Financial statements of

Front Street Canadian Hedge

December 31, 2012

Front Street Canadian Hedge

December 31, 2012

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Independent Auditor's Report

To the Unitholders and Management of Front Street Canadian Hedge (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of net assets and investment portfolio as at December 31, 2012, and the statements of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2012, 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.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 1, 2013

Front Street Canadian Hedge

Statement of net assets
as at December 31, 2012

	2012	2011
	$	$
Assets		
Investments owned, at fair value	**100,890,462**	125,481,160
Cash and cash equivalents (Note 3)	**25,804,399**	16,305,785
Receivable for investments sold	**393,023**	2,141,646
Subscriptions receivable	**114,654**	-
Interest and dividends receivable	**240,367**	316,229
	127,442,905	144,244,820
Liabilities		
Investments sold short, at fair value	**1,740,995**	2,485,856
Payable for investments purchased	**2,005,094**	796,378
Accounts payable and accrued liabilities	**107,297**	92,655
Redemptions payable	**1,246,345**	646,558
Management fees payable (Note 5)	**228,896**	228,892
	5,328,627	4,250,339
Total net assets	**122,114,278**	139,994,481
Net assets, Series "B" (formerly "B2")	**106,372,436**	115,169,113
Net assets, Series "F"	**15,741,842**	24,825,368
Total net assets	**122,114,278**	139,994,481
Number of units outstanding (Note 6)		
Series "B" (formerly "B2")	**7,468,682**	8,115,871
Series "F"	**956,030**	1,523,019
Net assets per unit (Note 9)		
Series "B" (formerly "B2")	**14.24**	14.19
Series "F"	**16.47**	16.30

Approved on behalf of the Trust,

Gary P. Selke, Chief Executive Officer

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of operations
year ended December 31, 2012

	2012	2011
	$	$
Investment income		
Interest	**1,011,763**	801,316
Dividends	**790,011**	442,375
Security lending income	**16,901**	9,677
	1,818,675	1,253,368
Expenses		
Management fees (Note 5)	**2,773,620**	3,449,704
Operating and custodial fees	**324,007**	192,333
Dividends paid on investments sold short	**80,645**	101,364
Audit fees	**37,092**	55,659
Trustee fees	**12,832**	-
Legal fees	**1,929**	10,920
	3,230,125	3,809,980
Net investment loss	**(1,411,450)**	(2,556,612)
Realized and unrealized gain (loss) on investments		
Commissions and other portfolio transaction costs	**(2,106,458)**	(2,644,224)
Net realized gain (loss) on investments, including foreign exchange adjustments	**(5,056,902)**	7,951,368
Net change in unrealized appreciation (depreciation) in value of investments	**9,892,409**	(47,939,065)
Net gain (loss) on investments	**2,729,049**	(42,631,921)
Increase (decrease) in net assets from operations	**1,317,599**	(45,188,533)
Increase (decrease) in Series "B" (formerly "B2")	**829,803**	(37,029,643)
Increase (decrease) in Series "F"	**487,796**	(8,158,890)
Increase (decrease) in net assets from operations	**1,317,599**	(45,188,533)
Increase (decrease) in net assets from operations per unit (Note 2)		
Series "B" (formerly "B2")	**0.11**	(4.41)
Series "F"	**0.38**	(6.60)

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of changes in net assets
year ended December 31, 2012

			2012	2011
	Series B (formerly B2)	Series F	Total	Total
Increase (decrease) in net assets from operations	**829,803**	**487,796**	**1,317,599**	(45,188,533)
Capital transactions (Note 6)				
Sale of units	**-**	**501,963**	**501,963**	26,273,017
Redemption of units	**(9,626,480)**	**(10,073,285)**	**(19,699,765)**	(11,646,765)
	(9,626,480)	**(9,571,322)**	**(19,197,802)**	14,626,252
Decrease in net assets	**(8,796,677)**	**(9,083,526)**	**(17,880,203)**	(30,562,281)
Net assets, beginning of year	**115,169,113**	**24,825,368**	**139,994,481**	170,556,762
Net assets, end of year	**106,372,436**	**15,741,842**	**122,114,278**	139,994,481

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of investment portfolio
as December 31, 2012

