b>6.76</b>	<b>6.34</b>	<b>5.02</b>	<b>3.81</b>	<b>3.24</b>
<b>Ratios and Supplemental Data Series A</b>					
Net assets (000's) <sup>(3)</sup>	50,120	27,102	13,086	3,163	206
Number of shares outstanding	7,412,200	4,274,228	2,608,335	829,036	63,753
Management expense ratio <sup>(4)</sup>	2.82%	6.37%	5.56%	5.60%	24.11%
Management expense ratio before waivers or absorptions	2.82%	6.37%	5.56%	5.60%	24.11%
Portfolio turnover rate <sup>(5)</sup>	57.94%	87.48%	46.00%	169.00%	3.00%
Trading expense ratio <sup>(6)</sup>	0.37%	0.62%	0.52%	-	-

### FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD. SERIES B

FOR THE YEARS ENDED	October 31, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$
<b>The Fund's Net Assets (NAV) per Share</b>					
Net assets, beginning of year (7)	6.29	5.02	3.81	3.24	1.41
<b>Increase (decrease) from operations:</b>					
Total revenue	0.09	0.05	0.01	-	-
Total expenses	(0.20)	(0.42)	(0.26)	(0.20)	(0.51)
Realized gains (losses)	0.83	1.76	0.94	1.11	0.47
Unrealized gains (losses)	0.38	(0.23)	1.01	(0.34)	1.87
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>1.10</b>	<b>1.16</b>	<b>1.70</b>	<b>0.57</b>	<b>1.83</b>

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

FOR THE YEARS ENDED	October 31, 2007	October 31 2006	October 31 2005	October 31 2004	October 31 2003
	\$	\$	\$	\$	\$
<b>Distributions:</b>					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(0.75)	-	(0.49)	-	(0.32)
Return of capital	-	-	-	-	-
<b>Total distributions</b> <sup>(2)</sup>	<b>(0.75)</b>	<b>-</b>	<b>(0.49)</b>	<b>-</b>	<b>(0.32)</b>
<b>Net assets, end of year (7)</b>	<b>6.76</b>	<b>6.34</b>	<b>5.02</b>	<b>3.81</b>	<b>3.24</b>
<b>Ratios and Supplemental Data Series B</b>					
Net assets (000's) <sup>(3)</sup>	139,647	116,451	77,803	38,916	27,003
Number of shares outstanding	20,652,090	18,365,319	15,507,923	10,201,392	8,344,445
Management expense ratio <sup>(4)</sup>	2.82%	6.84%	5.56%	5.60%	24.11%
Management expense ratio before waivers or absorptions	2.82%	6.84%	5.56%	5.60%	24.11%
Portfolio turnover rate <sup>(5)</sup>	57.94%	87.48%	46.00%	169.00%	3.00%
Trading expense ratio <sup>(6)</sup>	0.37%	0.62%	0.52%	-	-

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

FOR THE YEARS ENDED	October 31, 2007	October 31 2006	October 31 2005	October 31 2004	October 31 2003
	\$	\$	\$	\$	\$
<b>The Fund's Net Assets (NAV) per Share</b>					
Net assets, beginning of year (7)	6.36	5.04	3.81	3.24	1.98
<b>Increase (decrease) from operations:</b>					
Total revenue	0.09	0.05	0.01	-	-
Total expenses	(0.14)	(0.35)	(0.26)	(0.20)	(0.51)
Realized gains (losses)	0.80	1.79	0.94	1.11	0.47
Unrealized gains (losses)	0.38	(0.49)	1.03	(0.34)	1.30
<b>Total increase (decrease) from operations</b> <sup>(1)</sup>	<b>1.13</b>	<b>1.00</b>	<b>1.72</b>	<b>0.57</b>	<b>1.26</b>
<b>Distributions:</b>					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(0.75)	-	(0.49)	-	-
Return of capital	-	-	-	-	-
<b>Total distributions</b> <sup>(2)</sup>	<b>(0.75)</b>	<b>-</b>	<b>(0.49)</b>	<b>-</b>	<b>-</b>
<b>Net assets, end of year (7)</b>	<b>6.91</b>	<b>6.41</b>	<b>5.04</b>	<b>3.81</b>	<b>3.24</b>
<b>Ratios and Supplemental Data Series F</b>					
Net assets (000's) <sup>(3)</sup>	6,681	4,839	2,522	668	25
Number of shares outstanding	967,386	754,958	500,814	175,094	7,713
Management expense ratio <sup>(4)</sup>	1.88%	5.61%	5.98%	5.60%	24.11%
Management expense ratio before waivers or absorptions	1.88%	5.61%	5.98%	5.60%	24.11%
Portfolio turnover rate <sup>(5)</sup>	57.94%	87.48%	46.00%	169.00%	3.00%
Trading expense ratio <sup>(6)</sup>	0.37%	0.62%	0.52%	-	-

- (1) Net assets 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.
- (7) The relief granted by the Canadian securities regulatory authorities from complying with Section 3855 results in a difference between GAAP NAV and Transactional NAV due to the use of different valuation techniques for certain investments. We have adopted the provisions of Section 3855 retroactively without restatement or prior periods. Accordingly, the beginning of period net assets for the current period is adjusted.

