

Annual Management Report of Fund Performance As at October 31, 2007 Front Street Canadian Equity Fund Class

This Annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements for Front Street Canadian Equity Fund, a class of shares of Front Street Mutual Funds Limited fund (the "Fund"). The annual financials of the Fund are attached behind this report and you can also get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-800-513-2832, by writing to us at Front Street Capital 2004, 33 Yonge Street, Suite 600, Toronto, Ontario M5E 1G4 or by visiting our web site at www.frontstreetcapital.com or SEDAR at www.sedar.com

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

Forward Looking Information

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

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

The above list of important factors affecting forward looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund's filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Annual Management Report of Fund Performance, and the Fund undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Management Discussion of Fund Performance

Investment Objective and Strategies

The Fund's investment objective is to provide securityholders with long term capital growth through the selection, management and strategic trading of long and short positions in equity, debt and derivative securities. The Fund will invest primarily in Canadian equities and may focus its assets in specific industry sectors and asset classes based on analysis of business cycles, industry sectors and market outlook. The Fund may also invest in foreign equities.

The Fund's Investment Advisor, Front Street Investment Management Inc., may also consider non-investment factors such as cash flow and liquidity requirements, hold periods and restrictions, risk factors, stop-loss containment and tax efficient distributions.

The Front Street Canadian Equity Fund's portfolio will consist primarily of investments which generate capital gains, but will also include investments which generate income. In managing the portfolio, the Investment Advisor intends to use strategies including: investing in undervalued securities, short selling overvalued securities, managing long/short positions, pairs trading, trading in securities of distressed issuers, special warrant arbitrage, merger arbitrage, convertible arbitrage, and participation in restructurings.

From time to time the Fund may invest in other mutual funds and may purchase securities of, or enter into specified derivative transactions for which the underlying interest is based on the securities of other mutual funds. Such investments may be entered into in conjunction with other strategies and investments in a manner considered most appropriate to achieving the Fund's investment objectives stated above and enhancing returns as permitted by securities regulations.

Risk

Most of the Fund's assets will be invested in common shares and other equity securities. The Fund will therefore be subject to stock market risk. The Fund may also invest in foreign securities that may expose the Fund, to a limited extent, to the risk of investments in foreign securities and foreign currency risk. The Fund may invest in relatively illiquid securities that may expose the Fund to liquidity risk. The Fund may also be exposed to sector risk due to its investments being concentrated in a limited number of sectors. The Fund may also be exposed to the risks of selling securities short, the risks of investing in derivatives, and the risk associated with investing in securities of junior industrial, technology and natural resource companies.

Currency risk proved to have an effect on the Fund's returns, as the Canadian dollar strengthened, relative to the U.S. dollar, over the year. Currency risk impacted principally the Fund's investments that had revenue in U.S. dollars. Volatility in currency markets continues to be high, suggesting uncertainty going forward on this front.

Equity risk also affected Fund volatility. Specifically, the threat of oil-supply disruptions kept the price of oil high. While market volatility was high overall, the high price of commodities was a positive factor that contributed to Canadian equity market performance, particularly in the materials sector.

Interest-rate risk was also a factor, as global central banks and bond and equity markets closely monitored the U.S. Federal Reserve's monetary policy activities and public communications for indications as to when the current cycle of monetary policy tightening may be ending. As higher borrowing costs tend to slow the economy, rising interest rates tend to have a negative impact on the outlook for corporate-profit growth and therefore equity market performance.

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

The Fund has multiple risks associated with equity markets. Investors whose primary concern is preservation of capital should not be invested in this Fund. The Fund is suitable for investors seeking long-term growth with a high tolerance for risk and volatility and a long-term investment horizon.

The risks of investing in the Fund are further discussed in the Fund's Annual Information Form dated June 13, 2007.

Results of Operations

The Investment Advisor continued to focus on long-term capital appreciation for the portfolio during 2006 and the early part of 2007. Sector allocation to the materials and energy sectors significantly contributed to the returns for the year. Company concentration was not evident as the Investment Advisor continued its long-standing commitment to a diversity of names while maintaining a focus on the sectors that had high appreciation potential.