Number of shares/ units		Average cost	Fair value	% of net assets
		$	$	%
	Investments - Long Positions			
	Equities			
	Energy			
926,200	African Petroleum Corporation Limited	898,576	1,053,251	
40,810	Angle Energy Inc.	115,165	145,284	
2,082,800	Arpetrol Limited Warrants January 11, 2013 (private)	-	2	
322,300	Aurora Oil & Gas Limited	1,190,078	1,218,294	
329,900	Bellatrix Exploration Limited	1,392,440	1,402,075	
52,612	Berkeley Resources Limited Option	-	1,632	
30,150	C&C Energia Limited	167,794	283,410	
50,510	Canadian Natural Resources Limited	1,450,864	1,445,091	
54,510	Cenovus Energy Inc.	1,828,174	1,814,638	
5	Coastal Energy Company Warrants January 23, 2014 (private)	-	1,755,457	
33,500	Crew Energy Inc.	202,173	216,075	
378,685	Crocotta Energy Inc.	1,164,741	1,128,481	
93,700	Donnycreek Energy Inc.	169,023	271,730	
14	Estrella International Energy Services Limited Warrants January 24, 2016 (private)	-	5,395	
272,500	Griffiths Energy International Inc. (private)	1,275,000	1,635,000	
229,300	Hyperion Exploration Corporation	150,719	107,771	
578,966	IROC Energy Services Corporation	1,350,061	1,238,987	
758,900	Kombat Copper Inc.	379,450	129,013	
420,000	Kombat Copper Inc. Warrants March 1, 2015	-	8,383	
371,036	Legacy Oil + Gas Inc.	2,542,377	2,530,466	
195,750	Lipari Energy Inc. Warrants March 11, 2014 (private)	-	979	
501,817	P1 Energy Corporation Private Placement (private)	1,428,231	275,999	
451,670	Parex Resources Inc.	2,246,928	2,610,653	
3,496,900	Petroamerica Oil Corporation Warrants October 8, 2014	-	174,845	
37,100	Precision Drilling Corporation	302,994	303,849	
566,600	Renegade Petroleum Limited	1,402,832	1,382,504	
10	Sonde Resources Corporation	33	16	
289,283	Spartan Oil Corporation	1,368,245	1,515,843	
190,572	Strad Energy Services Limited	801,940	743,231	
77,600	Suncor Energy Inc.	2,483,400	2,537,520	
190,600	Surge Energy Inc.	1,079,453	1,044,488	
965,400	Suroco Energy Inc.	337,726	376,506	
17,180	TriOil Resources Limited 'A'	51,884	51,196	
240,560	Whitecap Resources Inc.	1,848,992	2,078,438	
770,623	Xtreme Drilling and Coil Services Corporation	2,471,154	1,256,115	
	Total Energy	30,100,447	30,742,617	25.17%
	Materials			
576,100	B2Gold Corporation	2,201,620	2,033,633	
13,900	Barrick Gold Corporation	474,888	482,469	
1,250,000	Billabong Gold (private)	500,000	187,500	
337,500	Cabo Drilling Corporation Warrants March 17, 2013	-	-	
83,700	Cap-Ex Ventures Limited Warrants March 30, 2013	-	-	
676,500	Capstone Mining Corporation	1,659,406	1,623,600	
9,049	Cayden Resources Inc. Warrants February 15, 2013	-	-	
700	Conifex Timber Inc.	5,617	4,830	
243,850	Continental Gold Limited	2,116,204	2,136,126	
660,000	ECI Exploration and Mining Inc. (private)	750,000	594,000	
330,000	ECI Exploration and Mining Inc. Warrants February 22, 2012 (private)	-	-	
118,330	EcoSynthetix Inc.	1,024,485	402,322	
443,294	GoviEx Uranium Inc. (private)	869,698	396,849	
960,000	Guatavita Gold Corporation (private)	240,000	124,800	
443,294	High Power Exploration Inc. Private Placement	-	-	
77,940	HudBay Minerals Inc.	632,582	779,400	
120,269	International Forest Products Limited 'A'	635,406	958,544	
145,500	Kinross Gold Corporation	1,416,672	1,396,800	
440,200	Lachlan Star Limited	614,145	523,838	
350,000	Lachlan Star Limited Warrants August 26, 2013	-	65,230	
376,853	Lundin Mining Corporation	1,868,299	1,918,182	
668,562	Macarthur Minerals Limited	1,441,741	334,281	
177,800	Macarthur Minerals Limited Warrants February 24, 2013	-	-	
70,300	Major Drilling Group International Inc.	711,097	686,128	
706,607	Mega Graphite Inc. Private Placement (private)	672,003	423,964	
36,100	NGEx Resources Inc.	104,053	120,213	
310,000	Orefinders Resources Inc.	155,000	151,900	
1,107,170	Portage Minerals Inc.	112,101	16,608	
933,350	Potash Ridge Corporation Restricted	420,013	558,143	
173,600	SilverCrest Mines Inc.	442,680	437,472	
51,975	Southeast Asia Mining Corporation Special Warrants (private)	93,875	-	

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of investment portfolio (continued)
as December 31, 2012