### 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:

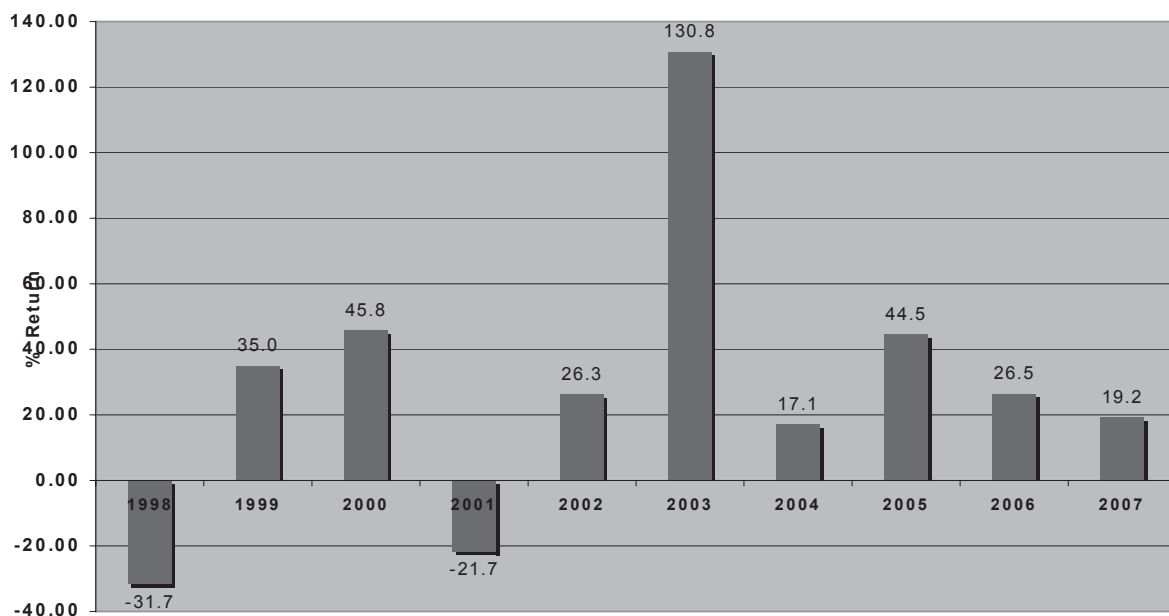
- (a) the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund;
- (b) the return or performance information does not take into account sales, redemption, distribution or other optional charges or 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, including fiscal 2007. 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.

**Year-by-Year Returns**



### *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, 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>	21.70%	43.64%	31.28%	19.20%
S&P/TSX Composite Index	7.89%	18.54%	18.13%	18.47%

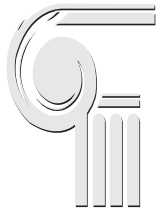
(1) Prior to July 23, 1999, the advisor to the Fund was MOF Management Ltd.

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 October 31, 2007

	% of Total
<b>Cash and Cash Equivalents</b>	<b>13.7</b>
<b>Equities</b>	
Energy	42.5
Materials	41.3
Information Technology	0.1
Commodity Futures	0.1
Industrial	0.1
<b>Total Investments Portfolio</b>	<b>84.1</b>
<b>Total Investments Portfolio Including Cash and Cash Equivalents</b>	<b>97.8</b>
<b>Other Assets</b>	<b>2.2</b>
<b>Total Net assets</b>	<b>100.0</b>
<b><i>Top 25 Investments</i></b>	
Petrobank Energy and Resources Limited	7.2%
Duvernay Oil Corporation	4.5%
Entree Gold Inc.	4.1%
Birchcliff Energy Limited	4.0%
Storm Exploration Inc.	3.9%
Pacific Stratus Energy Limited	3.8%
Minefinders Corporation Limited	3.7%
Petro Andina Resources Inc.	3.1%
East Asia Minerals Corporation	2.8%
International Royalty Corporation	2.8%
Red Back Mining Inc.	2.5%
Aurora Energy Resources Inc.	2.3%
Focus Energy Trust	2.3%
Revelt Minerals Inc.	1.7%
Southgobi Energy Resources Limited	1.6%
Crew Energy Inc.	1.6%
Sunshine Oilsands Limited	1.5%
Serica Energy PLC	1.5%
Bayou Bend Petroleum Limited	1.5%
Celtic Exploration Limited	1.4%
Mirabela Nickel Limited	1.4%
Fortuna Silver Mines Inc.	1.3%
Detour Gold Corporation	1.2%
New Gold Inc.	1.2%
Moto Goldmines Limited	1.1%

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.



