



**frontierAlt Oasis™ Funds Management Inc.**

# **Management Report on Fund Performance**

**frontierAlt Oasis™ Canada Fund**

**December 31, 2007**

350 Bay Street Suite 1300, Toronto Ontario M5H 2S6  
Tel: (416) 623-3173 Toll Free: 1-866-745-5545 Ext. 3173 Fax: (416) 360-6202  
Website: [www.frontieralt.com](http://www.frontieralt.com) E-mail: [info@frontieralt.com](mailto:info@frontieralt.com)

**Management Report of Fund Performance**  
**As at December 31, 2007**  
**frontierAlt Oasis™ Canada Fund**

*This Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the fund. You can get copy of the annual financial statements at your request, and at no cost, by calling 1 (866) 745-5545 ext. 3173, by writing to us at frontierAlt Capital Corporation, 350 Bay Street, Suite 1300, Toronto, Ontario, M5H 2S6 or by visiting our website at [www.frontieralt.com](http://www.frontieralt.com) or SEDAR at [www.sedar.com](http://www.sedar.com).*

*Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.*

**Forward-Looking Information**

This Annual Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operation of the investment fund. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed forward-looking information. Without limiting the foregoing, the words “believes”, “anticipates”, “plans”, “intends”, “will”, “should”, “expects”, “projects”, and similar expressions are intended to identify forward-looking information.

The Manager of the investment fund believes it has a reasonable basis for making the forecasts or projections included in this Annual Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

Any forward-looking information presented in this Annual Management Report of Fund Performance is solely the view of the Manager of the investment fund at December 31, 2007, and is subject to change at any time without notice as markets and events warrant.

## **Management Report on Fund Performance**

### **frontierAlt Oasis™ Canada Fund**

## **Management Discussion of Fund Performance**

### **Investment Objectives**

The Fund's principal investment objective is to provide investors with long-term capital growth. The Fund invests principally in equity securities of Canadian public companies in accordance with Islamic investment principles.

### **Investment Strategies**

The Fund seeks to achieve its fundamental investment objective by investing in a portfolio of securities within the Dow Jones Islamic Market Capital Index.

### **Risk**

Please see the prospectus for a full discussion of the overall risk. The financial period saw no material changes affecting the overall level of risk.

### **Results of Operations**

The Fund's net assets (Series A) increased by 33.7% for the one year ended December 31, 2007. The Fund's performance is discussed below.

### **Portfolio Manager Commentary**

It's amazing the difference 12 months can make. Think of the economic outlook at this point last year; the big question in financial services was: how long can such good times last? Private equity firms were flush with cash and had no difficulty raising vast sums of capital to take over US and European companies. Investment banks were making huge profits and commercial banks lent freely to homeowners and consumers. The US economy continued to grow and there seemed to be no end to the rise in commodity prices, which created large sums of wealth in countries like Russia and the Middle East. Yes, US housing prices began to fall, however, this was seen as an isolated problem that would not spread into the credit markets or affect other economies.

Recently, the US marketplace has had several difficult months and the rest of the world is coming to the realization that the shorter-term outlook is not bright. Central banks are still pouring liquidity into financial markets. Only the Middle East and Asia seem to be in calm waters. The major risks going into 2008 is the financial crisis lingers on and it may get worse before it gets better. Another risk is the persistent high inflation which could destabilize the global bond market. Higher inflation will also place constraints on

monetary policy. This in turn could make a downturn harder and longer and the banking crisis more severe. The problem is not the headline inflation rate but rather the rise in inflationary expectations.

Therefore, most troubled businesses in 2008 are still likely to be the banks, which will continue to suffer from writedowns and lack of liquidity. The lack of confidence in the banking industry will continue to leak into cyclicals; the auto industry is already suffering and could spread into other durable goods and consumer discretionary items. The companies that will do well are most likely to be globally diversified; they should have stronger revenue growth as they escape tepid consumer markets in their own country. The commodity boom should continue albeit at a slower pace. However, all is not lost, in these bleak times it becomes easier for value investors to find cheap assets in dislocated markets and troubled industries.

The prospect of a recession looming over the horizon is just as much a reality as stagflation was a concern when Ben Bernanke (before becoming Chairman of the Federal Reserve) gave his famous speech about dropping bags of money from a helicopter.

As all good things must come to an end, and the end to this party is leaving many in the infirmary. Subprime loans made to unqualified borrowers and investors unwittingly buying repackaged securities on the premise they were triple-A rated debt instruments are all feeling the effects of fear after enjoying their moment of euphoric greed.

Given the aggressive actions taken by the US Fed, we continue to believe that we are in a moderate slowdown and that these actions will lead to an inflation cycle that will be more benefit equity markets. As such we have moderately increased exposure to cash.