Number of shares/ units		Average cost	Fair value	% of net assets
		$	$	%
300	Taseko Mines Limited	1,001	900	
1,254,622	TiCan Titate Metals Company Inc. 'A' (private)	313,656	12,546	
560,000	Tolima Gold Inc.	364,000	84,000	
280,000	Tolima Gold Inc. Warrants December 8, 2013 (private)	-	9,489	
624,200	Torex Gold Resources Inc.	1,237,216	1,354,514	
130,000	U308 Corporation Warrants February 15, 2013 (private)	-	-	
280,000	Unigold Inc.	84,000	112,000	
140,000	Unigold Inc. Warrants March 8, 2014 (private)	-	17,173	
105,430	Yamana Gold Inc.	1,850,331	1,796,527	
202,900	Zincore Metals Inc. Warrants June 15, 2014 (private)	-	6,135	
	Total Materials	**23,011,789**	**19,750,116**	**16.17%**
	Industrials			
1,722	3801110 Canada Inc. (private)	17	17	
282,049	CAE Inc.	2,825,502	2,837,413	
235,392	Dirtt Environmental Solutions Limited (private)	416,418	353,088	
	Total Industrials	**3,241,937**	**3,190,518**	**2.61%**
	Information Technology			
940	Absolute Software Corporation	4,297	4,785	
37,900	Avigilon Corporation	211,162	435,850	
1,512	C.O.R.E. Holdings Inc. 'B' Private Placement	500,261	-	
6,600	Cisco Systems Inc.	130,564	129,002	
2,700	Destiny Media Technologies Inc.	2,264	1,620	
62,290	Embotics Corporation Preferred Class 'A' (private)	267,558	267,847	
98,018	Embotics Corporation Private Placement (private)	1,049,233	421,477	
318,900	Mobidia Technology Inc. 'A' Series 3 Preferred (private)	350,790	318,900	
446,135	Pure Technologies Limited	1,055,735	2,034,376	
111,300	QHR Technologies Inc.	50,120	61,215	
1,260,000	QuStream Corporation Warrants March 7, 2014 (private)	-	1	
764,526	Redknee Solutions Inc.	1,022,022	1,582,569	
1,900	Sierra Wireless Inc.	15,218	14,725	
200,000	Stockhouse Media Corporation Private Placement	2,476	-	
111,501	Sylogist Limited	219,378	390,254	
510,617	The Descartes Systems Group Inc.	3,131,721	4,702,781	
307,255	Wi-LAN Inc.	1,615,045	1,388,793	
1,244,385	Wireless Matrix Corporation	981,267	659,524	
	Total Information Technlogy	**10,609,111**	**12,413,719**	**10.17%**
	Financials			
65,800	Bank of Montreal	3,919,094	4,001,298	
112,000	Committed Capital Acquisition Corporation	568,067	520,267	
19,700	National Bank of Canada	1,525,026	1,518,870	
54,100	Royal Bank of Canada	3,204,675	3,235,180	
100	Sun Life Financial Inc.	2,320	2,634	
52,300	The Bank of Nova Scotia	2,890,339	3,005,158	
66,890	The Toronto-Dominion Bank	5,411,897	5,595,349	
30,400	Uranium Participation Corporation	171,613	163,856	
	Total Financials	**17,693,031**	**18,042,612**	**14.78%**
	Telecommunication Services			
589,470	XMG Studio Inc. (private)	559,997	559,997	
	Total Telecommunication Services	**559,997**	**559,997**	**0.46%**
	Health Care			
233253	IMRIS Inc.	1,316,582	781,398	
127,500	Inviro Medical Inc. Private Placement	290,052	-	
	Total Health Care	**1,606,634**	**781,398**	**0.64%**
	Consumer Discretionary			
258,890	Amaya Gaming Group Inc.	664,307	1,242,672	
42,000	Amaya Gaming Group Inc. Warrants April 30, 2015	-	65,100	
872,903	American Apparel Inc.	749,278	868,275	
206,000	Bauer Performance Sports Limited	1,697,184	2,154,760	
298,800	DHX Media Limited	462,305	519,912	
500,000	GeoMonkey Inc. Private Placement (private)	247,439	24,867	
420,000	Virgin Gaming Limited Private Common (private)	334,758	334,219	
214,000	ViXS Systems Inc. (private)	21,500	-	
7,229,070	Wi2Wi Corporation (private)	36,245	36,145	
	Total Consumer Discretionary	**4,213,016**	**5,245,950**	**4.30%**

The accompanying notes form an integral part of the financial statements.