**FRONT STREET**

Special Opportunities Canadian Fund

**ANNUAL FINANCIAL STATEMENTS**

**FRONT STREET SPECIAL OPPORTUNITIES**

**CANADIAN FUND**

FOR YEAR ENDED OCTOBER 31, 2007

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

**FINANCIAL STATEMENTS  
OCTOBER 31, 2007**

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## MANAGEMENT REPORT

### Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Special Opportunities Canadian Fund Ltd. 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 Special Opportunities Canadian Fund Ltd. The Manager 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 judgements. The significant accounting policies, which the Manager believes are appropriate for the Fund, are described in note 2 to the financial statements.

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

Segal LLP are the external auditors of Front Street Special Opportunities Canadian Fund Ltd. 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



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.

December 28, 2007

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A MEMBER OF DFK INTERNATIONAL

## AUDITORS' REPORT

### To the Shareholders of Front Street Special Opportunities Canadian Fund Ltd. (the "Fund")

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

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at October 31, 2007 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
December 28, 2007

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

**STATEMENT OF NET ASSETS  
AS AT OCTOBER 31, 2007**

	2007	2006
<b>ASSETS</b>		
Investments, at fair value (cost - \$144,281,947; 2006 - \$135,843,877)	\$ 164,879,899	\$ 147,172,039
Cash and cash equivalents	26,945,771	2,413,082
Accounts receivable relating to shares issued	410,377	-
Accounts receivable relating to portfolio assets sold	5,456,567	-
Derivatives, at fair value, note 11	202,909	-
Amounts receivable relating to accrued income	<u>72,625</u>	<u>69,985</u>
	<u>\$ 197,968,148</u>	<u>\$ 149,655,106</u>
<b>LIABILITIES</b>		
Accrued expenses, note 7	\$ 622,312	\$ 219,970
Accounts payable relating to shares redeemed	508,908	456,917
Liabilities for portfolio assets purchased	<u>389,301</u>	<u>585,500</u>
	<u>1,520,521</u>	<u>1,262,387</u>
<b>Net assets representing shareholders' equity</b>	<u>\$ 196,447,627</u>	<u>\$ 148,392,719</u>
<b>Net assets applicable to outstanding shares allocated as follows:</b>		
Net assets, Series A	\$ 50,120,248	\$ 27,102,152
Shares outstanding, Series A, note 3	7,412,200	4,274,228
Net assets per share, Series A	<u>6.76</u>	<u>6.34</u>
Net assets, Series B	\$ 139,646,501	\$ 116,451,362
Shares outstanding, Series B, note 3	20,652,090	18,365,319
Net assets per share, Series B	<u>6.76</u>	<u>6.34</u>
Net assets, Series F	\$ 6,680,878	\$ 4,839,205
Shares outstanding, Series F, note 3	967,386	754,958
Net assets per share, Series F	<u>6.91</u>	<u>6.41</u>

**On behalf of the Board:**



Normand G. Lamarche  
Chief Executive Officer and Director



Gary P. Selke  
Chief Financial Officer

See accompanying notes to the financial statements

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

**STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED OCTOBER 31, 2007**

	2007	2006
<b>Investment income</b>		
Dividend	\$ 1,160,266	\$ 713,100
Interest	<u>1,256,689</u>	<u>447,535</u>
	<u>2,416,955</u>	<u>1,160,635</u>
<b>Expenses</b>		
Management fees, note 4	3,850,610	3,113,402
Performance fees, note 4	116,424	6,120,056
Audit fees	53,811	98,388
Custodial fees	523,575	332,266
Legal fees	131,672	57,925
Securityholder reporting costs	132,848	37,614
Administration fees	109,808	140,688
Other expenses	<u>8,190</u>	<u>40,108</u>
	<u>4,926,938</u>	<u>9,940,447</u>
<b>Net investment loss for the year</b>	<u>(2,509,983)</u>	<u>(8,779,812)</u>
<b>Net realized and unrealized gains on investments</b>		
Net realized gain on the sale of investments	21,458,803	42,578,671
Loss from derivatives	(493,587)	-
Transaction costs, note 6	(652,487)	-
Change in the unrealized appreciation (depreciation) of the value of investments	<u>10,725,618</u>	<u>(6,745,214)</u>
<b>Net increase in net assets from operation before the provision of income taxes for the year</b>	31,038,347	35,833,457
Provision for income taxes	<u>-</u>	<u>16,733</u>
<b>Net increase in net assets from operations for the year</b>	<u>\$ 28,528,364</u>	<u>\$ 27,036,912</u>
Increase in net assets from operations applicable to outstanding shares allocated as follows:		
Increase in net assets from operations, Series A	\$ 5,407,831	\$ 3,884,145
Increase in net assets from operations per share, Series A	<u>\$ 0.91</u>	<u>\$ 0.99</u>
Increase in net assets from operations, Series B	\$ 22,098,361	\$ 22,472,072
Increase in net assets from operations per share, Series B	<u>\$ 1.10</u>	<u>\$ 1.16</u>
Increase in net assets from operations, Series F	\$ 1,022,172	\$ 680,695
Increase in net assets from operations per share, Series F	<u>\$ 1.13</u>	<u>\$ 1.00</u>