Interest rate increases had only a slight negative impact for the Fund. Currency volatility also had a slight negative impact as revenues denominated in U.S. dollar declined when converted to Canadian dollar on most investee company's income statements. .

Recent Developments

The Fund anticipates that volatility will continue in the equity markets for the foreseeable future. The perception exists that inventory levels are tight in most commodity groups leading to an inability to cushion any shocks to the system. Despite this, and even with a changing interest rate and credit environment, economic growth has continued unabated.

Adoption of New Accounting Standards

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

Related Party Transactions

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of Front Street Mutual Funds Limited, the manager of the Fund, and the Investment Advisor, provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution-only basis. For the year ended October 31, 2007, Tuscarora Capital Inc. received \$25,885 in commission on portfolio transactions for the Fund.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements.

FRONT STREET CANADIAN EQUITY FUND CLASS SERIES A

FOR THE YEARS ENDED	October 31, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$

The Fund's Net asset (NAV) per Share

Net asset, beginning of year (7)	10.15	10.00	-	-	-
Increase (decrease) from operations:					
Total revenue	0.16	0.05	-	-	-
Total expenses	(0.43)	(0.34)	-	-	-
Realized gains (losses)	0.83	0.08	-	-	-
Unrealized gains (losses)	1.36	0.52	-	-	-
Total increase (decrease) from operations ⁽¹⁾	1.92	0.31	-	-	-

Distributions:

From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total distributions ⁽²⁾	-	-	-	-	-
Net asset, end of year (7)	12.63	10.20	-	-	-

Ratios and Supplemental Data Series A

Net assets (000's) ⁽³⁾	74,852	8,348	-	-	-
Number of shares outstanding	5,927,710	818,687	-	-	-
Management expense ratio ⁽⁴⁾	3.59%	9.95%	-	-	-
Management expense ratio before waivers or absorptions	3.59%	9.95%	-	-	-
Portfolio turnover rate ⁽⁵⁾	310.74%	156.19%	-	-	-
Trading expense ratio ⁽⁶⁾	1.31%	0.67%	-	-	-

FRONT STREET CANADIAN EQUITY FUND CLASS SERIES B

FOR THE YEARS ENDED	October 31, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$

The Fund's Net asset (NAV) per Share

Net asset, beginning of year (7)	10.17	10.00	-	-	-
Increase (decrease) from operations:					
Total revenue	0.16	0.05	-	-	-
Total expenses	(0.43)	(0.32)	-	-	-
Realized gains (losses)	0.75	0.11	-	-	-
Unrealized gains (losses)	1.24	0.41	-	-	-
Total increase (decrease) from operations ⁽¹⁾	1.72	0.25	-	-	-

FRONT STREET CANADIAN EQUITY FUND CLASS SERIES B

FOR THE YEARS ENDED	October 31, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total distributions ⁽²⁾	-	-	-	-	-
Net asset, end of year (7)	12.64	10.22	-	-	-

Ratios and Supplemental Data Series B

Net assets (000's) ⁽³⁾	33,571	2,026	-	-	-
Number of shares outstanding	2,655,860	198,270	-	-	-
Management expense ratio ⁽⁴⁾	3.59%	8.86%	-	-	-
Management expense ratio before waivers or absorptions	3.59%	8.86%	-	-	-
Portfolio turnover rate ⁽⁵⁾	310.74%	156.19%	-	-	-
Trading expense ratio ⁽⁶⁾	1.31%	0.67%	-	-	-

FRONT STREET CANADIAN EQUITY FUND CLASS SERIES F

FOR THE YEARS ENDED	October 31, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$

The Fund's Net asset (NAV) per Share

Net asset, beginning of year (7)	9.93	10.00	-	-	-
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Increase (decrease) from operations:

Total revenue	0.14	0.03	-	-	-
Total expenses	(0.47)	(0.23)	-	-	-
Realized gains (losses)	0.58	0.04	-	-	-
Unrealized gains (losses)	1.32	0.26	-	-	-
Total increase (decrease) from operations	1.57	0.10	-	-	-

Distributions:

From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total distributions	-	-	-	-	-

Net asset, end of year (7)	12.15	9.98	-	-	-
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Ratios and Supplemental Data Series F

