



FRONT STREET
Canadian Hedge

FRONT STREET CANADIAN HEDGE

FINANCIAL STATEMENTS

DECEMBER 31, 2007

AUDITORS' REPORT

To the Unitholders of
Front Street Canadian Hedge

We have audited the statements of net assets and investment portfolio of **Front Street Canadian Hedge** as at December 31, 2007 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

“SGGG LLP”

Toronto, Ontario
March 7, 2008

Chartered Accountants
Licensed Public Accountants

Front Street Canadian Hedge

Statement of Net Assets as at December 31, 2007

	2007	2006
ASSETS		
Due from broker (cash balances) (Note 3)	\$ 28,815,320	\$ 27,042,789
Investments owned, at fair value (Note 2)	227,281,837	218,603,909
Subscriptions receivable	25,000	-
Interest and dividends receivable	<u>341,318</u>	<u>352,075</u>
	<u>256,463,475</u>	<u>245,998,773</u>
LIABILITIES		
Due to broker (Note 4)	2,638,688	7,480,109
Investments sold short, at fair value (Note 2)	5,380,792	5,283,032
Accounts payable and accrued liabilities	219,966	193,842
Redemption payable	1,194,139	-
Management fees payable (Note 5)	396,661	337,200
Performance fee payable (Note 5)	5,939,551	9,599,215
Distributions payable (Note 10)	<u>18,313</u>	<u>10,880,545</u>
	<u>15,788,110</u>	<u>33,773,943</u>
TOTAL NET ASSETS	<u>\$ 240,675,365</u>	<u>\$ 212,224,830</u>
NET ASSETS, Series "A"	<u>\$ 203,229,260</u>	<u>\$ 179,756,995</u>
NET ASSETS, Series "F"	<u>\$ 37,446,105</u>	<u>32,467,835</u>
Number of Units Outstanding (Note 6)		
Series "A"	<u>11,302,040</u>	<u>10,130,493</u>
Series "F"	<u>2,052,943</u>	<u>1,808,800</u>
Net Asset Value per Unit (Note 2)		
Series "A"	<u>\$ 17.98</u>	<u>\$ 17.74</u>
Series "F"	<u>\$ 18.24</u>	<u>\$ 17.95</u>

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Trust,



Manager, Front Street Capital

Front Street Canadian Hedge

Statement of Operations

For the year ended December 31, 2007

	2007	2006
Investment Income		
Interest	\$ 2,392,360	\$ 2,488,716
Dividends	<u>583,914</u>	<u>611,668</u>
	<u>2,976,274</u>	<u>3,100,384</u>
Expenses		
Performance fee (Note 5)	5,939,551	9,599,215
Management fees (Note 5)	4,756,500	4,041,271
Dividends paid on investments sold short	241,622	68,494
Operating	98,921	412,374
Audit fees	18,887	36,000
Legal fees	8,526	31,396
Trustees fees	<u>-</u>	<u>15,002</u>
	<u>11,064,007</u>	<u>14,203,752</u>
Net Investment Loss	<u>(8,087,733)</u>	<u>(11,103,368)</u>
Realized and Unrealized Gain (Loss) on Investments		
Transaction costs (Note 2)	(3,391,418)	-
Net realized gain on investments, including foreign exchange adjustments	38,009,261	37,134,759
Net change in unrealized appreciation (depreciation) in value of investments	<u>(3,673,197)</u>	<u>9,742,535</u>
Net Gain on Investments	<u>30,944,646</u>	<u>46,877,294</u>
Increase in Net Assets from Operations	<u>\$ 22,856,913</u>	<u>\$ 35,773,926</u>
Increase in Net Assets from Operations per Unit		
	Series "A"	
	<u>\$ 1.81</u>	<u>\$ 3.05</u>
	Series "F"	
	<u>\$ 1.88</u>	<u>\$ 0.14</u>

The accompanying notes are an integral part of these financial statements.

Front Street Canadian Hedge
Statement of Changes in Net Assets
For the year ended December 31, 2007

	<u>2007</u>			<u>2006</u>
	<u>Series A</u>	<u>Series F</u>	<u>Total</u>	
Increase in Net Assets from Operations	\$ 19,276,947	\$ 3,579,966	\$ 22,856,913	\$ 35,773,926
Capital Transactions				
Sale of units	14,804,083	-	14,804,083	11,478,826
Redemption of units	(18,320,583)	-	(18,320,583)	(18,851,472)
Reinvestment of distributions	24,323,277	4,453,698	28,776,975	5,863,723
	<u>20,806,777</u>	<u>4,453,698</u>	<u>25,260,475</u>	<u>(1,508,923)</u>
Distributions	<u>(15,137,300)</u>	<u>(2,789,130)</u>	<u>(17,926,430)</u>	<u>(10,880,545)</u>
Increase in Net Assets	<u>24,946,424</u>	<u>5,244,534</u>	<u>30,190,958</u>	<u>23,384,458</u>
Net Assets, Beginning of year	179,756,995	32,467,835	212,224,830	188,840,372
Change in Accounting Policy (Note 2)	<u>(1,474,159)</u>	<u>(266,264)</u>	<u>(1,740,423)</u>	<u>-</u>
Net Assets, End of year	<u>\$ 203,229,260</u>	<u>\$ 37,446,105</u>	<u>\$ 240,675,365</u>	<u>\$ 212,224,830</u>