See accompanying notes to the financial statements



FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

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

	2007	2006
<b>Series A</b>		
<b>Net assets, beginning of year</b>	\$ 27,102,152	\$ 13,085,976
Adoption of new accounting policy, notes 2 and 8	<u>(228,863)</u>	<u>-</u>
<b>Adjusted net assets, beginning of year</b>	<u>26,873,289</u>	<u>13,085,976</u>
<b>Net increase in net assets from operations</b>	<u>5,407,831</u>	<u>3,884,145</u>
<b>Distributions to shareholders</b>		
From realized gains on portfolio assets sold	<u>(3,138,476)</u>	<u>(11,481)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	23,927,927	13,121,558
Aggregate amounts paid on the redemption of shares	(6,486,540)	(2,989,243)
Net transfer from shares of other funds	452,368	-
Shares issued on the reinvestment of distributions	<u>3,083,849</u>	<u>11,197</u>
	<u>20,977,604</u>	<u>10,143,512</u>
<b>Net increase in net assets for the year</b>	<u>23,246,959</u>	<u>14,016,176</u>
<b>Net assets, end of year</b>	<u>\$ 50,120,248</u>	<u>\$ 27,102,152</u>
<b>Series B</b>		
<b>Net assets, beginning of year</b>	\$ 116,451,362	\$ 77,803,004
Adoption of new accounting policy, notes 2 and 8	<u>(983,365)</u>	<u>-</u>
<b>Adjusted net assets, beginning of year</b>	<u>115,467,997</u>	<u>77,803,004</u>
<b>Net increase in net assets from operations</b>	<u>22,098,361</u>	<u>22,472,072</u>
<b>Distributions to shareholders</b>		
From realized gains on portfolio assets sold	<u>(13,261,259)</u>	<u>(67,518)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	37,677,820	53,877,683
Aggregate amounts paid on the redemption of shares	(36,003,725)	(37,700,075)
Net transfer from shares of other funds	609,432	-
Shares issued on the reinvestment of distributions	<u>13,057,875</u>	<u>66,196</u>
	<u>15,341,402</u>	<u>16,243,804</u>
<b>Net increase in net assets for the year</b>	<u>24,178,504</u>	<u>38,648,358</u>
<b>Net assets, end of year</b>	<u>\$ 139,646,501</u>	<u>\$ 116,451,362</u>

See accompanying notes to the financial statements

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

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

	2007	2006
<b>Series F</b>		
<b>Net assets, beginning of year</b>	\$ 4,839,205	\$ 2,521,808
Adoption of new accounting policy, notes 2 and 8	<u>(40,691)</u>	<u>-</u>
<b>Adjusted net assets, beginning of year</b>	<u>4,798,514</u>	<u>2,521,808</u>
<b>Net increase in net assets from operations</b>	<u>1,022,172</u>	<u>680,695</u>
<b>Distributions to shareholders</b>		
From realized gains on portfolio assets sold	<u>(533,426)</u>	<u>(2,200)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	3,110,271	3,928,579
Aggregate amounts paid on the redemption of shares	(2,447,360)	(2,291,830)
Net transfer from shares of other funds	205,237	-
Shares issued on the reinvestment of distributions	<u>525,470</u>	<u>2,153</u>
	<u>1,393,618</u>	<u>1,638,902</u>
<b>Net increase in net assets for the year</b>	<u>1,882,364</u>	<u>2,317,397</u>
<b>Net assets, end of year</b>	<u>\$ 6,680,878</u>	<u>\$ 4,839,205</u>
<b>Total</b>		
<b>Net assets, beginning of year</b>	\$ 148,392,719	\$ 93,410,788
Adoption of new accounting policy, notes 2 and 8	<u>(1,252,919)</u>	<u>-</u>
<b>Adjusted net assets, beginning of year</b>	<u>147,139,800</u>	<u>93,410,788</u>
<b>Net increase in net assets from operations</b>	<u>28,528,364</u>	<u>27,036,912</u>
<b>Distributions to shareholders</b>		
From realized gain on portfolio assets sold	<u>(16,933,161)</u>	<u>(81,199)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	64,716,018	70,927,820
Aggregate amounts paid on the redemption of shares	(44,937,625)	(42,981,148)
Net transfer from shares of other funds	1,267,037	-
Shares issued on the reinvestment of distributions	<u>16,667,194</u>	<u>79,546</u>
	<u>37,712,624</u>	<u>28,026,218</u>
<b>Net increase in net assets for the year</b>	<u>49,307,827</u>	<u>54,981,931</u>
<b>Net assets, end of year</b>	<u>\$ 196,447,627</u>	<u>\$ 148,392,719</u>

