

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
**(Formerly Front Street Rollover Fund)**

**FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

**INDEX**

	Page
Management Report	1
Auditors' Report	2
Statement of Net Assets	3
Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Investment Portfolio	6 - 9
Notes to the Financial Statements	10 - 19

## MANAGEMENT REPORT

### Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Resource Opportunities Fund (Formerly Front Street Rollover Fund) 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 Opportunity Funds Ltd. (Formerly Front Street Rollover Fund Limited). 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 management believes are appropriate for the Fund, are described in note 2 to the financial statements.

The Board of Directors of Front Street Opportunity Funds Ltd. (Formerly Front Street Rollover Fund Limited) is responsible for reviewing the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Board of Directors approves the audited financial statements for publication.

Segal LLP are the external auditors of Front Street Resource Opportunities Fund (Formerly Front Street Rollover Fund). 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



Gary P. Selke  
Management Committee Member  
Front Street Capital 2004



Normand G. Lamarche  
Management Committee Member  
Front Street Capital 2004

December 28, 2007

**AUDITORS' REPORT**

SEGAL LLP  
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A MEMBER OF DFK INTERNATIONAL

**To the Shareholders of  
Front Street Resource Opportunities  
Fund (Formerly Front Street  
Rollover Fund) (the "Fund") of  
Front Street Opportunity Funds Ltd.  
(Formerly Front Street Rollover Fund Ltd.)**

We have audited the statement of net assets of the Front Street Resource Opportunities Fund (Formerly Front Street Rollover Fund) , (the "Fund") as at October 31, 2007 and the statement 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 management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund 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 RESOURCE OPPORTUNITIES FUND**  
**(Formerly Front Street Rollover Fund)**

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

	2007	2006
<b>ASSETS</b>		
Investments, at fair value (cost - \$50,951,969; 2006 - \$36,548,643)	\$ 68,583,056	\$ 33,441,281
Cash and cash equivalents	2,658,274	111,542
Accounts receivable relating to portfolio assets sold	1,128,751	932,403
Amounts receivable relating to accrued income	<u>59,535</u>	<u>27,600</u>
	<u>\$ 72,429,616</u>	<u>\$ 34,512,826</u>
<b>LIABILITIES</b>		
Obligations from portfolio assets sold short, at fair value	\$ 2,868,729	\$ 595,703
Accrued expenses, note 7	408,282	243,587
Performance fees payable	1,888,471	-
Liabilities for portfolio assets purchased	174,020	604,590
Accounts payable relating to shares redeemed	<u>404,456</u>	<u>139,307</u>
	<u>5,743,958</u>	<u>1,583,187</u>
<b>Net assets representing shareholders' equity</b>	<u>\$ 66,685,658</u>	<u>\$ 32,929,639</u>
Shares outstanding, Series B (formerly Series A-1) note 3	<u>5,294,715</u>	<u>3,486,602</u>
Net assets per share	<u>12.59</u>	<u>9.44</u>

**On behalf of the Board of Front Street Opportunity Funds Ltd. (Formerly Front Street Rollover Fund Limited):**



Gary P. Selke  
 Chief Executive Officer and Director



Normand G. Lamarche  
 Chief Financial Officer

See accompanying notes to the financial statements

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

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

	<b>2007</b> <b>(12 months)</b>	<b>2006</b> <b>(8 3/4 months)</b>
<b>Investment income</b>		
Dividend	\$ 37,228	\$ 74,584
Interest	<u>107,160</u>	<u>46,495</u>
	<u>144,388</u>	<u>121,079</u>
<b>Expenses</b>		
Performance fees, note 4	4,881,620	-
Management fees, note 4	1,382,224	879,758
Securityholder reporting costs	144,896	9,464
Servicing fees	139,279	-
Audit fees	55,628	25,956
Legal fees	52,164	64,889
Compensatory dividends	14,633	1,878
Administration fees	11,203	149,186
Other expenses	<u>10,963</u>	<u>10,846</u>
	<u>6,692,610</u>	<u>1,141,977</u>
<b>Net investment loss for the year</b>	<u>(6,548,222)</u>	<u>(1,020,898)</u>
<b>Net realized and unrealized gains on investments</b>		
Net realized gain on the sale of investments	4,051,232	630,943
Transaction costs, note 6	(570,821)	-
Change in the unrealized appreciation (depreciation) of the value of investments	<u>20,928,906</u>	<u>(3,150,325)</u>
<b>Net gain on investments for the year</b>	<u>24,409,317</u>	<u>(2,519,382)</u>
<b>Net increase (decrease) in net assets from operations for the year</b>	<u>\$ 17,861,095</u>	<u>\$ (3,540,280)</u>
Increase (decrease) in net assets from operations per share, Series B (formerly Series A-1)	<u>\$ 3.15</u>	<u>\$ (0.76)</u>