The accompanying notes are an integral part of these financial statements.

Front Street Canadian Hedge

Statement of Investment Portfolio as at December 31, 2007

NUMBER OF SHARES/UNITS	INVESTMENTS OWNED	AVERAGE COST	FAIR VALUE	% of NET ASSETS
Canadian Equities				
Energy				
337,498	Antrim Energy Inc.	\$ 1,985,564	\$ 1,619,990	0.67
331,362	Arcan Resources Limited	1,248,964	772,072	0.32
408,519	Arise Technologies Corporation	598,143	1,033,552	0.43
450,454	Bankers Petroleum Limited	371,922	382,886	0.16
103,666	Birchcliff Energy Limited	450,778	757,798	0.31
29,352	Bronco Energy Limited	358,975	322,285	0.13
1,165,250	C & C Energy Canada Limited	1,751,499	2,043,624	0.85
135,503	CIC Energy Corporation	2,201,923	1,929,562	0.80
48,000	Digit Oil	591	475	-
2,473	Duvernay Oil Corporation	79,812	71,658	0.03
347,500	Epsilon Energy Limited	1,053,869	1,007,750	0.42
124,881	Galleon Energy Inc. 'A'	1,987,484	1,920,670	0.80
43,931	Nuvista Energy Limited	622,473	570,664	0.24
80,293	Oilexco Inc.	862,215	1,058,261	0.44
916	One Exploration Inc. 'A'	-	550	-
206	One Exploration Inc. 'B'	-	558	-
165,026	Pacific Stratus Energy Limited	1,930,533	2,019,917	0.84
22,879	Petrobank Energy and Resources Limited	931,966	1,332,015	0.55
117,062	Petrominerales Limited	1,558,656	2,335,387	0.97
452,679	Plutonic Power Corporation	3,188,255	3,381,512	1.41
315,408	Rock Energy Inc.	1,209,714	788,520	0.33
288,600	Standard Energy Inc.	425,871	432,900	0.18
308,289	Storm Exploration Inc.	2,072,720	2,716,026	1.13
888,673	Sustainable Energy Technologies Limited	209,953	386,573	0.16
1,280,000	Terrawest Energy Company Preferred Shares Restricted	640,000	64,000	0.03
658,453	TG World Energy Corp. Restricted	329,227	321,852	0.13
293,725	TG World Energy Inc.	177,704	152,737	0.06
639,361	Tusk Energy Corporation	1,464,561	907,893	0.38
161,885	UEX Corporation	1,079,854	1,060,347	0.44
71,204	Verenex Energy Inc.	894,700	605,234	0.25
351,175	Waratah Coal Inc.	505,085	790,144	0.33
176,810	Zongshen Pem Power Systems Inc.	495,684	553,415	0.23
		<u>30,688,695</u>	<u>31,340,827</u>	<u>13.02</u>
Materials				
195,833	Advanced Explorations Inc. Restricted	283,958	447,439	0.19
44,919	Agrium Inc.	2,651,491	3,219,345	1.34
595,425	Anglo Minerals Limited	2,641,435	3,215,295	1.34
243,942	Anvil Mining Limited	3,935,607	3,715,237	1.54
67,776	Ascot Resources Limited	117,908	118,608	0.05
268,866	Aurora Energy Resources Inc.	3,801,065	3,629,691	1.51
26,500	Avcorp Industries Inc.	265,025	265,000	0.11
516,563	Blackstone Ventures Inc.	500,589	428,747	0.18
763,685	Cathay Forest Products Corporation	1,145,528	926,044	0.38
260,650	CGX Energy Inc. Restricted	478,020	947,865	0.39
33,231	Consolidated Thompson Iron Mines Limited	233,841	211,349	0.09
658,755	Cordy Oilfield Services Inc.	863,049	783,918	0.33
782,278	Crowflight Minerals Inc.	609,458	477,190	0.20
1,698,969	Cypress Development Corporation	690,814	467,216	0.19
731,402	Entree Gold Inc.	2,247,114	1,762,679	0.73
395,722	Fronteer Development Group Inc.	4,529,011	3,889,947	1.62
192,681	Globestar Mining Corporation	340,475	350,679	0.15
54,302	Goldcorp Inc.	1,723,458	1,832,693	0.76
446,377	Hanfeng Evergreen Inc.	5,373,128	6,517,104	2.71
537,396	Hanwei Energy Services Corporation	2,903,460	2,901,938	1.21