Front Street Canadian Hedge

Statement of investment portfolio (continued)
as December 31, 2012

Number of shares/ units		Average cost	Fair value	% of net assets
		$	$	%
	Utilities			
2,191,988	Trilliant Inc. (private)	**1,925,881**	**1,315,193**	
217,640	U.S. Geothermal Inc. Warrants September 16, 2015 (private)	**-**	**19,068**	
	Total Utilities	**1,925,881**	**1,334,261**	**1.09%**
	Total Equities - Long	**92,961,843**	**92,061,188**	**75.39%**
	Corporate Bonds			
840,000	Amaya Gaming Group Inc. 10.500% April 30, 2014	**840,000**	**1,230,348**	
1,750,000	Colossus Minerals Inc. 9.000% December 31, 2016	**1,750,000**	**1,391,250**	
500,000	Delavaco Real Estate Opportunites Corporation 0.000% Convertible Debentures January 1, 2099 (private)	**498,226**	**497,349**	
1,400,000	Estrella International Energy Services Limited Convertible Debentures 12.000% December 31, 2015 (private)	**1,400,000**	**1,400,000**	
3,600,000	Gran Columbia Gold Corporation 5.000% August 11, 2018	**3,568,667**	**3,151,205**	
244,000	Oak Point Energy Limited 15.000% Convertible Debentures September 30, 2013 (private)	**244,000**	**244,000**	
920,000	P1 Energy Inc. 12.000% Convertible Debentures September 30, 2013 (private)	**952,154**	**915,122**	
	Total Corporate Bonds	**9,253,047**	**8,829,274**	**7.23%**
	Transaction costs	**(178,268)**	**-**	
	Total Investments - Long	**102,036,622**	**100,890,462**	**82.62%**
	Investments - Short Positions			
	Equities			
	Energy			
(29,670)	Ensign Energy Services Inc.	**(445,246)**	**(457,215)**	
	Total Energy	**(445,246)**	**(457,215)**	**(0.38)%**
	Materials			
(1,000)	First Quantum Minerals Limited	**(23,893)**	**(21,950)**	
	Total Materials	**(23,893)**	**(21,950)**	**(0.02)%**
	Industrials			
(5,100)	Canadian Pacific Railway Limited	**(508,147)**	**(514,590)**	
	Total Industrials	**(508,147)**	**(514,590)**	**(0.42)%**
	Total Equities - Short	**(977,286)**	**(993,755)**	**(0.82)%**
	Written Call Options			
(248)	Bank of Montreal Jan/61 WCO	**(8,928)**	**(15,872)**	
(186)	Precision Drilling Corporation Jan/8 WCO	**(4,464)**	**(7,812)**	
(310)	The Toronto-Dominion Bank Jan/84 WCO	**(17,670)**	**(13,330)**	
(155)	Yamana Gold Inc. Jan/20 WCO	**(11,257)**	**(617)**	
	Total Written Call Options	**(42,319)**	**(37,631)**	**(0.03)%**
	Written Put Options			
(58)	Apple Inc. Jan/500 WPO	**(101,849)**	**(33,750)**	
(341)	Barrick Gold Corporation Jan/34 WPO	**(43,854)**	**(16,620)**	
(806)	Barrick Gold Corporation Jan/35 WPO	**(159,783)**	**(70,552)**	
(225)	Calfrac Well Services Limited Jan/24 WPO	**(9,900)**	**(5,625)**	
(610)	Cameco Corporation Jan/19 WPO	**(69,540)**	**(16,470)**	
(794)	Canadian Natural Resources Limited Jan/28 WPO	**(107,984)**	**(38,112)**	
(434)	Cenovus Energy Inc. Jan/34 WPO	**(58,156)**	**(48,174)**	
(100)	CGI Group Inc. Jan/24 WPO	**(4,700)**	**(12,300)**	
(155)	Continental Gold Limited Jan/9 WPO	**(9,533)**	**(8,525)**	
(868)	Crew Energy Inc. Jan/7 WPO	**(55,552)**	**(60,760)**	
(155)	Ensign Energy Services Inc. Jan/16 WPO	**(15,190)**	**(13,175)**	
(434)	Goldcorp Inc. Jan/36 WPO	**(67,534)**	**(36,164)**	
(434)	Goldcorp Inc. Jan/38 WPO	**(113,782)**	**(90,705)**	
(155)	Goldcorp Inc. Jan/40 WPO	**(53,940)**	**(58,900)**	
(310)	Kinross Gold Corporation Jan/9 WPO	**(7,969)**	**(3,084)**	
(744)	Kinross Gold Corporation Jan/10 WPO	**(48,385)**	**(37,743)**	
(372)	Legacy Oil + Gas Inc. Jan/7 WPO	**(15,486)**	**(14,880)**	
(868)	Lundin Mining Corporation Jan/5 WPO	**(20,832)**	**(13,020)**	
(620)	Precision Drilling Corporation Jan/8 WPO	**(16,120)**	**(11,780)**	
(496)	SNC-Lavalin Group Inc. Jan/38 WPO	**(36,892)**	**(14,880)**	
(310)	Suncor Energy Inc. Jan/32 WPO	**(30,109)**	**(14,493)**	
(340)	Suncor Energy Inc. Jan/33 WPO	**(31,124)**	**(27,732)**	
(248)	Yamana Gold Inc. Jan/16 WPO	**(10,023)**	**(3,947)**	
(403)	Yamana Gold Inc. Jan/17 WPO	**(37,479)**	**(22,568)**	
(310)	Yamana Gold Inc. Jan/18 WPO	**(31,930)**	**(35,650)**	
	Total Written Put Options	**(1,157,646)**	**(709,609)**	**(0.58)%**
	Total Options	**(1,199,965)**	**(747,240)**	**(0.61)%**
	Transaction costs	**(8,842)**		
	Total Investments Sold Short	**(2,186,093)**	**(1,740,995)**	**(1.43)%**
	Total Investments	**99,850,529**	**99,149,467**	**81.19%**
	Other assets, less liabilities		**22,964,811**	**18.81%**
	Total net assets		**122,114,278**	**100.00%**

The accompanying notes form an integral part of the financial statements.

1. Establishment of the investment trust and nature of operations

Front Street Canadian Hedge (the "Trust") is an investment trust created under the laws of the Province of Ontario pursuant to a Trust Agreement dated September 30, 2003 which was amended and restated on January 31, 2005, May 1, 2009 and as of January 29, 2010 (the "Trust Agreement"). Valiant Trust Company (Canada), a trust company incorporated under the laws of Canada, which is authorized under the laws of the Province of Ontario to carry on the business of a trust company, is the trustee of the Trust (the "Trustee"). Front Street Capital, a Trust formed pursuant to a Trust Agreement dated as of October 1, 2001, is the manager of the Trust (the "Manager") pursuant to the Trust Agreement.