See accompanying notes to the financial statements

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

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

	<b>2007</b> <b>(12 months)</b>	<b>2006</b> <b>(8 3/4 months)</b>
<b>Net assets, beginning of year</b>	\$ 32,929,639	\$ -
Adoption of new accounting policy, notes 2 and 8	<u>(235,181)</u>	<u>-</u>
<b>Adjusted net assets, beginning of year</b>	<u>32,694,458</u>	<u>-</u>
<b>Net increase (decrease) in net assets from operations</b>	<u>17,861,095</u>	<u>(3,540,280)</u>
<b>Distributions to shareholders</b>		
Return of capital	<u>(91,075)</u>	<u>-</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	115,699,887	126,827,793
Aggregate amounts paid on the redemption of shares	(99,569,555)	(90,357,874)
Shares issued on the reinvestment of distributions	<u>90,848</u>	<u>-</u>
	<u>16,221,180</u>	<u>36,469,919</u>
<b>Net increase in net assets for the year</b>	<u>33,991,200</u>	<u>32,929,639</u>
<b>Net assets, end of year</b>	<u>\$ 66,685,658</u>	<u>\$ 32,929,639</u>

See accompanying notes to the financial statements

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
**(Formerly Front Street Rollover Fund)**

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

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Long Positions (102.8%)</b>			
<b>Energy (31.4%)</b>			
Andora Energy Corporation	285,729	\$ 1,286,389	\$ 995,554
BA Energy Inc. Restricted	180,627	1,692,515	1,445,016
BA Energy Inc. Entitlement Restricted	125,000	-	-
BA Energy Inc.	7,254	50,778	50,778
Canadian Natural Resources Limited	20,000	1,139,200	1,571,000
Changfeng Energy Inc.	860,000	215,000	215,000
Cyries Energy Inc.	81,794	940,631	607,729
Duvernay Oil Corporation	51,334	1,736,288	1,734,063
Kereco Energy Limited	229,100	1,785,802	973,675
Mag Silver Corporation Warrants	20,000	-	97,000
Noront Resources Limited	29,773	174,020	175,958
Northpine Energy Limited	92,316	300,027	300,027
Pacific Stratus Energy Limited	86,000	545,179	1,192,820
Peerless Energy Inc. 'A'	281,903	1,029,290	1,460,258
Petro Rubiales Energy Corporation Restricted	438,200	372,470	708,569
Petro Rubiales Energy Corporation Warrants	250,600	-	87,710
Petrobank Energy and Resources Limited	6,514	161,386	306,028
Petrominerales Limited	165,040	566,194	2,993,826
Platoro West Holding	250,000	25,000	25,000
Proex Energy Limited	54,174	738,988	788,773
Storm Exploration Inc.	94,500	656,775	837,270
Talisman Energy Inc.	40,000	816,239	823,200
UEX Corporation	118,700	568,623	995,893
Ultra Petroleum Corporation	6,124	372,037	408,429
Vero Energy Inc.	80,599	595,882	451,354
Waymark Energy Inc. Special Warrants	1,455,000	727,500	1,091,250
West Energy Limited	215,000	<u>1,072,850</u>	<u>526,750</u>
		<u>\$ 17,569,063</u>	<u>\$ 20,862,930</u>
<b>Materials (54.6%)</b>			
Aber Diamond Corporation	15,906	\$ 687,761	\$ 658,190
Africo Resources Limited Warrants	202,437	-	-
Agnico-Eagle Mines Limited	15,786	635,964	850,708
Alturas Minerals Corporation Warrants	248,107	-	-
Antares Minerals Inc.	520,000	464,464	2,366,000
Antares Minerals Inc. Warrants	500,000	-	1,725,000
Anvil Mining Limited	46,618	496,764	889,471
Aranka Gold Inc.	92,000	277,840	216,200