See accompanying notes to the financial statements

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

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

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Energy (42.5%)</b>			
Alberta Clipper Energy Inc.	300,000	\$ 1,800,000	\$ 639,000
Bayou Bend Petroleum Limited	2,600,000	4,280,000	2,938,000
Birchcliff Energy Limited	1,525,100	8,685,496	7,778,009
Bordeaux Energy Inc.	6,505,346	4,254,627	878,222
Bordeaux Energy Inc. Warrants August 6, 2008	1,538,846	-	38,471
Buffalo Resources Corporation	402,900	807,500	503,625
C & C Energy Canada Limited	400,000	800,000	800,000
Celtic Exploration Limited	220,000	2,911,000	2,811,600
Cordero Energy Inc.	440,500	3,118,740	1,449,245
Crew Energy Inc.	352,500	4,264,176	3,116,100
Dokie Wind Energy Inc. 'A' Restricted	500,000	1,000,000	1,000,000
Dual Energy International Inc.	599,500	300,709	110,908
Duvernay Oil Corporation	262,600	6,995,252	8,870,627
E-Energy Ventures Inc.	2,100,000	1,033,630	378,000
E-Energy Ventures Inc. Warrants December 25, 2008	625,000	-	-
Focus Energy Trust	240,669	5,487,383	4,524,577
Gas-Frac Energy Services Inc. Restricted	625,000	1,250,000	1,250,000
GoldGroup Resources Inc. Restricted	800,000	1,000,000	1,000,000
Hanwei Energy Services Corporation	238,700	703,367	1,331,946
Landrill International Inc. Special Warrants	500,000	-	-
* Mitra Energy Limited	780,000	306,616	740,804
OZZ Corporation Restricted	671,939	488,570	671,939
Pacific Stratus Energy Limited	534,800	5,847,761	7,417,676
Petro Andina Resources Inc.	65,000	585,000	1,079,000
Petro Andina Resources Inc. Restricted	300,000	1,950,000	4,980,000
Petrobank Energy and Resources Limited	300,000	6,248,097	14,094,000
Petrodex Inc. Restricted	3,750,000	750,000	750,000
PetroWorld Corporation Warrants July 19, 2010	390,625	-	-
Pure Energy Services Limited	137,000	1,332,049	700,070
Range Royalty Limited Partnership 'B', Series 1 Units	43,500	-	254,040
Serica Energy PLC	1,406,300	2,030,964	2,953,230
Spur Energy Inc.	98,524	-	-
Storm Exploration Inc.	863,500	5,742,704	7,650,610
TAG Oil Limited	962,500	1,251,250	110,688
Tusk Energy Inc.	873,968	3,847,709	1,319,692
Xtreme Coil Drilling Corporation	135,900	1,556,729	1,331,820
		<u>\$ 80,629,329</u>	<u>\$ 83,471,899</u>

See accompanying notes to the financial statements

## FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2007

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Materials (41.3%)</b>			
Ascendant Copper Corporation	384,500	\$ 551,886	\$ 82,668
Ascendant Copper Corporation Warrants November 21, 2010	500,000	-	15,000
Augusta Resource Corporation Warrants March 21, 2008	1,430,000	-	1,444,300
Aurora Energy Resources Inc.	282,900	3,399,459	4,577,322
Committee Bay Resources Limited	2,700,000	1,485,000	1,161,000
Committee Bay Resources Limited Warrants February 15, 2010	1,350,000	-	-
Detour Gold Corporation	254,285	889,998	2,303,822
East Asia Minerals Corporation	3,050,000	2,772,300	5,520,500
Entree Gold Inc.	2,684,000	4,472,521	8,105,680
Epsilon Energy Limited	320,000	1,280,000	1,286,400
Fortuna Silver Mines Inc.	808,900	1,488,982	2,499,501
Fronteer Development Group Inc.	150,000	1,912,805	1,777,500
Genco Resources Limited Restricted	500,000	1,875,000	1,871,800
Genco Resources Limited Warrants July 12, 2009	250,000	-	-
International Royalty Corporation	879,600	3,784,611	5,488,704
Lignol Energy Corporation	500,000	767,200	385,000
Linear Gold Corporation	239,300	1,281,551	703,542
Linear Metals Corporation	202,200	302,835	303,300
Mahalo Energy Limited	365,600	1,560,343	972,496
Minefinders Corporation Limited	611,800	5,402,636	7,366,072
* Mirabela Nickel Limited	475,850	2,298,257	2,712,345
Miranda Gold Corporation	225,000	258,750	272,250
Moto Goldmines Limited	683,400	936,977	2,084,370
Nevsun Resources Limited	942,300	2,218,016	2,007,099
New Gold Inc.	370,800	2,571,715	2,280,420
Peregrine Diamonds Limited	980,966	3,375,382	971,156
Premier Gold Mines Limited	452,775	486,459	1,177,215
Red Back Mining Inc.	651,800	1,475,665	4,881,982
Revett Minerals Inc.	4,015,800	4,139,623	3,292,956
Rubicon Minerals Corporation	634,300	290,926	1,173,455
Sabina Silver Corporation	500,000	607,450	1,125,000
Shore Gold Inc.	200,000	964,000	900,000
Silverstone Resources Corporation	143,300	268,070	429,900
Southern Arc Warrants March 20, 2008	143,000	-	75,790
Southgobi Energy Resources Limited	430,700	1,615,093	3,230,250
Sprott Molybdenum Participation Corporation	94,400	462,560	512,592
Sprott Molybdenum Participation Corporation Warrants April 16, 2009	200,000	40,000	200,000