Front Street Canadian Hedge

Statement of Investment Portfolio as at December 31, 2007

NUMBER OF SHARES/UNITS	INVESTMENTS OWNED (CONT'D)	AVERAGE COST	FAIR VALUE	% of NET ASSETS
Materials (Cont'd)				
2,157,143	Hedman Resources Limited	156,500	21,571	0.01
316,511	Ithaca Energy Inc.	1,129,840	990,679	0.41
31,792	JCI Corporation	318	318	-
235,105	Kodiak Exploration Limited Restricted	893,399	1,029,854	0.43
202,779	Largo Resources Limited	111,528	101,390	0.04
86,068	Linear Gold Corporation	388,085	203,120	0.08
157,268	Lundin Mining Corporation	1,749,375	1,494,046	0.62
58,776	Mag Silver Corporation Restricted	911,028	816,587	0.34
146,456	Mercator Minerals Limited	1,063,413	1,325,427	0.55
628,243	Mirabela Nickel Limited	3,108,554	3,706,634	1.54
148,405	Nico Mining Corporation penalty rights	-	-	-
148,405	Nico Mining Corporation	148,405	148,405	0.06
117,025	NOVA Chemicals Corporation	4,231,321	3,763,535	1.56
5,762	Orezone Resources Inc.	6,835	6,896	-
187,984	Osisko Exploration Limited	1,165,501	1,101,586	0.46
1,590,875	Pacific Rubiales Energy Corporation	1,281,547	2,259,043	0.94
155,374	Paladin Resources Limited	1,028,943	899,615	0.37
1,332,184	Peak Gold Limited	783,715	772,667	0.32
481,299	Phoenix Coal Corporation 'A'	632,184	595,037	0.25
749,399	Phoscan Chemical Corporation Restricted	824,339	859,411	0.36
538,284	Platinum Group Metals Limited	2,076,650	2,126,222	0.88
44,870	Potash Corporation of Saskatchewan Inc.	4,855,696	6,420,448	2.67
103,390	Potash One Inc.	330,859	439,408	0.18
293,520	Potash One Inc. Units	777,828	1,147,663	0.48
593,432	Prospero Hydrocarbons Inc.	593,432	593,432	0.25
692,192	Quinto Mining Corporation	460,205	436,081	0.18
127,036	Sherritt International Corporation	1,842,820	1,676,875	0.70
127,443	Sino-Forest Corporation	2,677,201	2,727,280	1.13
122,533	Skye Resources Inc.	1,299,470	949,631	0.39
153,629	Southern Pacific Resources Corporation	281,141	242,734	0.10
62,799	Sprott Molybdenum Participation	312,327	283,851	0.12
607,764	Starfield Resources Inc.	831,363	692,851	0.29
530,177	Tawsho Mining Inc.	265,089	265,089	0.11
8,806	Teck Cominco Limited 'B'	302,712	311,997	0.13
1,254,622	TiCan Titrate Metals Company Inc. 'A'	313,656	313,656	0.13
352,373	Tournigan Gold Corporation	928,325	458,085	0.19
98,153	Yamana Gold Inc.	1,304,682	1,257,340	0.52
		<u>74,402,720</u>	<u>76,546,448</u>	<u>31.81</u>
Industrials				
1,722	3801110 Canada Non-Voting	17	17	-
396,267	AG Growth Income Fund	10,322,173	13,096,624	5.44
200,000	Clean Air Partners	2,000	2,000	-
195,250	Dirtt Environmental Solutions Limited	439,313	439,313	0.18
302,025	Enablence Technologies Inc.	253,029	869,832	0.36
587,764	Enpar Technologies Inc. Restricted	235,106	245,862	0.10
250,000	Future Beach	2,500	2,500	-
528,925	Horizon North Logistics Inc. Restricted	1,745,453	1,630,782	0.68
50,459	Icon Laser	505	505	-
578,647	Intermap Technologies Corporation	2,968,072	5,983,210	2.49
852,610	Loewen Group Inc.	8,526	8,526	-
180,724	Miranda Technologies Inc.	2,024,535	2,024,109	0.84
705,431	Neo Material Technologies Inc.	2,556,789	3,527,155	1.47
441,017	Opel International Inc.	291,895	780,600	0.32
594,963	Pure Technologies Limited	972,215	1,594,501	0.66
192,597	Redline Communications Group Inc	1,215,463	818,537	0.34
255,065	Redline Communications Group Inc.	2,026,978	982,182	0.41