Net assets (000's) ⁽³⁾	4,474	241	-	-	-
Number of shares outstanding	368,183	24,168	-	-	-
Management expense ratio ⁽⁴⁾	4.05%	9.38%	-	-	-
Management expense ratio before waivers or absorptions	4.05%	9.38%	-	-	-
Portfolio turnover rate ⁽⁵⁾	310.74%	156.19%	-	-	-
Trading expense ratio ⁽⁶⁾	1.31%	0.67%	-	-	-

- (1) Net asset and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.
- (2) Distributions were paid in cash and/or reinvested in additional shares of the Fund.
- (3) This information is provided as at period end of the year shown.
- (4) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. In the period a series is established, the management expense ratio is annualized from the date of inception to October 31.
- (5) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- (6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
- (7) The relief granted by the Canadian securities regulatory authorities from complying with Section 3855 results in a difference between GAAP NAV and Transactional NAV due to the use of different valuation techniques for certain investments. We have adopted the provisions of Section 3855 retroactively without restatement of prior periods. Accordingly, the beginning of period net asset for the current period is adjusted.

Management and Performance Fees

The Fund pays the Investment Advisor a monthly fee equal to one-twelfth of 2.5% of net asset value of the applicable series of the Fund, payable monthly in arrears, calculated without regard to any accrual of performance bonuses (as described below) and before payment of such fee.

The Investment Advisor may earn an annual performance bonus (a “Performance Bonus”) in each fiscal quarter if the percentage gain in the new asset value of a series of the Fund (as adjusted for any prior return deficiencies) over the preceding calendar quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the benchmark over the same period. The benchmark for the Fund is the S&P/TSX Composite Index (the “Index”).

The fee will be equal to this excess return per security multiplied by the number of securities outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per security of the Fund (including distributions) is greater than all previous values at the end of each previous calendar quarter. The starting reference point for the next calendar quarter’s calculation will be based on the higher of either the Index performance adjusted net asset value per security or the adjusted actual net asset value per security, both with respect to the previous quarter in which a performance fee was payable.

Dealer Compensation

Brokers, dealers and advisors may be paid a share of the management fee – called a “trailer commission”, for assets that their sales representatives place in the Series A and Series B Fund securities. The Fund may, at its discretion, negotiate, change the terms and conditions of, or discontinue the trailer commission with brokers, dealers and advisors.

The trailer commission is calculated as a percentage of assets each broker, dealer or advisor has placed in the Fund series. The trailer commission is calculated based on the closing balance of client accounts for each calendar month. The trailer commission will not be paid if the assets are removed from the Funds. Trailer commissions are paid quarterly at rates set within ranges according to the following table.

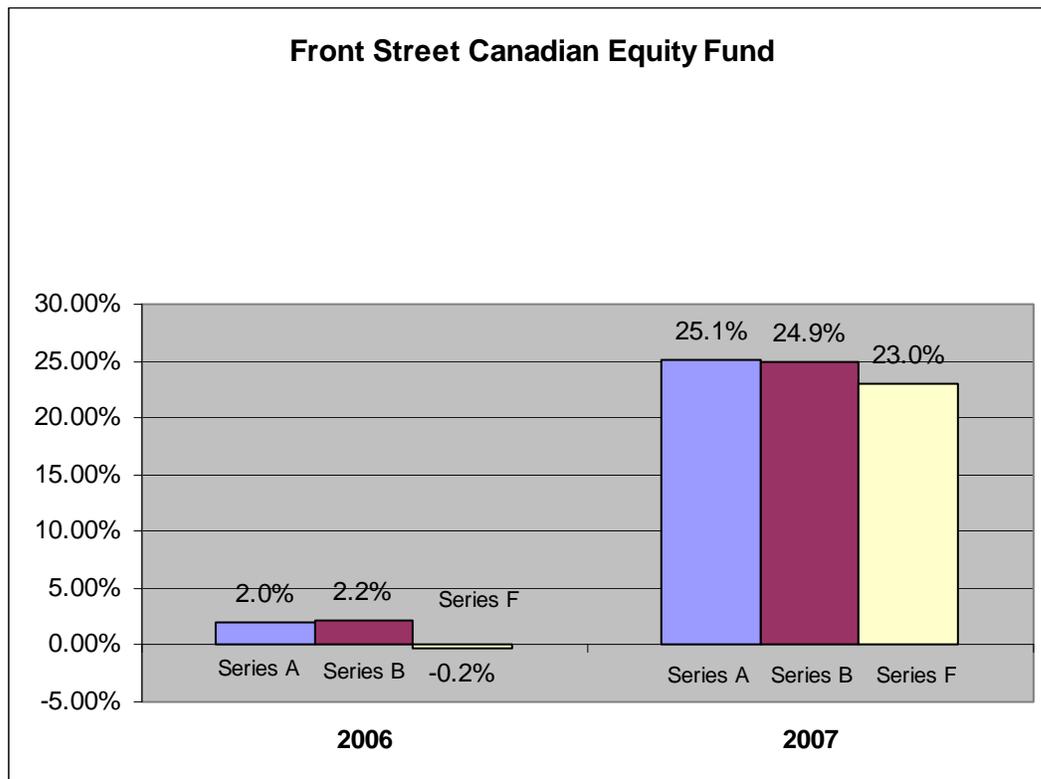
Series	Trailer Annual Rate	Annual Payment per \$1,000 of Fund securities held
A	1.00%	\$10.00
B	1.00%	\$10.00
F	0.00%	Nil