The Trust's investment objective is to provide holders of units (the "Unitholders") with long term capital growth primarily through the selection and strategic trading of both long and short positions in equity, debt and derivative securities. The Trust's portfolio (the "Portfolio") will consist primarily of investments which generate capital gains, but will also include investments which generate income.

The beneficial interest in the Trust will be divided into two series of Units (the "Trust Units"), designated as Series B Units (the "B Units"), formerly Series B2 Units, and Series F Units (the "F Units"). Effective January 29, 2010, in accordance with the terms of the Trust Agreement governing the Fund, all Series B-1 Units were converted into Series B2 Units and immediately thereafter the Series B2 Units were re-designated as Series B Units.

The Trust is not a "mutual fund" that is a reporting issuer or equivalent for securities law purposes. As a result, the protections provided to investors in mutual funds that are reporting issuers or equivalent under such laws are not available to investors in the Trust.

2. Summary of significant accounting policies

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In applying GAAP, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, investment income and expenses reported during the year. Actual results could differ from these estimates. These estimates are reviewed periodically by management and as adjustments become necessary, they are reported in the Statement of Operations in the year in which they become known.

A net asset value ("Net Asset Value") is calculated on every valuation date for each series of units. The Net Asset Value of a particular series of units is computed by calculating the value of that series' proportionate share of the assets and liabilities of the Trust common to all series less the liabilities of the Trust attributable only to the series. Expenses directly attributable to a series are charged directly to that series. Income, realized and unrealized gains and losses from investment transactions and other expenses are allocated proportionately to each series based upon the relative Net Asset Value of each class/series.

The following summarizes the accounting policies of the Trust:

Financial instruments

In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments - Disclosures, the Trust is required to classify its financial instruments using a fair value hierarchy that reflects the significance of the inputs used to measure fair value into three broad levels. Investments measured at fair value are classified into one of three fair value hierarchy levels, based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

The three fair value hierarchy levels are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Refer to Note 8 for Fair Value Measurements Analysis.

Valuation of investments

In accordance with Accounting Guideline 18 – Investment Companies, the Trust's investments are deemed to be categorized as held for trading, and are required to be recorded at fair value as defined by CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" (Section 3855). The net assets of the Trust for financial reporting purposes ("Net Assets") are calculated in accordance with Section 3855.

Section 14.2 of National Instrument 81-106 ("NI 81-106") issued by the Canadian Securities Administrators requires the Trust to calculate its Net Asset Value for the purchase and redemption of units based on the fair value of the Trust's assets and liabilities. The Trust has not changed their methodology in this respect. In accordance with NI 81-106, the Net Asset Value per unit compared to the Net Assets per unit and an explanation of the differences between such amounts are required in the notes to the financial statements. Refer to Note 9 for such comparison for each class/series.

The fair value of investments for the purpose of calculating Net Assets as at the financial reporting date is determined as follows:

a) Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets on which the investments are traded, or through recognized investment dealers, are valued at their bid price. Investments held include equities, listed warrants, options, short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments. Investments sold short are valued at their ask price. Investments with no available bid or ask price are valued at their closing sale price.

b) Investments held or sold short that are not traded in an active market are valued primarily based on the results of valuation techniques, using observable market inputs. The fair value of certain securities may be estimated by the Manager using valuation techniques based on assumptions that are not supported by observable market inputs.

c) Foreign exchange forward contracts are valued based on the difference between the contract forward rate and the forward bid rate (for currency held) and the forward ask rate (for currency sold short).

The fair value of investments for the purpose of calculating daily Net Asset Value is determined as follows:

a) Investments listed upon a recognized public stock exchange are valued at their closing sale price on the valuation date. Investments not traded on that date are valued at the average of the closing bid and ask price.

b) Investments not listed upon a recognized public stock exchange are valued based upon any available public quotations in common use or at a price estimated to be at fair value on such basis and in such manner established by the Investment Manager.

2. Summary of significant accounting policies (continued)

Valuation of investments (continued)

c) Short-term notes and treasury bills are stated at cost. The cost of the investments, together with the amortized discounts and accrued interest receivable, represents fair value due to their short term to maturity.

d) Bonds, asset-backed securities and other debt instruments are valued at the average of the closing bid and ask price from recognized investment dealers.

e) Options are valued at the latest sale price reported by the principal exchange or over-the-counter market on which the contract is traded. If no sale is reported, the average of the latest bid and ask price is used.

f) Foreign exchange forward contracts are valued based on the difference between the contract forward rate and the forward rate prevailing on the valuation date.

Commissions and other portfolio transaction costs

Commissions and other portfolio 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, and transfer taxes and duties. Such costs are expensed and are included in “Commissions and other portfolio transaction costs” in the Statement of Operations.

Cost of investments

The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding commissions and other portfolio transaction costs.

Investment transactions and income

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date. Realized gains and losses from investment transactions are calculated on an average cost basis.