Front Street Canadian Hedge

Statement of Investment Portfolio as at December 31, 2007

NUMBER OF SHARES/UNITS	INVESTMENTS OWNED (CONT'D)	AVERAGE COST	FAIR VALUE	% of NET ASSETS
Industrials (Cont'd)				
1,500,200	SIRIT Inc.	390,052	390,052	0.16
75,794	Zongshen Pem Power Systems Inc. Restricted	231,930	223,001	0.09
		<u>25,686,551</u>	<u>32,619,308</u>	<u>13.54</u>
Consumer Discretionary				
800,000	Delicious Desserts	8,000	8,000	-
209,091	Dominion Citrus Income Fund	211,182	100,364	0.04
270,000	Dynasty Gaming Inc.	140,325	54,000	0.02
27,792	Evertz Technologies Limited	510,445	814,302	0.34
212,142	Groove Media Inc.	520,075	593,998	0.25
161,200	Laidlaw Inc. Preferred Shares	1,612	1,612	-
		<u>1,391,639</u>	<u>1,572,276</u>	<u>0.65</u>
Consumer Staples				
573,440	Saskatchewan Wheat Pool Inc.	6,390,162	7,626,752	3.17
Health Care				
131,760	Atrium Innovations Inc.	2,385,939	2,726,114	1.13
111,386	Cardiome Pharma Corporation	1,372,832	991,335	0.41
236,635	Isotechnika Inc.	390,379	234,269	0.10
88,396	Ondine Biopharma Corporation	153,413	85,744	0.04
807,500	Response Biomedical Corporation	705,495	629,850	0.26
302,995	Theratechnologies Inc.	916,060	3,296,586	1.37
431,385	TSO3 Inc.	1,142,859	1,125,915	0.47
		<u>7,066,977</u>	<u>9,089,813</u>	<u>3.78</u>
Financials				
165,750	BOS Rentals Limited	1,457,700	1,491,750	0.62
149,639	Dundee Corporation 'A'	3,027,307	2,820,695	1.17
55,808	DundeeWealth Inc.	990,330	1,002,312	0.42
4,481,109	Queensway Financial	44,811	44,811	0.02
264,000	Run of River Power Inc.	158,400	121,440	0.05
24,627	The Toronto-Dominion Bank	1,714,275	1,710,345	0.71
		<u>7,392,823</u>	<u>7,191,353</u>	<u>2.99</u>
Information Technology				
840,467	01 Communique Laboratory Inc.	448,451	705,992	0.29
97,858	Absolute Software Corporation	1,919,088	3,582,581	1.50
1,783,750	Atlantis Systems Corporation	720,756	312,156	0.13
93,500	Bridgewater Systems	935	495,550	0.21
272,800	Cannect Networks	2,728	2,728	-
470,459	Cold North Wind	4,705	4,705	-
1,296,752	DragonWave Inc.	5,385,285	6,146,604	2.55
76,718	Embotics Corporation	804,283	882,257	0.37
86,232	Espial Group Inc.	601,811	237,138	0.10
1,180,531	Estation Networks	11,805	11,805	-
1	iseemedia Inc.	-	1	-
186,238	Netactive Inc.	1,862	1,862	-