Past Performance

The past performance of the Fund is set out below and includes year-to-date returns.

With respect to the charts displayed below, please note the following:

- (a) the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional shares of the Fund;
- (b) the return or performance information does not take into account sales, redemption, distribution or other optional charges or income taxes payable that would have reduced returns or performance; and
- (c) how the Fund has performed in the past does not necessarily indicate how it will perform in the future.



Annual Compound Returns

The following table shows the Fund's historical annual compound total return and year-to-date return since inception, as compared to the performance of the S&P/TSX Composite Index (the "Index").

	Since Inception June 28, 2006
Front Street Canadian Equity Fund Series A	27.51%
S&P/TSX Composite Index	29.06%
	Since Inception June 22, 2006
Front Street Canadian Equity Fund Series B	27.64%
S&P/TSX Composite Index	31.40%
	Since Inception August 3, 2006
Front Street Canadian Equity Fund Series F	22.71%
S&P/TSX Composite Index	22.52%

The Index is a float market capitalization that tracks the performance of some of the largest and most widely held Canadian stocks listed on the Toronto Stock Exchange. Prior to May 1, 2002, this index was called the TSE 300 Composite Index.

Summary of Investment Portfolio as at October 31, 2007

FRONT STREET CANADIAN EQUITY FUND CLASS

	% of Total
Cash and Cash Equivalents	8.6
LONG POSITIONS	
Information Technology	37.7
Energy	16.7
Materials	10.6
Telecommunication Services	8.8
Industrials	7.7
Health Care	3.9
Consumer Discretionary	1.7
Consumer Staples	1.2
Utilities	1.1
Corporate Bonds	0.3
SHORT POSITIONS	
Materials	(0.1)
Information Technology	(0.9)
Total Investments Portfolio	88.7
Total Investments Portfolio Including Cash and Cash Equivalents	97.3
Other Assets	2.7
Total Net assets	100.0

Top 25 Investments

Absolute Software Corporation	3.6%
DragonWave Inc.	3.5%
SiRF Technology Holdings Inc.	2.7%
Research In Motion Limited	2.6%
Addax Petroleum Corporation	2.4%
Sandvine Corporation	2.4%
Intermap Technologies Limited	2.4%
Nokia Corporation ADR	2.3%
Petrobank Energy and Resources Limited	2.3%
SAVVIS Inc.	2.2%
HudBay Minerals Inc.	2.2%
Pacific Stratus Energy Limited	2.1%
Akamai Technologies Inc.	2.0%
Petro Rubiales Energy Corporation	2.0%
Cisco Systems Inc.	1.9%
Polycom Inc.	1.8%
Lawson Software Inc.	1.8%
Internap Networks Services Corporation	1.8%
MacDonald Dettwiler and Associates	1.7%
Magma Design Automation Inc.	1.6%
Oilexco Inc.	1.6%
Kaboose Inc.	1.5%
Atheros Communications	1.5%
Telefonaktiebolaget LM Ericsson	1.4%
Lundin Mining Corporation	1.4%

The information contained in the foregoing list may change due to the ongoing portfolio transactions of the Fund. A quarterly update may be obtained by contacting the Investment Advisor.