See accompanying notes to the financial statements

## FRONT STREET RESOURCE OPPORTUNITIES FUND

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

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Materials (54.6%) (continued..)</b>			
Aura Minerals Inc.	544,677	\$ 435,742	\$ 827,909
Aurelian Resources Inc.	302,472	2,144,218	2,952,127
Baffinland Iron Mines - CW12	25,000	13,500	37,500
Baffinland Iron Mines Corporation	290,000	741,603	1,336,900
Baja Mining Corporation Warrants	80,000	-	78,400
Brilliant Mining Corporation	218,223	391,036	373,161
Centamin Egypt Limited	832,000	665,449	1,106,560
Centenario Copper Corporation	313,333	972,010	2,039,798
Crystallex International Corporation Warrants	188,150	-	-
Denison Mines Corporation	81,200	786,111	1,077,524
Dia Bras Exploration Inc.	622,900	596,673	554,381
Dianor Resources Inc.	725,000	488,469	355,250
Dynamite Resources Limited - CW	614,418	-	67,586
Dynamite Resources Limited	614,418	491,534	282,632
Farallon Resources Limited Warrants	222,120	-	17,770
Frontera Copper Corporation	86,442	391,871	663,875
Genco Resources Limited	209,740	483,506	801,207
Geoinformatics Exploration Inc.	2,157,000	301,980	312,765
Gold Eagle Mines Limited	65,000	541,700	508,300
Goldcorp Inc.	18,300	522,465	607,194
Guyana Goldfields Inc.	45,800	489,254	443,344
HudBay Minerals Inc.	49,000	1,082,410	1,332,800
Kinross Gold Corporation	55,587	567,500	1,033,354
Mega Uranium Limited Warrants	40,500	-	-
Metalcorp Limited	380,000	536,929	646,000
Metalcorp Limited Warrants	290,000	-	-
Metalex Ventures Limited	1,036,247	891,172	414,499
Murgor Resources Inc.	2,000,000	400,000	300,000
Murgor Resources Inc. Warrants	1,000,000	-	1
Nautilus Minerals Inc. Warrants	75,000	-	-
Nevsun Resources Limited	334,250	904,493	711,953
Nevsun Resources Limited Warrants	192,125	-	-
New Gold Inc.	116,000	1,027,500	713,400
North American Tungsten Corporation Limited	928,400	752,480	1,392,600
Northern Star Mining Corporation	322,300	388,496	306,185
Northern Star Mining Corporation Warrants	250,000	-	-
Osisko Exploration Limited	113,772	644,299	720,177
Peak Gold Limited	677,021	426,523	426,523
Peak Gold Limited - CW 12	388,510	93,243	97,128

See accompanying notes to the financial statements

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
**(Formerly Front Street Rollover Fund)**

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

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Materials (54.6%) (continued..)</b>			
Redcorp Ventures Limited	277,246	139,775	77,629
Redcorp Ventures Limited - CW09	375,666	22,540	28,175
Ridgeback Exploration Limited	320,000	480,000	320,000
Rockwell Diamonds Inc.	348,145	220,893	226,294
Rolling Rock Resources Corporation Warrants	150,000	-	-
Shore Gold Inc.	119,844	896,244	539,298
Silver Wheaton Corporation	78,000	870,375	1,237,860
Sino-Forest Corporation	29,232	369,785	733,723
Soho Resources Corporation Warrants	34,581	-	-
Soho Resources Corporation	974,576	488,163	268,008
Starcore International Ventures Ltd. Warrants	150,000	-	-
Stornoway Diamond Corporation	505,883	532,178	419,883
Thompson Creek Metals Company Warrants	98,600	345,593	1,726,486
Thompson Creek Metals Limited	22,783	165,243	567,297
Tiomin Resources Inc. Warrants	2,050,000	83,250	10,250
Uranium One Inc.	48,180	709,691	493,845
Zacoro Metals Corporation Units	740,121	<u>555,091</u>	<u>555,091</u>
		<u>\$ 26,613,780</u>	<u>\$ 36,448,211</u>
<b>Industrial (0.7%)</b>			
McCoy Corporation	108,688	<u>\$ 570,612</u>	<u>\$ 491,270</u>
<b>Australia (10.9%)</b>			
Aim Resources Limited	1,260,000	\$ 330,810	\$ 271,781
Andean Resources Limited	384,069	381,467	562,997
CBH Resources Limited	897,852	505,126	446,618
Jabiru Metals Limited	1,026,095	884,080	1,431,857
Mantra Resources Limited	445,316	287,835	509,676
Mantra Resources Limited Warrants	222,658	97,857	196,029
Midwest Corporation Limited	843,355	<u>763,418</u>	<u>3,846,122</u>
		<u>\$ 3,250,593</u>	<u>\$ 7,265,080</u>
<b>South Africa (1.1%)</b>			
Platmin Limited	79,351	<u>\$ 471,708</u>	<u>\$ 730,823</u>
<b>United Kingdom (1.7%)</b>			
Caledon Resources PLC	1,337,920	<u>\$ 835,476</u>	<u>\$ 1,135,464</u>