Front Street Canadian Hedge

Statement of Investment Portfolio as at December 31, 2007

NUMBER OF SHARES/UNITS	INVESTMENTS OWNED (CONT'D)	AVERAGE COST	FAIR VALUE	% of NET ASSETS
Information Technology (Cont'd)				
141,947	Q9 Networks Inc.	2,110,843	1,859,506	0.77
47,480	RuggedCom Inc.	634,166	510,410	0.21
820,761	Sandvine Corporation	3,111,589	3,135,307	1.30
50,000	Segami Images Inc.	500	500	-
1,054,552	The Descartes Systems Group Inc.	4,562,754	4,376,391	1.82
633,000	The Medipattern Corporation	696,300	981,150	0.41
158,383	View 22 Technologies Inc.	277,170	277,170	0.12
1,040,000	WellPoint Systems Inc.	516,733	348,400	0.14
592,187	ZipLocal Inc.	217,477	106,594	0.04
		<u>22,029,241</u>	<u>23,978,807</u>	<u>9.96</u>
Telecommunication Services				
3,152,055	Advantex Marketing International Inc.	255,570	157,603	0.07
88,000	Azonic Networks	880	880	-
2,712,242	Grey Island Systems International Inc.	1,204,820	895,040	0.37
1,123,074	Hemisphere GPS Inc.	2,275,106	4,020,605	1.67
96,800	Kaval Wireless	968	968	-
1,142,446	QuStream Corporation	1,001,590	1,873,611	0.78
263,340	Tranzeo Wireless Technologie	668,264	339,709	0.14
712,722	Wireless Matrix Corporation	737,398	719,849	0.30
		<u>6,144,596</u>	<u>8,008,265</u>	<u>3.33</u>
Utilities				
251,170	Boralex Inc. 'A'	3,953,715	4,332,683	1.80
1,530,777	Ozz Corporation	1,434,575	1,530,777	0.64
381,150	Ozz Corporation 'A' Preferred Shares	345,145	346,500	0.14
		<u>5,733,435</u>	<u>6,209,960</u>	<u>2.58</u>
Total Canadian Equities - Long				
		<u>186,926,839</u>	<u>204,183,809</u>	<u>84.83</u>
Global Equities				
United States				
896,054	AssistMed	471,209	378,426	0.16
1,512	C.O.R.E. Holdings Inc. 'B'	500,261	427,264	0.18
1,921,856	Coolbrands International Inc.	1,832,934	1,633,579	0.68
2,333,333	E-Zone Networks	28,882	23,078	0.01
196,950	International Menu Solutions Corporation Restricted	2,438	1,948	-
127,500	Inviro Medical Inc.	290,052	252,208	0.10
3,520,022	NGTV	1,263,443	1,061,853	0.44
23,714	Oz Optics	294	235	-
458,700	Popcast	5,678	4,537	-
200,000	Stockhouse Media	2,476	1,978	-
17,223	The Mosaic Company	1,141,278	1,602,599	0.67
883,109	Tire Stamp Inc.	1,556,342	1,441,176	0.60
299,000	World Energy Solutions Inc.	313,950	227,240	0.09
466,667	Yummy Interactive Inc. 'B' Preferred Shares	5,776	4,616	-
317,073	Zero Knowledge Systems Inc.	3,925	3,136	-
		<u>7,418,938</u>	<u>7,063,873</u>	<u>2.93</u>
Australia				
458,158	Berkeley Resources Limited	599,355	457,144	0.19
Cayman Islands				
412,364	Coastal Energy Corporation	1,024,968	1,797,907	0.75
United Kingdom				
613,504	Tethys Petroleum Limited	1,818,066	1,809,837	0.75
Total Global Equities - Long				
		<u>10,861,327</u>	<u>11,128,761</u>	<u>4.62</u>

Front Street Canadian Hedge

Statement of Investment Portfolio as at December 31, 2007

NUMBER OF SHARES/UNITS	INVESTMENTS OWNED (CONT'D)	AVERAGE COST	FAIR VALUE	% of NET ASSETS
Bonds				
620,000	Cameco Corporation 5.0% convertible October 1, 2013	1,189,650	2,260,272	0.95
1,622,400	Coalcorp Mining Inc. Series A Notes 12.0% August 4, 2011	1,647,851	1,444,173	0.60
390,400	Crystallex International Corporation 9.375% December 30, 2011	351,277	258,704	0.11
855,000	Divestco Inc. 10.0% convertible November 21, 2008	859,088	855,000	0.36
54,000	Executive Development Corporation Promissary Note 8.0% June 30, 2008	60,891	53,409	0.02
76,500	NGTV 10.0% Promissory Note January 15, 2008	91,567	52,964	0.02
1,260	QuStream Corporation 10.0% Note	1,252,075	1,260,000	0.52
2,500,000	Teleglobe Inc. 5.60373% July 1, 2009	309	247	-
2,361,060	Western Canadian Coal 7.50% March 24, 2011	2,214,455	1,888,848	0.78
	Total Bonds	7,667,163	8,073,617	3.36
Canadian Warrants				
Energy				
178,750	Energy Fuels Inc.	76	-	-
443,294	Govi High Power Explorations Inc.	869,698	876,881	0.37
280,500	Interex Oilfield Services Limited	171,753	182,325	0.08
1,867,317	Pacific Rubiales Energy Corporation	-	1,027,024	0.43
393,599	Sustainable Energy Technologies Limited	-	53,136	0.02
		1,041,527	2,139,366	0.90
Materials				
97,916	Advanced Explorations Inc.	-	37,208	0.02
22,093	Ascot Resources Limited	-	-	-
280,654	Castillian Resources Corporation	-	-	-
48,150	Coalcorp Mining Inc. - CW11	186,710	4,334	-
56,953	Coalcorp Mining Inc.	44,037	9,967	-
314,628	Creston Moly Corporation	-	25,170	0.01
238,853	Crowflight Minerals Inc.	-	-	-
367,820	Farallon Resources Limited	-	-	-
26,926	Geovic Mining Corporation 'B'	-	11,040	0.01
76,704	Geovic Mining Corporation	15	69,801	0.03
60,162	Grande Cache Coal Corporation	25,654	6,919	-
132,231	Great Baisn Gold Limited - CW09	42,200	71,405	0.03
44,798	Inspiraton Mining Corporation	-	-	-
26,174	Inter-Citic Minerals	-	-	-
110,389	Largo Resources Limited	-	-	-
25,175	Metallica Resorces	-	-	-
14,250	Nevsun Resources Limited	2,031	4,418	-
377,698	Nevsun Resources Limited	4,521	-	-
74,202	Nico Mining Corporation	-	-	-
93,992	Osisko Exploration LTEE	56,395	95,872	0.04
346,851	Peak Gold Limited - CW12	83,224	62,433	0.03
110,000	Queensland Minerals Limited	-	-	-
76,797	Quinto Mining Corporation	-	-	-
108,695	Solex Resources Corporation	-	-	-
378,000	Southeast Asia Mining Corporation	93,875	94,500	0.04
223,876	Strateco Resources	-	-	-
265,088	Tawsho Mining Inc.	-	-	-
32,387	Yamana Gold Inc.	32,088	170,356	0.07
		570,750	663,423	0.28