FRONT STREET CANADIAN EQUITY FUND CLASS

**FINANCIAL STATEMENTS
OCTOBER 31, 2007**

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MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Canadian Equity Fund Class of Front Street Mutual Funds Limited have been prepared by the management of Front Street Mutual Funds Limited, the Manager of the Fund, and approved by the Board of Directors of Front Street Mutual Funds 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 the Manager believes are appropriate for the Fund, are described in note 2 to the financial statements.

The Board of Directors of Front Street Mutual Funds Limited is responsible for reviewing the financial statements, the adequacy of internal controls, the audit process and financial reporting with the Manager and the external auditors. The Board of Directors approves the audited financial statements for publication.

Segal LLP are the external auditors of Front Street Canadian Equity Fund Class. 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 Mutual Funds Limited,
Manager of the Fund



Gary P. Selke
Chief Executive Officer and Director



Murray Plaskett
Chief Financial Officer

December 28, 2007

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A MEMBER OF DFK INTERNATIONAL

AUDITORS' REPORT

**To the Shareholders of
Front Street Canadian Equity Fund Class (the "Fund") of
Front Street Mutual Funds Limited**

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

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

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



Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 28, 2007

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENT OF NET ASSETS AS AT OCTOBER 31, 2007

	2007	2006
ASSETS		
Investments, at fair value (cost - \$94,576,414; 2006 - \$5,315,815)	\$ 101,252,344	\$ 5,663,875
Cash and cash equivalents	9,678,810	5,131,647
Accounts receivable relating to shares issued	1,083,495	553,964
Accounts receivable relating to portfolio assets sold	4,038,113	153,399
Amounts receivable relating to accrued income	<u>11,036</u>	<u>2,133</u>
	<u>\$ 116,063,798</u>	<u>\$ 11,505,018</u>
LIABILITIES		
Obligations from portfolio assets sold short, at fair value	\$ 1,068,871	\$ 253,549
Accrued expenses, note 7	378,174	123,539
Liabilities for portfolio assets purchased	1,673,907	513,638
Accounts payable relating to shares redeemed	<u>45,004</u>	<u>-</u>
	<u>3,165,956</u>	<u>890,726</u>
Net assets representing shareholders' equity	<u>\$ 112,897,842</u>	<u>\$ 10,614,292</u>
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 74,852,304	\$ 8,347,619
Shares outstanding, Series A, note 3	5,927,710	818,687
Net assets per share, Series A	<u>12.63</u>	<u>10.20</u>
Net assets, Series B	\$ 33,571,260	\$ 2,025,513
Shares outstanding, Series B, note 3	2,655,860	198,270
Net assets per share, Series B	<u>12.64</u>	<u>10.22</u>
Net assets, Series F	\$ 4,474,278	\$ 241,160
Shares outstanding, Series F, note 3	368,183	24,168
Net assets per share, Series F	<u>12.15</u>	<u>9.98</u>

On behalf of the Board of Front Street Mutual Funds Limited:



Gary P. Selke
Chief Executive Officer and Director
See accompanying notes to the financial statements