See accompanying notes to the financial statements

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

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

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Materials (41.3%) (continued..)</b>			
Sunshine Oilsands Limited Restricted	1,000,000	\$ 3,000,000	\$ 3,000,000
Virgin Resources Limited Restricted	1,100,000	1,000,000	1,100,000
Western Prospector Group Limited	848,700	2,035,867	1,714,374
Zazu Metals Corporation Special Warrants	1,000,000	1,157,247	949,749
Zincore Metals Inc.	1,701,500	<u>850,750</u>	<u>1,122,990</u>
		<u>\$ 63,279,934</u>	<u>\$ 81,078,500</u>
<b>Information Technology (0.1%)</b>			
Yangaroo Inc.	1,900,000	<u>\$ 475,000</u>	<u>\$ 237,500</u>
<b>Industrial (0.1%)</b>			
TORR Canada Inc.	200,000	<u>\$ 202,700</u>	<u>\$ 92,000</u>
<b>Total Long Positions</b>		<u>\$ 144,586,963</u>	<u>\$ 164,879,899</u>
<b>Commodity Futures (0.1%)</b>			
Natural Gas Futures, May 2008 at USD \$8.132 Contract value \$1,158,504	15	\$ -	\$ 61,131
Natural Gas Futures, December 2007 at USD \$8.33 Contract value \$2,373,422	30	<u>-</u>	<u>141,778</u>
		<u>\$ -</u>	<u>\$ 202,909</u>
<b>Transaction costs, note 2</b>		<u>\$ (305,016)</u>	-
<b>Total Investments (84.1%)</b>		<u>\$ 144,281,947</u>	165,082,808
<b>Cash and cash equivalents (13.7%)</b>			26,945,771
<b>Other assets less other liabilities (2.2%)</b>			<u>4,419,048</u>
<b>Net assets (100.0%)</b>			<u>\$ 196,447,627</u>

\* Non Canadian Holdings

See accompanying notes to the financial statements

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 1. 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 is managed by Front Street Capital 2004 (the "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. RBC Dexia Investor Services Trust is the custodian and provides shareholder recordkeeping services. Felcom Data Services Inc. provides fund accounting services.

The Fund's investment objective is to provide Fund security holders capital appreciation through the investment in equity securities of companies whose product, service or management team Front Street Capital 2004 believes can realize value and growth. Front Street Capital 2004 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.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies followed by the Fund:

a) Adoption of new accounting standards - Financial instruments

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

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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

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

National Instrument 81-106 ("NI 81-106") issued by the Canadian Securities Administrators ("CSA") in 2005, requires the daily net asset value ("NAV") of an investment fund to be calculated in accordance with Canadian generally accepted accounting principles ("GAAP"). The CSA had granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting NAV (other than for financial reporting purposes) until September 30, 2007. This temporary relief was to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of units in an investment fund. The CSA has completed this review and has proposed amendments to NI 81-106 that will permit funds to have two different net asset values: one for financial statements, which will be prepared in accordance with Canadian GAAP (referred to as "net assets"); and another for all the other purposes including unit pricing (referred to as "net asset value"). These financial statements have been prepared on a basis consistent with the proposed amendments including a reconciliation between net assets and net asset value (see note 8).

#### b) Valuation of investments

- i) Investments listed on an exchange are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The difference between this amount and cost is shown as the change in the unrealized appreciation (depreciation) of the value of investments. Securities for which reliable quotations are not readily available are valued at fair value, as determined in good faith and pursuant to procedures established by the Manager.
- ii) Any investment for which a market quotation is not readily available ("private companies") shall be valued at cost, in the absence of any subsequent financing, or shall be valued at its fair value as determined by the Manager.
- iii) Investments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided in paragraphs (i) and (ii) above less a discount of 2% per month up to four months.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been established had a ready market existed for these investments.

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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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 fair value.
- v) Trust units are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The cost of the trust units is reduced on an annual basis by distributions from the trust and increased by the annual income allocated to the units by the trust.
- vi) The Fund values its investments in limited partnerships at fair value as determined by the Manager. The Fund calculates the cost value of its investment in limited partnerships using the equity method. Under this method, the limited partnership investments are recorded at cost plus the Fund's pro rata share in undistributed earnings since acquisition.
- vii) The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities which are sold short are valued at the last ask price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter a short sale, the Fund may need to borrow the security for delivery to the buyer.

While the transaction is open, the Fund will also incur a liability for any paid dividends or interest which are due to the lender of the security.

- viii) The Fund invests in derivatives which represent financial instruments which may require no initial investment and which are settled in the future. These investment are commonly referred to as futures contracts. Futures contracts listed upon a principal exchange are valued at their last bid price (for long commodity futures) and last ask price (for short commodity futures) at the financial statement date. Futures contracts with no available bid and ask prices are valued at the fair value as determined by the Manager.
- ix) The fair value of other financial assets and liabilities approximate their carrying values due to the short-term nature of these instruments.