Front Street Canadian Hedge

Statement of Investment Portfolio as at December 31, 2007

NUMBER OF SHARES/UNITS	INVESTMENTS OWNED (CONT'D)	AVERAGE COST	FAIR VALUE	% of NET ASSETS
Industrials				
292,875	Dirtt Environmental Solutions Limited	-	-	-
587,764	Enpar Technologies Inc.	-	1	-
217,558	Opel International Inc.	-	169,902	0.08
178,125	SMTC Manufacturing Corporation of Canada	5,797	5,344	-
		<u>5,797</u>	<u>175,247</u>	<u>0.08</u>
Consumer Discretionary				
270,000	Dynasty Gaming Inc.	125	-	-
Health Care				
26,867	Isotechnika Inc.	-	-	-
179,550	Warnex Inc.	1,530	-	-
368,939	YM Biosciences Inc.	258,257	-	-
		<u>259,787</u>	<u>-</u>	<u>-</u>
Financials				
168,750	Medical Ventures Corporation	152	-	-
153,000	Sprott Molybdenum Part - CW09	33,882	99,450	0.04
		<u>34,034</u>	<u>99,450</u>	<u>0.04</u>
Information Technology				
250,350	Automated Benefits Corporation	-	-	-
166,745	Grey Island Systems International Inc.	-	-	-
79,191	View 22 Technologies Inc.	-	-	-
540,000	WellPoint Systems Inc.	153	1	-
		<u>153</u>	<u>1</u>	<u>-</u>
Telecommunication Services				
82,500	Immersive Media Corporation	-	-	-
	Total Canadian Warrants	<u>1,912,173</u>	<u>3,077,487</u>	<u>1.30</u>
Global Warrants				
United States				
448,026	AssistMed	240	-	-
306,000	BioSyntech Inc.	-	-	-
67,500	Executive Development Corporation	-	-	-
312,556	Geovic Mining Corporation	408,950	287,552	0.12
150,000	Special Indian	1,857	1,484	-
		<u>411,047</u>	<u>289,036</u>	<u>0.12</u>

Front Street Canadian Hedge

Statement of Investment Portfolio as at December 31, 2007

NUMBER OF SHARES/UNITS	INVESTMENTS OWNED (CONT'D)	AVERAGE COST	FAIR VALUE	% of NET ASSETS
	Cayman Islands			
199,219	PetroWorld Corporation	347	529,127	0.22
	Total Global Warrants	411,394	818,163	0.34
	Total Warrants	2,323,567	3,895,650	1.62
	Transaction Costs	(402,264)	-	-
	TOTAL INVESTMENTS OWNED	207,376,632	227,281,837	94.43
NUMBER OF SHARES/UNITS	INVESTMENT SOLD SHORT	PROCEEDS ON SHORT SALE	FAIR VALUE	% OF NET ASSETS
	Canadian Equities			
	Energy			
(38,199)	Cameco Corporation	(1,575,004)	(1,513,062)	(0.63)
(5,900)	Mahalo Energy Limited	(17,016)	(15,340)	(0.01)
(14,686)	Penn West Energy Trust	(430,285)	(379,486)	(0.16)
(5,949)	Suncor Energy Inc.	(606,760)	(642,551)	(0.27)
		(2,629,065)	(2,550,439)	(1.07)
	Material			
(79,580)	Aurizon Mines Limited	(308,534)	(308,770)	(0.13)
(58,776)	Mag Silver Corporation	(912,204)	(875,763)	(0.36)
(5,762)	Orezone Resources Inc.	(6,639)	(6,914)	-
(58,776)	Strateco Resources Inc.	(175,235)	(174,566)	(0.07)
(5,900)	Uranium One Inc.	(50,941)	(52,098)	(0.02)
		(1,453,553)	(1,418,111)	(0.58)
	Industrials			
(117,490)	Horizon North Logistics Inc.	(423,470)	(390,067)	(0.16)
	Telecommunication Services			
(20,650)	Telus Corporation	(966,520)	(1,022,175)	(0.42)
	Transaction Costs	(5,345)	-	-
	TOTAL INVESTMENTS SOLD SHORT	(5,477,953)	(5,380,792)	(2.23)
	NET INVESTMENTS OWNED	\$ 201,898,679	221,901,045	92.20
	OTHER NET ASSETS		18,774,320	7.80
	TOTAL NET ASSETS		\$ 240,675,365	100.00