See accompanying notes to the financial statements

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

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

	Number of Shares / Units	Cost \$	Fair Value \$
<b>United States (1.7%)</b>			
Geovic Mining Corp Warrants	184,596	233,141	212,285
Geovic Mining Corp	179,594	422,634	423,842
streetTRACKS Gold Trust	6,915	<u>484,962</u>	<u>513,151</u>
		<u>\$ 1,140,737</u>	<u>\$ 1,149,278</u>
<b>Bonds (0.7%)</b>			
Changfeng Energy Inc. Convertible Debentures	500,000	<u>\$ 500,000</u>	<u>\$ 500,000</u>
<b>Total Long Positions</b>		<u>50,951,969</u>	<u>68,583,056</u>
<b>Short Positions (-4.3%)</b>			
<b>Materials (-4.3%)</b>			
AbitibiBowater Inc.	(18,941)	\$ (676,004)	\$ (612,840)
Energy Select Sector SPDR Fund	(17,600)	(1,100,269)	(1,274,495)
Newmont Mining Corporation	(20,286)	<u>(966,197)</u>	<u>(981,394)</u>
		<u>\$ (2,742,470)</u>	<u>\$ (2,868,729)</u>
<b>Total Short Positions</b>		<u>(2,742,470)</u>	<u>(2,868,729)</u>
<b>Transaction costs, note 2</b>		<u>\$ (128,146)</u>	-
<b>Total Investments (98.5%)</b>		<u>\$ 48,081,353</u>	65,714,327
<b>Cash and cash equivalents (4.0%)</b>			2,658,274
<b>Other assets less other liabilities (-2.5%)</b>			<u>(1,686,943)</u>
<b>Net assets (100.0%)</b>			<u>\$ 66,685,658</u>

See accompanying notes to the financial statements

# FRONT STREET RESOURCE OPPORTUNITIES FUND

(Formerly Front Street Rollover Fund)

## NOTES TO THE FINANCIAL STATEMENTS

### OCTOBER 31, 2007

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#### 1. THE FUND

Front Street Opportunity Funds Ltd. (the "Company") is a mutual fund corporation incorporated under the laws of Canada. The Company was incorporated on January 24, 2006 as Front Street Rollover Fund Limited ("Rollover Fund"). On August 9, 2007, the Company filed Articles of Amendment changing the name of the Company from Front Street Rollover Fund Limited to Front Street Opportunity Funds Ltd. Front Street Resource Opportunities Fund (the "Fund") is a class of shares of Front Street Opportunity Funds Ltd. which is authorized to issue 1,000 classes of non-voting, participating, redeemable mutual fund shares in multiple series.

The foregoing financial statements and accompanying notes to the financial statements presented herein are for the Fund. Separate financial statements of each of the other classes of shares of the Corporation have also been prepared as at October 31, 2007.

On February 9, 2006, Front Street Flow Through 2004-I Limited Partnership merged with the Fund on a tax deferred rollover basis, whereby the partnership units were converted at the rate of 3.173773 shares of the Fund for each partnership unit.

On January 26, 2007, Front Street Flow Through 2005-I Limited Partnership merged with the Fund on a tax deferred rollover basis, whereby the partnership units were converted at the rate of 2.9038 shares of the Fund for each partnership unit.

In August 2007, shareholders approved the proposal to reorganize the capital structure of the Company in order that it now offers multiple classes of shares, issuable in series, with each share class referable to a particular portfolio of assets. Holders of series A-1 shares of the former Rollover Fund had their shares re-designated into Front Street Resource Opportunities Fund series B shares. Series A and series F shares of this Fund were also created at the time.

Front Street Capital 2004 is the manager of the Fund (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. BMO Nesbitt Burns Inc. is the custodian and Citigroup Fund Services Canada Inc. provides fund accounting and shareholder recordkeeping services.

The Fund's investment objective is to provide Fund security holders capital appreciation through investment in a diversified portfolio of equity securities of Resource Issuers engaged in oil and gas or mining exploration, development or other forms of energy production, pulp and paper, forestry industries, or energy product and related resource businesses, such as pipeline or services companies and utilities. The Fund's portfolio (the "Portfolio") will include securities the Investment Advisor believes are undervalued and may include short positions in securities the Investment Advisor believes are overvalued.

The Investment Advisor will manage the relative weightings of the Fund's long and short positions to achieve the Fund's investment objective. The Fund will also engage in pairs trading, special warrant arbitrage, merger arbitrage, convertible arbitrage and trading in securities of issuers that may be involved in restructurings or business unit dispositions. The Portfolio will consist primarily of investments, which generate capital gains, but will also include investments, which generate income.

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

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**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 Instruments - 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 cost 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.

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.

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

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

b) Valuation of investments (continued..)

- 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.