Murray Plasket
Chief Financial Officer

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENT OF OPERATIONS FOR THE YEAR ENDED OCTOBER 31, 2007

	2007 (12 months)	2006 (4 1/3 months)
Investment income		
Interest	\$ 761,423	\$ 24,301
Dividend	<u>4,721</u>	<u>2,997</u>
	<u>766,144</u>	<u>27,298</u>
Expenses		
Management fees, note 4	1,616,875	52,963
Administration fees	103,877	33,204
Legal fees	89,412	54,108
Performance fees, note 4	76,603	-
Custodial fees	63,149	5,300
Securityholder reporting costs	41,545	16,780
Audit fees	33,973	9,664
Other expenses	<u>2,189</u>	<u>25,508</u>
	<u>2,027,623</u>	<u>197,527</u>
Net investment loss for the year	<u>(1,261,479)</u>	<u>(170,229)</u>
Net realized and unrealized gains on investments		
Net realized gain on the sale of investments	3,784,951	49,224
Transaction costs, note 6	(734,266)	-
Change in the unrealized appreciation of the value of investments	<u>6,943,952</u>	<u>289,844</u>
Net gain on investments for the year	<u>9,994,637</u>	<u>339,068</u>
Net increase in net assets from operations for the year	<u>\$ 8,733,158</u>	<u>\$ 168,839</u>
Increase in net assets from operations applicable to outstanding shares allocated as follows:		
Increase in net assets from operations, Series A	\$ 6,185,923	\$ 136,245
Increase in net assets from operations per share, Series A	<u>\$ 1.92</u>	<u>\$ 0.31</u>
Increase in net assets from operations, Series B	\$ 2,356,896	\$ 30,451
Increase in net assets from operations per share, Series B	<u>\$ 1.72</u>	<u>\$ 0.25</u>
Increase in net assets from operations, Series F	\$ 190,339	\$ 2,143
Increase in net assets from operations per share, Series F	<u>\$ 1.57</u>	<u>\$ 0.10</u>

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

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

	2007 (12 months)	2006 (4 1/3 months)
Series A		
Net assets, beginning of year	\$ 8,347,619	\$ -
Adoption of new accounting policy, notes 2 and 8	<u>(41,078)</u>	<u>-</u>
Adjusted net assets, beginning of year	<u>8,306,541</u>	<u>-</u>
Net increase in net assets from operations	<u>6,185,923</u>	<u>136,245</u>
Shareholder transactions		
Proceeds from the issuance of shares	60,480,484	8,265,504
Aggregate amounts paid on the redemption of shares	(825,780)	(47,072)
Net transfer from (to) shares of other funds	<u>705,136</u>	<u>(7,058)</u>
	<u>60,359,840</u>	<u>8,211,374</u>
Net increase in net assets for the year	<u>66,545,763</u>	<u>8,347,619</u>
Net assets, end of year	<u>\$ 74,852,304</u>	<u>\$ 8,347,619</u>
Series B		
Net assets, beginning of year	\$ 2,025,513	\$ -
Adoption of new accounting policy, notes 2 and 8	<u>(9,976)</u>	<u>-</u>
Adjusted net assets, beginning of year	<u>2,015,537</u>	<u>-</u>
Net increase in net assets from operations	<u>2,356,896</u>	<u>30,451</u>
Shareholder transactions		
Proceeds from the issuance of shares	30,164,517	2,195,512
Aggregate amounts paid on the redemption of shares	(1,164,732)	(200,450)
Net transfer from shares of other funds	<u>199,042</u>	<u>-</u>
	<u>29,198,827</u>	<u>1,995,062</u>
Net increase in net assets for the year	<u>31,555,723</u>	<u>2,025,513</u>
Net assets, end of year	<u>\$ 33,571,260</u>	<u>\$ 2,025,513</u>

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED OCTOBER 31

	2007 (12 months)	2006 (4 1/3 months)
Series F		
Net assets, beginning of year	\$ 241,160	\$ -
Adoption of new accounting policy, notes 2 and 8	<u>(1,187)</u>	<u>-</u>
Adjusted net assets, beginning of year	<u>239,973</u>	<u>-</u>
Net increase in net assets from operations	<u>190,339</u>	<u>2,143</u>
Shareholder transactions		
Proceeds from the issuance of shares	4,309,124	239,017
Aggregate amounts paid on the redemption of shares	(74,574)	-
Net transfer to shares of other funds	<u>(190,584)</u>	<u>-</u>
	<u>4,043,966</u>	<u>239,017</u>
Net increase in net assets for the year	<u>4,234,305</u>	<u>241,160</u>
Net assets, end of year	<u>\$ 4,474,278</u>	<u>\$ 241,160</u>
Total		
Net assets, beginning of year	\$ 10,614,292	\$ -
Adoption of new accounting policy, notes 2 and 8	<u>(52,241)</u>	<u>-</u>
Adjusted net assets, beginning of year	<u>10,562,051</u>	<u>-</u>
Net increase in net assets from operations	<u>8,733,158</u>	<u>168,839</u>
Shareholder transactions		
Proceeds from the issuance of shares	94,954,125	10,700,033
Aggregate amounts paid on the redemption of shares	(2,065,086)	(247,522)
Net transfer from (to) shares of other funds	<u>713,594</u>	<u>(7,058)</u>
	<u>93,602,633</u>	<u>10,445,453</u>
Net increase in net assets for the year	<u>102,335,791</u>	<u>10,614,292</u>
Net assets, end of year	<u>\$ 112,897,842</u>	<u>\$ 10,614,292</u>