The accompanying notes are an integral part of these financial statements.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2007

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 (the "Trust Agreement"). HSBC 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 interests in two series of units (the "Trust Units"), designated as common "A" series units (the "A units") and "F" series units (the "F 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.

Adoption of new accounting standards

On April 1, 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, Financial Instruments – Recognition and Measurement, of the CICA Handbook – Accounting ("Section 3855"). Section 3855 establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. The adoption of Section 3855 resulted in the use of different valuation techniques for certain investments. The new accounting standard applies to fiscal years beginning on or after October 1, 2006. For financial reporting purposes, on January 1, 2007, the Fund adopted Section 3855.

Section 14.2 of National Instrument 81-106 ("NI 81-106"), issued by the Canadian Securities Administrators ("CSA") in 2005, requires the daily net asset value of an investment fund to be calculated in accordance with GAAP. As the adoption of Section 3855 results in the use of different valuation techniques than previously used, Canadian securities regulatory authorities have granted relief to investment funds, for the purposes of calculating and reporting the net asset value (other than for financial reporting purposes) on each valuation date (the "Transaction NAV"), from complying on an interim basis with Section 3855, until the earlier of September 30, 2008 or the date on which the proposed amendments to NI 81-106 issued by the CSA on June 1, 2007 come into effect.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Transaction NAV and the net asset value calculated in accordance with Section 3855 (the "GAAP NAV") of an investment fund is required in the notes to the financial statements. Refer to Note 8 for the reconciliation as at December 31, 2007.

The following summarizes the accounting policies of the Trust for the year ended December 31, 2007 as a result of the adoption of Section 3855, and for the comparative year ended December 31, 2006 prior to the adoption of Section 3855.

Valuation of investments

The fair value of investments as at the financial reporting year end is determined as follows:

(a) Adoption of Section 3855

Investments that are held for trading are presented at fair value. The fair value of investments as at the financial reporting period end is determined as follows:

- (i) Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation date. Securities sold short listed upon a recognized public stock exchange are valued at their ask prices on the valuation date. In a situation where, in the opinion of the Manager, a market quotation for a security is inaccurate, unreliable or not readily available, the fair value of the security is estimated using valuation techniques, on such basis and in such manner as established by the Manager.
- (ii) Securities not listed upon a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner as established by the Manager.
- (iii) Short term notes, treasury bills, bonds, asset backed securities and other debt instruments are valued at the bid quotations from recognized investment dealers.

(b) Prior to the adoption of Section 3855

Investments owned and investments sold short are valued by the Manager based on external pricing sources to the extent possible in accordance with the Trust Agreement as of the close of business on the relevant business day.

- (i) When available, closing and/or average prices will be obtained from broker dealers and exchanges; however, such prices may be adjusted if a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from external sources. In addition, prices may be adjusted to reflect bid offer pricing spreads in which securities markets close at different times.
- (ii) Securities for which market quotations are available, but which are restricted as to saleability or transferability will be valued as provided above, less an appropriate discount based on the value and terms of the restrictions.
- (iii) Where market quotations are not available, the fair value will be determined by the Manager based on standard industry practice.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Cont'd)

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. With the adoption of Section 3855, the transaction costs are expensed and are included in "Transaction costs" in the Statement of Operations. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from the sale of investments. There is no impact on the net asset value of the Trust in using either of these methods.

Cost of investments

The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding transaction costs. Prior to the adoption of Section 3855, transaction costs were included in the determination of cost of investments.

The following accounting policies were not impacted by the adoption of Section 3855:

Investment transactions and income recognition

Investment transactions are recorded on the transaction date and any realized gains or losses are recognized using the average cost of the investment. Interest income is recognized on an accrual basis, with dividends being recorded on the ex-dividend date. Distributions from income funds include trusts and limited partnerships and are recognized on the ex-distribution date. Net realized gains (losses) on the sale of investments include net realized gains or losses from foreign currency changes.