- 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 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.

- vii) 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 RESOURCE OPPORTUNITIES FUND**  
**(Formerly Front Street Rollover Fund)**

**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 RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

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**3. SHARES ISSUED AND OUTSTANDING**

In the past, the shares of the Fund were generally issued in connection with transfers of assets to the Fund under Mutual Fund Rollover Transactions as prospectus and registration exempt transactions. However, from time to time the Fund may issue additional shares pursuant to prospectus and registration exemptions under applicable securities laws. Shares issuable to investors are categorized into series. At this time, only series B (formerly series A-1) shares have been issued. 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 3% applies to shares of this series sold within the first 18 months following acquisition. A redemption fee of 2% applies to shares of this series sold after the first 18 months and prior to 36 months following acquisition. No redemption fee applies to shares of this series sold after the first 36 months 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.

The following share transactions took place during the year:

Series B (formerly series A-1)

	2007	2006
Shares outstanding, beginning of the year:	3,486,602	-
Shares issued during the year:	11,625,072	12,900,874
Shares redeemed during the year:	<u>(9,816,959)</u>	<u>(9,414,272)</u>
Shares outstanding, end of the year:	<u>5,294,715</u>	<u>3,486,602</u>

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

---

**4. MANAGEMENT AND PERFORMANCE FEES**

Until July 2007 , the Fund paid the Investment Advisor a monthly management fee equal to one-twelfth of 2.5% of the net asset value of the Fund, based on the average weekly net asset value of the Fund calculated and paid at the end of each month in arrears from each Fund series. Commencing in August 2007 , the Fund pays the Manager a monthly management fee equal to one-twelfth of 1.5% of the net asset value of the Fund, based on the average weekly net asset value of the Fund calculated and paid at the end of each month in arrears from each Fund series.

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.

If the Fund generates a return on investment equal to or greater than 6% in any fiscal year, then an annual performance fee shall be payable to the Investment Advisor equal to 20% of the increase in net asset value, calculated as the Net Asset Value of the Fund at the end of the year, less the Net Asset Value of the Fund at the beginning of the year, less additions during the year, plus any withdrawals during the year.

**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:

- (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.

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

---

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

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 \$570,821 (2006 - \$356,952).

7. **RELATED PARTY TRANSACTIONS**

Management fees of \$1,162,521 (2006 - \$879,758) were paid to the Investment Advisor, a company under common control to the Manager, and management fees of \$219,703 (2006 - Nil) were paid to the Manager during the year (see note 4). Performance fees of \$4,881,620 (2006 - \$Nil) were also paid to the Investment Advisor during the year (see note 4). Included in accrued expenses are \$84,742 (2006 - Nil) of management fees payable to the Manager.

78,411.871 (2006 - 88,531.649) of series B (formerly series A-1) shares outstanding at year end representing 1.48% (2006 - 2.54%) of the total series B (formerly series A-1) shares of the Fund are held by the Partners of the Manager.

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
**(Formerly Front Street Rollover Fund)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

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

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of Front Street Capital 2004 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 \$40,301 (2006 - \$Nil) 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 Corporation, 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.

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 Assets per Share</u>		Opening NAV
	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA	
Series B (formerly Series A-1)	67,125,367	(439,709)	66,685,658	12.67	12.59	(235,181)

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

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**9. FINANCIAL INSTRUMENTS**

The Fund's financial instruments consist of investments at fair value, cash and cash equivalents, accounts receivable relating to portfolio assets sold, amounts receivable relating to accrued income, obligations from portfolio assets sold short at fair value, accrued expenses, performance fees payable, liabilities for portfolio assets purchased and accounts payable relating to shares redeemed. 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 value of the portion of the Fund's assets or liabilities denominated in currencies other than Canadian dollars.

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 current 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.

**FRONT STREET RESOURCE OPPORTUNITIES FUND**  
(Formerly Front Street Rollover Fund)

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2007**

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**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. SUBSEQUENT EVENTS**

On December 31, 2007 the Fund declared and paid a capital gains dividend in the amount of \$2.259996 per share to the shareholders of record on December 28, 2007. Except for those shareholders which have requested that any dividends be paid in cash, the dividend was paid in the form of additional shares at the post-dividend net asset value per share on December 31, 2007.

On January 16, 2008, Front Street Flow Through 2006-I Limited Partnership and Front Street Flow Through 2006-II Limited Partnership announced that they will merge with the Fund on a tax deferred rollover basis (the "Mutual Fund Rollover Transaction"). The Mutual Fund Rollover Transaction will take place on January 31, 2008 after the close of business.

**12. COMPARATIVE AMOUNTS**

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