## **Recent Developments**

### **Independent Review Committee**

Under the provision of National Instrument 81-107 – Independent Review Committee for Investment Fund (“NI 81-107”), which came into force on November 1, 2006 it is now required that all publicly offered investment funds, such as the Fund, establish an independent review committee (“IRC”) to whom the Manager is to refer all conflict of interest matters in order to obtain a recommendation or approval, as applicable. NI 81-107 further mandates that the IRC be composed of at least three independent members and requires that they conduct assessments and regularly report to the Manager and unitholders in respect of its duties. The manager appointed its three person IRC on May 1, 2007, but was not required to be in full compliance with NI 81-107 prior to November 1, 2007. The independent members of the Fund’s IRC are Andrew Jones (Chair), Zareer Pavri and Michael Singer.

## **Accounting Policy Change**

In the preparation of its financial statements from January 1, 2007 onwards, the Fund adopted CICA Handbook Section 3855, Financial Instruments-Recognition Measurement, which includes new requirements for both valuing securities and accounting for transaction costs such as brokerage commissions. The new requirements would also affect the calculation of the Fund's net asset value for investor transaction purposes. The Canadian Securities Administrators ("CSA") has proposed amendments to its regulations. If enacted, these amendments would allow the Fund to adopt Section 3855 without affecting the method by which the Fund's net asset values are calculated. In the meantime, the CSA has granted all investment funds a temporary exemption from adopting this new accounting standard, leaving the calculation of the net asset value unchanged.

## **Related Party Transactions**

The following arrangements result in fees paid by the Fund to frontierAlt or to companies affiliated with frontierAlt:

### **Management & Portfolio Management Services**

In consideration for management services, the Fund paid no management fees to frontierAlt Oasis Funds Management Inc. beyond the amount required for trailer fees paid to dealers. This management fee is based on the Net Asset Value per Unit of the Fund. It is accrued daily and paid at month-end as a percentage of the daily net assets.

MAK, Allen & Day Capital Partners, an affiliate of frontierAlt Oasis Fund Management Inc. did not receive fees in its capacity as portfolio manager to the Fund.

### **Administration Services**

The Fund paid \$11,872 to KeiData Back-office Solutions Inc. ("KeiData") for administration services. KeiData is a subsidiary of frontierAlt Capital Corporation

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for period ended December 31. The information is derived from the Fund's audited annual financial statements.

<b>Net Asset Value (NAV) per Unit Class A</b>	<b>Dec 2007</b>	<b>Dec 2006</b>
<b>Net asset value, beginning of year</b>	\$ 9.85	\$ 10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.12	0.00
Total expenses	(0.35)	(0.08)
Realized gains (losses)	(0.20)	0.00
Unrealized gains (losses)	<u>(0.58)</u>	<u>(0.07)</u>
<b>Total increase (decrease) from operations(1)</b>	(1.01)	(0.15)
<b>Distributions:</b>		
From income (excluding dividends)	0.00	0.00
From dividends	0.00	0.00
From capital gains	0.00	0.00
Return of capital	<u>0.00</u>	<u>0.00</u>
<b>Total distributions(2)</b>	<u>0.00</u>	<u>0.00</u>
<b>Net asset value, end of year</b>	<u>\$ 8.80</u>	<u>\$ 9.85</u>

<b>Net Asset Value (NAV) per Unit Class F</b>	<b>Dec 2007</b>
<b>Net asset value, beginning of year</b>	\$ 10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.13
Total expenses	(0.34)
Realized gains (losses)	(0.21)
Unrealized gains (losses)	<u>(0.59)</u>
<b>Total increase (decrease) from operations(1)</b>	(1.02)
<b>Distributions:</b>	
From income (excluding dividends)	0.00
From dividends	0.00
From capital gains	0.00
Return of capital	<u>0.00</u>
<b>Total distributions(2)</b>	<u>0.00</u>
<b>Net asset value, end of year</b>	<u>\$ 9.75</u>

(1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease in operations is based on the weighted average number of units outstanding over the financial period.

(2) Distributions were [paid in cash/reinvested in additional units of the Fund], or both.