#### c) Transaction costs

In accordance with Section 3855, portfolio transaction costs are expensed and are included in "Transaction costs" in the Statement of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges. The individual security's cost shown on the Statement of Investment Portfolio includes only those transaction costs incurred on the acquisition of portfolio investments. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchase or proceeds from sale of investments. The impact on the net assets of the investment fund is the same regardless of which accounting method is utilized.



# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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

d) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks and highly liquid short-term investments with original terms to maturity of less than three months.

e) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Gains and losses from such transactions are calculated using the average cost of the securities on disposition.

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

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 share

Earnings (loss) per share are 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.

h) Net assets per share

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

i) Estimates

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

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 3. SHARES ISSUED 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 payable to the 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 payable 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 THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 3. SHARES ISSUED AND OUTSTANDING (Continued...)

The following share transactions took place during the year:

	2007	2006
Shares outstanding, beginning of the year:		
Series A	4,274,228	2,608,335
Series B	18,365,319	15,507,923
Series F	754,958	500,814
Shares issued during the year:		
Series A	3,672,390	2,141,592
Series B	5,859,637	8,997,046
Series F	535,392	600,369
Shares distributions reinvested during the year:		
Series A	502,321	1,991
Series B	2,126,967	11,769
Series F	84,424	381
Shares redeemed during the year:		
Series A	1,036,739	477,690
Series B	5,699,833	6,151,419
Series F	407,388	346,606
Shares outstanding, end of the year:		
Series A	7,412,200	4,274,228
Series B	20,652,090	18,365,319
Series F	967,386	754,958

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 4. MANAGEMENT AND PERFORMANCE FEES

Until April 2005, the Fund paid the Investment Advisor 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 Investment Advisor 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 Investment Advisor 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, fees payable to and expenses incurred by the Fund's Independent Review Committee and expenses of making distributions to shareholders. The Manager may, in some cases, pay a portion of the Fund's operating expenses. As the Fund has more than one series of shares, the shareholders of each series bear their pro rata share of those expenses which are common to the operation of all series, as well as those expenses which are attributable solely to that series.

The Fund pays the Investment Advisor 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.

### 5. INCOME TAX AND DISTRIBUTION

The Fund qualifies as a mutual fund corporation under the Income Tax Act (Canada). The Corporation will earn three types of income being Canadian dividends, taxable capital gains and other net taxable income. The income of the Fund, including taxable capital gains, will be subject to tax at applicable corporate tax rates, after claiming allowable deductions for expenses and applicable credits for foreign taxes paid on foreign-source income. Tax on capital gains is refundable to the Fund to the extent that such gains are distributed to shareholders as capital gains dividends or the Fund's share are redeemed. Gains and losses realized by the Fund in relation to certain derivative transactions and short sale transactions may be taxed on account of income as opposed to on account of capital. Other income is subject to tax at normal corporate rates and is not subject to refundable tax treatment.

The Fund may elect in the prescribed manner and form in order to have the dividends it distributes treated as capital gains dividends to the extent that the dividends do not exceed the Fund's capital gains dividend account. The capital gains dividend account will be represented by the amount by which capital gains realized by the Fund while it was a mutual fund corporation exceed the aggregate of:

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 5. INCOME TAX AND DISTRIBUTION (Continued...)

- (a) capital losses realized by the Fund while it was a mutual fund corporation;
- (b) certain capital gains dividends previously paid by it; and
- (c) amounts in respect of which the Fund received capital gains tax refunds.

The Fund anticipates that gains and losses realized on the disposition of investments will normally give rise to capital gains not ordinary income. The Fund intends to declare sufficient capital gains dividends so that it is entitled to a refund of the full amount of tax paid or payable on their capital gains. The suspended loss rules in the Income Tax Act (Canada) may prevent the Fund from recognizing capital losses on the disposition of securities in certain circumstances, which may increase the amount of capital gains dividends that the Fund must pay to Fund shareholders.

If allowable capital losses exceed taxable capital gains of the Fund in any taxation year, the excess cannot be allocated to shareholders, but may be carried back three years and carried forward indefinitely and be applied against taxable capital gains in such previous or subsequent years.

The Fund will allocate taxes payable and recoverable of the Fund to each of the classes. The Fund can pay ordinary taxable dividends or capital gains dividends to shareholders of any class in order to receive a refund of taxes on Canadian dividends or capital gains taxes. The Fund intends to pay out such dividends so as to maximize tax refunds and minimize taxes payable at the corporate level.

The Fund may be subject to provincial capital taxes. The Fund may also be subject to large corporations' capital tax under Part 1.3 of the Income Tax Act (Canada) although it is proposed that such tax be reduced and then eliminated by 2008.

The corporation's shares are qualified investments for registered plans.

### 6. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended October 31, 2007 was \$652,487 (2006 - \$921,499).

### 7. RELATED PARTY TRANSACTIONS

Management fees of \$3,850,610 (2006 - \$3,113,402) were paid to the Investment Advisor, a company under common control to the Manager, during the year (see note 4). Performance fees of \$116,424 (2006 - \$6,120,056) were also paid to the Investment Advisor during the year (see note 4). Included in accrued expenses are \$358,606 (2006 - \$152,178) of management fees payable to the Investment Advisor.