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2007

	Number of Shares / Units	Cost \$	Fair Value \$
Long Positions (89.7%)			
Information Technology (37.7%)			
01 Communique Laboratory Inc.	1,199,084	\$ 864,212	\$ 1,019,221
Absolute Software Corporation	106,173	2,584,861	4,102,525
* Akamai Technologies Inc.	60,000	2,158,962	2,228,681
* Atheros Communications	50,000	1,470,237	1,652,563
Automated Benefits Corporation Warrants May 2, 2008	15,000	23	-
* BigBand Networks	200,000	2,316,808	1,092,211
Call Genie Inc.	46,452	46,452	62,246
* Cisco Systems Inc.	70,000	2,228,961	2,196,579
* DivX Inc.	95,000	1,465,307	1,109,781
DragonWave Inc.	581,712	2,900,963	3,897,470
Dynasty Gaming Inc. Warrants November 15, 2008	15,000	-	-
Embotics Corporation Restricted	13,302	133,020	133,020
EMCORE Corporation	50,000	513,724	510,490
Espial Group Inc.	71,283	550,106	372,810
EXFO Electro-Optical Engineering Inc.	130,000	975,743	790,400
Grey Island Systems International Inc. Warrants March 6, 2008	45,880	-	-
Hemisphere GPS Inc.	242,311	552,257	748,741
* Internap Networks Services Corporation	130,000	1,975,921	2,002,640
* Juniper Networks Inc.	30,000	1,028,306	1,023,734
Kaboose Inc.	575,857	1,480,722	1,716,054
Lawson Software Inc.	200,000	2,049,615	2,032,462
* Local.com Corporation	260,000	1,988,292	1,335,917
* Magma Design Automation Inc.	130,000	1,711,065	1,801,389
Multiplied Media Corporation	909,090	500,000	254,545
* Nokia Corporation ADR	70,000	2,516,002	2,592,814
OPEL International Inc. Warrants May 28, 2010	53,969	-	68,014
* Oracle Corporation	70,000	1,439,569	1,470,591
Pure Technologies Limited	176,277	329,512	493,576
QuStream Corporation	97,058	159,995	176,646
Research In Motion Limited	25,000	2,341,985	2,941,112
Ruggedcom Inc.	9,311	121,043	124,767
Sandvine Corporation	414,129	2,128,564	2,675,273
SMTC Corporation Warrants March 4, 2009	12,500	389	1,000
The Descartes Systems Group Inc.	293,577	1,356,484	1,306,418
The Medipattern Corporation	455,000	500,500	541,450
View 22 Technology Inc. Restricted	31,411	54,969	54,969
View 22 Technology Warrants October 17, 2008	15,705	-	-
		<u>\$ 40,444,569</u>	<u>\$ 42,530,109</u>