## Ratios and Supplemental Data

For the periods ended	Dec 2007	Dec 2006
Net assets Class A (000's) (1)	\$ 2,092	\$ 1,564
Number of units outstanding	237,702	158,762
Management expense ratio (2)	3.68%	8.08%
Management expense ratio before waivers or absorptions (2)	7.46%	12.49%
Portfolio turnover rate (3)	257.34%	102.04%
Trading expense ratio (4)	0.93%	1.41%

For the periods ended	Dec 2007
Net assets Class F (000's) (1)	\$ 49
Number of units outstanding	5,000
Management expense ratio (2)	11.02%
Management expense ratio before waivers or absorptions (2)	19.81%
Portfolio turnover rate (3)	257.34%
Trading expense ratio (4)	0.93%

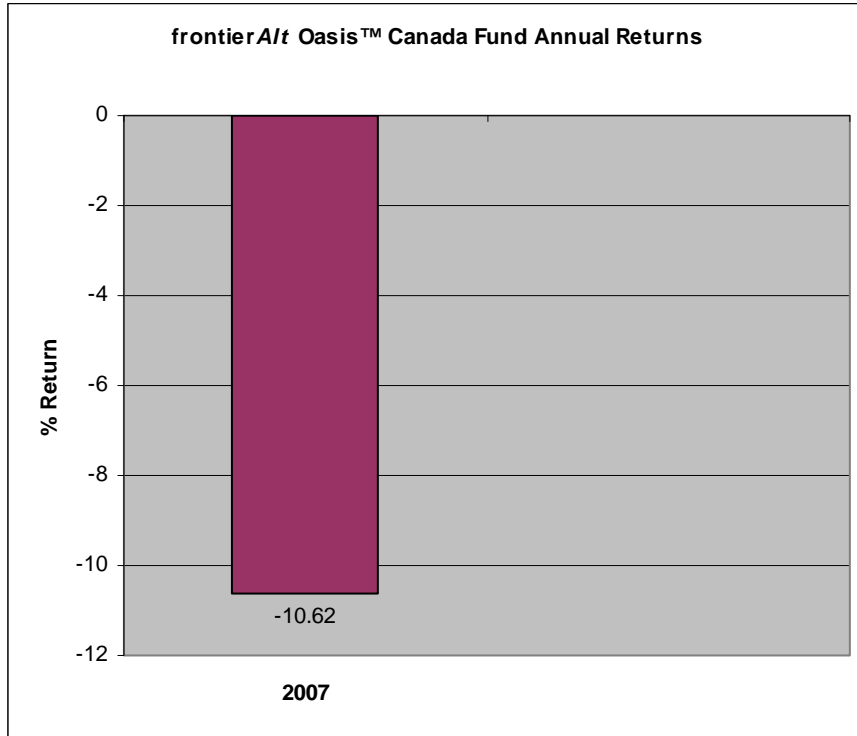
- (1) This information is provided as at period end of the year shown.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investment. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage daily average net assets during the period.

## Past Performance

The following charts show the past performance of the Fund and do not necessarily indicate how the Fund will perform in the future.

## Year by Year Returns:

The following chart shows the annual performance for the Fund for each year shown, indicating how the Fund's performance has varied from year to year:



## Annual Compound Returns:

The following table shows the average annual compound total return for each period indicated, compared with the Dow Jones Islamic Canada Index (period ending December 31, 2007):

Period	frontierAlt Oasis™ Canada Fund	DJIM (CAD)
1 year	-10.6%	17.9%
Since Inception <sup>(1)</sup>	-10.9%	15.8%

(1) Annualized for the period November 23, 2006 (Commencement of operations) to December 31, 2007.

## Summary of Investment Portfolio as at December 31, 2007:

<b><u>Sector Allocation</u></b>	<b>Percentage of Fund</b>
Materials	19.9%
Industrials	14.6%
Consumer Staples	7.5%
Energy	6.5%
Telecommunication Services	3.2%
Foreign Equities	1.8%
Consumer Discretionary	1.7%
Health Care	0.3%
Cash	47.3%
Other assets less other liabilities	-2.8%
	100.0%

### **Top Holdings**

<b>Issuer</b>	<b>Percentage of Fund</b>
Shoppers Drug Mart Corporation	7.5%
Canadian National Railway Company	6.5%
Teck Cominco Limited Class B SV	5.1%
The Thomson Corporation	4.7%
Cameco Corporation	4.6%
ProEx Energy Ltd.	3.8%
Uranium One Inc.	3.3%
Manitoba Telecom Services Inc.	3.2%
Canadian Pacific Railway Limited	3.0%
Yamana Gold Inc.	3.0%
Canadian Tire Coporation Limited A NV	1.7%
Trican Well Service Ltd.	1.4%
Duvernay Oil Corp.	1.4%
Pfizer Inc.	1.0%
IAMGOLD Corporation	0.9%
Ivanhoe Mines Ltd.	0.9%
Quadra Mining Ltd.	0.8%
Breakwater Resources Ltd.	0.8%
Motorola Inc.	0.7%
UEX Coporation	0.5%
Labrador Iron Ore Royalty Income Fund	0.3%
Biovail Corporation	0.3%

This Summary of Investment Portfolio may change due to the ongoing portfolio transactions of the Fund and a quarterly update is available at [www.frontieralt.com](http://www.frontieralt.com). The weightings of the positions are calculated based on total net asset value of the portfolio as at December 31, 2007.