Translation of foreign currency

The financial statements of the Trust are expressed in Canadian dollars.

a) Assets including fair value of investments and liabilities denominated in foreign currencies are converted into Canadian dollars at the rate of exchange established on each valuation date.

b) Purchases and sales of investments, dividends and interest income denominated in foreign currencies are converted into Canadian dollars at the rate of exchange prevailing on the respective dates of such transactions.

c) Realized exchange gains (losses) on sale of investments denominated in foreign currencies are included in “Net realized gain (loss) on investments, including foreign exchange adjustments” in the Statement of Operations.

d) Unrealized exchange gains (losses) on investments denominated in foreign currencies are included in “Net change in unrealized appreciation (depreciation) in value of investments” in the Statement of Operations.

e) Realized and unrealized exchange gains (losses) on assets (other than investments), liabilities and investment income denominated in foreign currencies are included in the Statement of Operations. Net Assets per unit

Net Asset per unit

The Net Assets per unit is calculated by dividing the Net Assets of a particular series of units by the total number of units of that particular class/series outstanding at the end of the year.

2. Summary of significant accounting policies (continued)

Increase (decrease) in Net Assets from operations per unit

Increase in Net Assets from operations per unit is based on the increase (decrease) in Net Assets from operations attributed to each series of units, divided by the average number of units outstanding of that series during the year.

Derivative transactions

The Trust may use derivative contracts to enhance returns of the Trust and to manage risks associated with the investments. The value of the contracts are marked to market on the valuation date and the resultant gains and losses, both realized and unrealized, are recognized in the Statement of Operations.

Written call options

The premium received upon writing a call option is recorded as a deferred credit. Upon expiry of the option or when the option is exercised by its holder, the premium is recognized as a gain (loss) and is included in “Net realized gain (loss) on investments, including foreign exchange adjustments” in the Statement of Operations.

Other assets and liabilities

Receivables for investments sold, interest and dividends receivable, and subscriptions receivable are designated as loans and receivables and recorded at cost or amortized cost. Amounts due to broker, accounts payable and accrued liabilities, management fees payable and performance fee payable are designated as financial liabilities and reported at amortized cost. Financial liabilities are generally settled within three months of issuance. Other assets and liabilities are short-term in nature, and are carried at amortized cost which approximates fair value.

Future accounting standards

In January 2011, the Canadian Accounting Standards Board (“AcSB”) amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”), permitting investment companies, which includes investment funds, to extend the deferral of the adoption of IFRS to fiscal years beginning on or after January 1, 2014.

The AcSB has deferred the mandatory IFRS adoption date to coincide with a new consolidation standard for investment companies that the IASB is scheduled to publish in the second quarter of calendar 2012. Under the current IFRS guidance, investment companies are required to consolidate their controlled investments. The IASB has announced that they will propose that investment companies be exempted from consolidating their controlled investments and account for them at fair value. Canadian GAAP permits investment companies to fair value their investments regardless of whether those investments are controlled.

The Trust has elected to defer the adoption of IFRS to January 1, 2014. The Trust expects to report its financial results for the six month period ended June 30, 2014 prepared on an IFRS basis. The Trust will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

The Trust has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training. In May 2011, the International Accounting Standards Board issued IFRS 13, Fair Value Measurement ("IFRS 13"), which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It only applies when other IFRS require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires that valuation be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in the elimination of the difference between the Net Assets per unit and Net Asset Value per unit at the financial statement reporting dates.

2. Summary of significant accounting policies (continued)

Future accounting standards (continued)

Based on the Trust's current assessment of the differences between Canadian GAAP and IFRS, other than the impact due to IFRS 13 noted above, it is not expected that there will be any other impact on the Trust's Net Asset Value per unit or Net Assets per unit. Management has presently determined that the impact of IFRS on the financial statements will be limited to additional note disclosures, potential modifications to presentation, including unitholders' equity, and the presentation of a cash flow statement. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

3. Cash and cash equivalents

Cash is held by a broker in an account holding cash balances and short-term, highly liquid investments with original terms of maturities of 365 days or less.

4. Due to broker

Due to broker are margin accounts representing cash loans at market rates of interest with brokers and are secured by the underlying securities owned by the Trust.

5. Related party transactions

Management fees

Management fees equal to one-twelfth of 2.0% of the Series Net Asset Value in respect of the B units and one-twelfth of 1% of the Series Net Asset Value in respect of the F units, based on the weekly net asset value calculations during each month plus applicable taxes and related expenses, are payable within ten business days after the end of each month. Management fees are payable to the Manager.

Performance fee

The performance fee per unit of the B units or F units is paid to the Manager based on the Trust’s annual performance. The performance fee is calculated and accrued monthly as 20% of the Trust performance in excess of the minimum performance as specifically defined in the Trust Agreement, plus applicable taxes.

6. Units of the trust

Authorized

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net asset value per unit calculated on the redemption date.

Units of the Trust surrendered for redemption at least 30 days prior to the last business day of each quarter (a “Valuation Date”) will be redeemed at a redemption price equal to the net asset value per unit on such valuation date. Redemption of units prior to the first anniversary of the purchase of such units will be subject to an early redemption fee equal to 1% of the Net Asset value of the units so redeemed.