Interest and borrow fees

As a result of taking both long and short positions, the Trust incurs both interest expense and borrow fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses.

Income tax

The Trust is taxed as a mutual fund trust under the Income Tax Act (Canada). The Trust is required to make distributions each year of its net income and net realized capital gains, and therefore will not generally be liable for income tax. It is the intention of the Trust to distribute all of its net income and net realized capital gains on an annual basis. Accordingly, no tax provision has been recorded.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign exchange

The fair value of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the closing rate of exchange on each valuation date. Purchases and sales of investments and income derived from investments are translated at the rate of exchange prevailing on the respective dates of such transactions. The Trust does not separately report the effects of changes in foreign exchange rates from changes in market prices on investments held. Such changes are included in net realized and unrealized gain or loss on investments.

Net asset value per unit

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

Increase (decrease) in net assets from operations per unit

Increase (decrease) 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 weighted average number of units outstanding of that series during the year.

3. DUE FROM BROKER (CASH BALANCES)

Due from broker is an account holding cash balances and short-term, highly liquid investments with original maturities of 356 days or less.

4. DUE TO BROKER

Due to broker are margin accounts representing cash loans 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 "A" 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 each Series 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 a minimum performance as specifically defined in the Trust Agreement.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2007

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.

	Series "A"	Series "F"	Total 2007	Total 2006
Balance, Beginning of year	10,130,493	1,808,800	11,939,293	12,034,494
Issued:				
On new subscriptions	2,129,138	244,143	2,373,281	1,023,583
Redeemed	<u>(957,591)</u>	<u>-</u>	<u>(957,591)</u>	<u>(1,118,784)</u>
Balance, End of year	<u>11,302,040</u>	<u>2,052,943</u>	<u>13,354,983</u>	<u>11,939,293</u>

7. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Trust's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests.

Market price risk

Market price 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 or 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 the changes in net assets from operations.

Currency risk

The Trust may invest in financial instruments denominated in currencies other than its measurement currency. Consequently, the Trust is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of the portion of the Trust's assets or liabilities denominated in currencies other than Canadian dollars.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2007

8. RECONCILIATION OF NET ASSET VALUE

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Transaction NAV and the GAAP NAV of an investment fund is required. 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 short) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining Transaction NAV. For investments that are not traded in an active market, Section 3855 requires specific valuation techniques be used which may differ from those valuation techniques used in prior years. These changes account for the difference between Transaction NAV and GAAP NAV.

	Net Asset Value			Net Asset Value Per Unit		
	Transaction NAV	Section 3855 Adjustment	GAAP NAV	Transaction NAV	Section 3855 Adjustment	GAAP NAV
Series A	\$ 204,536,171	\$ (1,306,911)	\$ 203,229,260	\$ 18.10	\$ (0.12)	\$ 17.98
Series F	\$ 37,686,910	\$ (240,805)	\$ 37,446,105	\$ 18.36	\$ (0.12)	\$ 18.24

9. EXPENSES

The Manager may pay out of the Trust property all expenses relating to the operation of the Trust and the carrying on of its business. These expenses may include management fees, performance fees, bookkeeping, legal, audit, trustee, registrar and transfer agency, custodial and safekeeping fees, taxes, brokerage commissions, advertising costs, interest, operating and administrative costs, Unitholder servicing costs, and costs of financial and other reports that are used in complying with the laws, regulations and policies regulating the issue or sale of units.

10. DISTRIBUTION POLICY

The Trust intends to distribute all of its income for purposes of the Tax Act, including sufficient net realized capital gains (less applicable losses), on an annual basis, so that the Trust will not be liable for income tax. Distributions over the life of the Trust will be derived primarily from net realized capital gains and income from the investment portfolio.

As at December 31, 2007, distributions for Series "A" units amounted to \$15,137,300 (2006: \$9,215,987) and for Series "F" units amounted to \$2,789,130 (2006: \$1,664,558).

11. INDEMNIFICATION OF THE MANAGER

The Trust, under the terms of its Trust Agreement, shall indemnify the Manager, its principals and their respective affiliates from all claims that may arise for (i) mistakes of judgment or for action or inaction or for losses due to such mistakes, action or inaction so long as they acted honestly and not in bad faith and reasonably believed that their conduct was in the best interests of the Trust and (ii) losses due to mistakes of judgment or the action or omission of any broker or agent of the Manager, selected, engaged or retained by the Manager, its principals or their respective affiliates.

Front Street Canadian Hedge

Notes to Financial Statements

December 31, 2007

12. STATEMENT OF CASH FLOWS

A statement of cash flows has not been included as management believes that such a statement would not provide additional meaningful information.

13. 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.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.



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