296,555.894 (2006 - 264,233.669) of series A shares outstanding at year end representing 4.00% (2006 - 6.19%) of the total series A shares of the Fund are held by the Partners of the Manager. 392,696.161 (2006 - 374,556.507) of series A shares outstanding at year end representing 5.30% (2006 - 8.76%) of the total series A shares of the Fund are held by relatives of the Partners of the Manager.

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 7. RELATED PARTY TRANSACTIONS (Continued...)

1,402,978.012 (2006 - 1,194,616.756) of series B shares outstanding at year end representing 6.79% (2006 - 6.50%) of the total series B shares of the Fund are held by the Partners of the Manager. 1,658,214.952 (2006 - 1,519,003.214) of series B shares outstanding at year end representing 8.03% (2006 - 8.22%) of the total series B shares of the Fund are held by relatives of the Partners of the Manager.

41,171.880 (2006 - Nil) of series F shares outstanding at year end representing 3.61% (2006 - Nil) of the total series F shares of the Fund are held by the Partners of the Manager. 6,247.844 (2006 - 5,575.178) of series F shares outstanding at year end representing 0.65% (2006 - 0.74%) of the total series F shares of the Fund are held by relatives of the Partners of the Manager.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution-only basis. During the year ended October 31, 2007, Tuscarora Capital Inc., a company under common control to the Manager, received \$41,542 (2006 - \$34,078) in commissions on portfolio transactions for the Fund.

Management fees and performance fees are measured at the exchange amount of consideration prescribed by the offering documents of the Fund. When related parties enter shareholder transactions with the Company, the exchange amount of consideration is the transactional NAV available to all other shareholders on the trade date. In the case of brokerage commissions, the exchange amount of consideration is that which is negotiated by the related parties.

### 8. RECONCILIATION OF NET ASSET VALUE - ADOPTION OF NEW ACCOUNTING POLICY - FINANCIAL INSTRUMENTS

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the transactional net asset value ("NAV") and net assets calculated using Canadian generally accepted accounting principles ("GAAP NA") of an investment fund is required for financial reporting periods commencing October 31, 2007. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold) to be used in the fair valuation of investments, rather than the use of closing trade prices currently used for the purpose of determining transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques (see note 2), rather than the use of valuation techniques by virtue of general practice in the investment funds industry.

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

### 8. RECONCILIATION OF NET ASSET VALUE - ADOPTION OF NEW ACCOUNTING POLICY - FINANCIAL INSTRUMENTS (Continued..)

These changes account for the difference between transactional NAV and GAAP NA. The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

As at October 31, 2007

	<u>Net Asset Value</u>			<u>Net Asset per Share</u>		Opening NAV
	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA	Section 3855 Adjustment
Series A	50,455,075	(334,827)	50,120,248	6.81	6.76	(228,863)
Series B	140,579,404	(932,903)	139,646,501	6.81	6.76	(983,365)
Series F	6,725,249	(44,371)	6,680,878	6.95	6.91	(40,691)
Total Net Asset Value	197,759,728	(1,312,101)	196,447,627			(1,252,919)

### 9. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of investments at fair value, cash and cash equivalents, accounts receivable relating to shares issued, accounts receivable relating to portfolio asset sold, derivatives at fair value, amounts receivable relating to accrued income, accrued expenses, accounts payable relating to shares redeemed and liabilities for portfolio assets purchased. It is management's opinion that the Fund is not exposed to significant market, currency, interest rate, liquidity and cash flow 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 fair value of the portion of the Fund's assets or liabilities denominated in currencies other than Canadian dollars.

# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 9. FINANCIAL INSTRUMENTS (Continued..)

#### iii) Interest rate risk

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

#### iv) Liquidity risk

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

#### v) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. In the case of a floating rate debt instrument, for example, such fluctuations could result in a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

### 10. CREDIT RISK

The Fund is exposed to credit risk arising from its transactions with its counterparties and brokers, related to securities purchases and sales. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

### 11. DERIVATIVES

The Fund has entered into two indexed commodity futures contracts on natural gas futures for speculative purposes. As at October 31, 2007, the Fund is committed to buy 45 contracts in aggregate, amounting to \$3,329,017, maturing from December 21, 2007 to May 16, 2008.

The net unrealized gains from these futures contracts amounted to \$202,909 as at October 31, 2007.

The maximum exposure to loss resulting from potential future of adverse market conditions is \$3,329,017.



# FRONT STREET SPECIAL OPPORTUNITIES CANADIAN FUND LTD.

## NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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### 12. SUBSEQUENT EVENT

On December 31, 2007 the Fund declared and paid a capital gains dividend in the amount of \$0.299196 per share for series A and B shares and \$0.321618 per share for series F shares to the shareholders of record on December 28, 2007. Except for those shareholders who 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 31, 2007.

### 13. COMPARATIVE AMOUNTS

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







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