		2012
	Series B	**Series F**
Balance, beginning of year	**8,115,871**	**1,523,019**
Subscriptions	**-**	**30,823**
Redeemed	**(647,189)**	**(597,812)**
Balance, end of year	**7,468,682**	**956,030**

6. Units of the trust (continued)

Authorized (continued)

		2011
	Series B	Series F
Balance, beginning of year	8,427,165	638,239
Issued		
On new subscriptions	306,373	938,870
Redeemed	(617,667)	(54,090)
Balance, end of year	8,115,871	1,523,019

Capital disclosure

The capital of the Trust is represented by issued and redeemable units. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Trust's Net Asset Value per unit upon redemption. The Trust has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 7, the Trust endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

7. Financial instruments

Management of financial instrument risks

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

The investment objective of the Trust is to provide high long-term total investment returns with relatively moderate risk, through a combination of long-term capital growth and current income. The Trust invests primarily in common shares and trust units of Canadian and foreign companies.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust.

Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The fair value of debt instruments and derivatives includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Trust.

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31, 2012, the Trust had 7.23% (December 31, 2011 - 5.35%) of investments in debt instruments on which credit ratings are not available.

7. Financial instruments (continued)

Liquidity risk

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligation on time or at a reasonable price.

The Trust's exposure to liquidity risk is concentrated in the periodic cash redemptions of units. The Trust primarily invests in securities that are traded in active markets and can be readily disposed of. In addition, the Trust generally retains sufficient cash and cash equivalent positions to maintain liquidity.

The Trust may employ the use of derivatives to moderate certain risk exposures. There is no guarantee that a market will exist for some derivatives and it is possible that the exchanges may impose limits on trading of derivatives. Liabilities are generally settled within 90 days.

The Trust maintains sufficient cash and marketable securities, and manages liquidity risk through its ability to close out market positions. The following table details the Trust's liquidity analysis for the financial liabilities:

			December 31, 2012
	Term of less than 1 year	**Term of more than 1 year**	**Total**
	$	**$**	**$**
Financial assets			
Investments owned	**92,061,188**	**-**	**92,061,188**
Bonds and treasury bills	**1,159,122**	**7,670,152**	**8,829,274**
Other receivables	**748,044**	**-**	**748,044**
Cash and cash equivalents	**25,804,399**	**-**	**25,804,399**
Total	**119,772,753**	**7,670,152**	**127,442,905**
Financial liabilities			
Investments sold short	**(1,740,995)**	**-**	**(1,740,995)**
Other financial liabilities	**(3,587,632)**	**-**	**(3,587,632)**
Total	**(5,328,627)**	**-**	**(5,328,627)**
GAAP Net Assets	**114,444,126**	**7,670,152**	**122,114,278**

			December 31, 2011
	Term of less than 1 year	Term of more than 1 year	Total
	$	$	$
Financial assets			
Investments owned	117,989,991	-	117,989,991
Bonds and treasury bills	608,000	6,883,169	7,491,169
Other receivables	316,229	-	316,229
Cash and cash equivalents	18,447,431	-	18,447,431
Total	137,361,651	6,883,169	144,244,820
Financial liabilities			
Investments sold short	(2,485,856)	-	(2,485,856)
Other financial liabilities	(1,764,483)	-	(1,764,483)
Total	(4,250,339)	-	(4,250,339)
GAAP Net Assets	133,111,312	6,883,169	139,994,481

7. Financial instruments (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is minimal sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates.

The Trust may invest in fixed and floating rate securities. The income of the Trust may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at December 31, 2012, there were 7.23% (December 31, 2011- 5.35%) of investments owned which are held in bonds. The remaining portion of the Trust's assets are substantially non-interest bearing equity investments and the exposure to interest rate changes is minimal.

Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

All investments represent a risk of loss of capital. The Investment Manager of the Trust aims to moderate this risk through a careful selection and diversification of securities and other financial instruments in accordance with the Trust's investment objectives and strategy. Except for written options and securities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from written options and securities sold short can be unlimited. The Trust's overall market positions are monitored on a regular basis by the Investment Manager. Financial instruments held by the Trust are susceptible to market price risk arising from uncertainties about future prices of the instruments.

As at December 31, 2012, 66% (December 31, 2011 - 79%) of the Trust's net assets were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately $8 million (December 31, 2011 - $11 million) respectively. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Trust. The Trust may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

The Trust holds assets denominated in currencies other than Canadian Dollars which is the functional currency. The Trust is therefore exposed to currency risk, as the value of the securities denominated in other currencies fluctuates due to change in exchange rates.

7. Financial instruments (continued)

Currency risk (continued)

The table below summarizes the Fund's exposure to currency risk due to concentration of assets in foreign currencies:

				December 31, 2012
	Financial instruments	**Cash and cash equivalents**	**Total**	**Percentage of NAV (%)**
	$	**$**	**$**	**%**
Currency				
Australian dollar	**1,054,882**	**-**	**1,054,882**	**0.86**
United States dollar	**8,383,163**	**1,694,796**	**10,077,959**	**8.25**
Total	**9,438,045**	**1,694,796**	**11,132,841**	**9.11**

				December 31, 2011
	Financial instruments	Cash and cash equivalents	Total	Percentage of NAV (%)
	$	$	$	%
Currency				
Australian dollar	4,448,356	-	4,448,356	3.18
United States dollar	5,720,307	194,608	5,914,915	4.23
Total	10,168,663	194,608	10,363,271	7.41

The amounts in the above table are based on the fair value of the Trust's financial instruments (including cash and cash equivalents). Other financial assets (including dividends and interest receivable, receivable for equities sold, and subscriptions receivable) and financial liabilities (including payables for equities purchased) that are denominated in foreign currencies do not expose the Trust to significant currency risk.

As at December 31, 2012, if the Canadian dollar had strengthened or weakened by 5 percent in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately $530,000 (December 31, 2011 - $493,000). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

8. Classification of financial instruments – fair value measurements

The following tables summarize the levels within the fair value hierarchy in which the fair value measurements of the Trust's investments fall as of December 31, 2012 and 2011:

				December 31, 2012
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Assets				
Equities - long	**82,333,323**	**2,445,455**	**7,282,410**	**92,061,188**
Bonds - long	**-**	**5,772,802**	**3,056,472**	**8,829,274**
	82,333,323	**8,218,257**	**10,338,882**	**100,890,462**
Liabilities				
Equities - short	**(993,755)**	**-**	**-**	**(993,755)**
Options - short	**(747,240)**	**-**	**-**	**(747,240)**
	(1,740,995)	**-**	**-**	**(1,740,995)**

8. Classification of financial instruments – fair value measurements (continued)

The changes in investments measured at fair value using significant level 3 inputs are reflected below:

	Beginning balance January 1, 2012 (FV)	**Net purchases and sales**	**Net transfers in (out)**	**Realized gains and losses, net**	**Unrealized gains and losses, net**	**Ending balance December 31, 2012 (FV)**
	$	**$**	**$**	**$**	**$**	**$**
Assets						
Equities	**8,933,411**	**(205,244)**	**(508,513)**	**183,271**	**(1,120,515)**	**7,282,410**
Bond	**2,943,596**	**364,226**	**(230,000)**	**(874,075)**	**852,725**	**3,056,472**
	11,877,007	**158,982**	**(738,513)**	**(690,804)**	**(267,790)**	**10,338,882**

During the year ended December 31, 2012, there were transfers between Level 3 to Level 1 as certain securities became listed companies.

				December 31, 2011
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Equities - long	106,837,380	2,219,199	8,933,411	117,989,990
Bonds	-	4,547,574	2,943,596	7,491,170
	106,837,380	6,766,773	11,877,007	125,481,160
Liability				
Equities - short	(2,485,856)	-	-	(2,485,856)

The changes in investments measured at fair value using significant level 3 inputs are reflected below:

	Beginning balance January 1, 2011 (FV)	Net purchases and sales	Net transfers in (out)	Realized gains and losses, net	Unrealized gains and losses, net	Ending balance December 31, 2011 (FV)
	$	$	$	$	$	$
Assets						
Equities	5,489,828	3,519,910	240,160	(858,132)	541,645	8,933,411
Bond	3,683,701	611,431	(1,428,231)	(1,425)	78,120	2,943,596
	9,173,529	4,131,341	(1,188,071)	(859,557)	619,765	11,877,007

During the year ended December 31, 2011, there were transfers between Level 3 bonds to Level 3 equity, as a fixed income security was partially converted to equity. There were also transfers between Level 3 to Level 1 as certain securities became listed companies.

9. Comparison of Net Asset Value and Net Assets

The primary reason for the difference between the Net Asset Value per unit and the Net Assets per unit is described in Note 2 above - Valuation of Investments.

	Net Assets per unit	Section 3855 adjustment	Net Asset Value per unit
	$	$	$
At December 31, 2012			
Series B (formerly "B2")	**14.24**	**0.07**	**14.31**
Series F	**16.47**	**0.07**	**16.54**
At December 31, 2011			
Series B (formerly "B2")	14.19	0.04	14.23
Series F	16.30	0.04	16.34

10. Expenses

The Manager has the power to incur and make payment out of the Trust property any charges or expenses which, in the opinion of the Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Trust Agreement, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust is responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

11. Income taxes

The Trust qualifies as a unit fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"), and accordingly, is not subject to tax on its net taxable income for the tax year which ends in December, including net realized capital gains, which is paid or payable to its unitholders as at the end of the tax year. However, such part of the Trust's net income and net realized capital gains as is not so paid or payable, is subject to income tax. It is the intention of the Trust to distribute all of its income and sufficient net realized capital gains so that the Trust will not be subject to income tax. The Trust may be subject to alternative minimum tax, potentially recoverable.

The Trust has $9,878,659 in non-capital losses available to be applied against taxable income of future years which will expire as follows:

	$
2028	1,582,276
2030	7,099,485
2032	1,196,898
	9,878,659

The Trust has $5,031,183 in net capital losses available to be applied against capital gains of future years. These losses do not expire.

12. Filing exemption

The Trust is relying on the exemption pursuant to Section 2.11 of National Instrument 81-106, to not file its financial statements with the Ontario Securities Commission.