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2007

	Number of Shares / Units	Cost \$	Fair Value \$
Energy (16.7%)			
Addax Petroleum Corporation	65,000	\$ 2,436,817	\$ 2,689,050
Antrim Energy Inc.	215,100	1,363,179	1,361,583
Arcan Resources Limited	39,684	151,415	123,814
ARISE Technologies Corporation	477,000	706,490	1,135,260
Breaker Energy Limited 'A'	103,266	592,908	589,649
C & C Energy Canada Limited	150,000	172,500	300,000
C & C Energy Canada Limited Restricted	25,000	50,000	50,000
Hanwei Energy Services Corporation	95,815	534,719	534,648
Highpine Oil & Gas Limited	108,058	1,428,971	919,574
Metallica Resources Inc. Warrants December 20, 2009	1,900	-	-
Oilexco Inc.	101,798	1,276,625	1,751,944
Pacific Stratus Energy Limited	171,214	2,080,688	2,374,738
Petro Rubiales Energy Corporation Restricted	1,234,604	1,049,413	1,996,355
Petro Rubiales Energy Corporation Warrants July 12, 2012	617,302	-	216,056
Petrobank Energy and Resources Limited	55,045	1,436,923	2,586,014
Storm Exploration Inc.	142,589	1,088,353	1,263,339
TransGlobe Energy Corporation	150,000	813,805	798,000
Xtreme Coil Drilling Corporation	17,500	183,750	171,500
		<u>\$ 15,366,556</u>	<u>\$ 18,861,524</u>
Materials (10.6%)			
Agnico-Eagle Mines Limited	25,000	\$ 1,109,310	\$ 1,347,250
Ascot Resources Limited Restricted	11,307	16,961	28,256
Ascot Resources Warrants July 5, 2009	5,653	-	3,109
Breakwater Resources Limited	500,000	1,438,720	1,370,000
Castillian Resources Corporation Warrants April 5, 2009	46,875	-	-
Coalcorp Mining Inc. Warrants August 17, 2011	1,350	1,153	290
Coalcorp Mining Inc. Warrants February 8, 2011	978	1,207	626
Crowflight Minerals Inc. Warrants April 12, 2008	42,887	-	-
DIRTT Environmental Solutions Limited Restricted	28,400	63,900	63,900
DIRTT Environmental Solutions Limited Warrants August 28, 2008	14,200	-	-
Energy Fuels Inc. Warrants May 23, 2008	13,250	-	-
Epsilon Energy Limited	50,000	132,637	201,000
Farallon Resources Limited Warrants December 21, 2008	27,760	-	2,221
Georgia Ventures Inc. Warrants May 9, 2010	66,560	-	-
* Geovic Mining Corporation	153,208	442,697	361,571
* Geovic Mining Corporation Warrants April 27, 2012	5,955	1	4,169

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2007

	Number of Shares / Units	Cost \$	Fair Value \$
Materials (10.6%) (continued..)			
* Geovic Mining Corporation Warrants March 6, 2012	43,334	9	43,334
* Geovic Mining Corporation Warrants November 3, 2011	11,794	-	13,563
Great Basin Gold Limited Warrants April 19, 2009	25,632	-	21,531
HudBay Minerals Inc.	90,000	2,369,596	2,448,000
Inspiration Mining Corporation Restricted	26,214	137,624	131,531
Inspiration Mining Corporation Warrants January 5, 2008	13,107	-	-
Inter-Citic Minerals Inc. Warrants November 9, 2008	5,692	-	-
International Nickel Ventures Warrants November 18, 2008	19,000	8,360	1,520
Kinross Gold Corporation	77,035	1,001,557	1,434,392
Lundin Mining Corporation	120,000	1,532,473	1,534,800
Mercator Minerals Limited	55,618	265,446	541,719
NEO Materials Technologies Inc.	274,009	1,240,383	1,474,168
Nevsun Resources Limited Warrants June 29, 2008	1,000	903	155
Nevsun Resources Limited Warrants October 31, 2009	13,700	-	-
Peak Gold Limited Warrants April 3, 2012	55,183	-	13,796
Queensland Minerals Limited Warrants August 31, 2008	16,000	320	-
Quinto Mining Corporation Warrants December 29, 2008	22,468	-	-
Solex Resources Corporation Warrants August 27, 2008	17,305	-	-
Southeast Asia Mining Corporation Restricted	21,000	5,250	5,250
Sprott Molybdenum Participation Corporation Warrants April 16, 2009	31,631	6,492	31,631
Strateco Resources Inc. Warrants January 31, 2009	38,218	-	-
Tawsho Mining Inc. 'A' Restricted	100,163	50,082	50,082
Tawsho Mining Inc. 'A' Warrants May 9, 2009	50,081	-	-
TiCan Metals Inc. 'A'	281,377	70,344	70,344
Tiomin Resources Inc. Warrants December 7, 2007	66,800	2,705	334
Yamana Gold Inc.	55,086	762,942	782,221
		<u>\$ 10,661,072</u>	<u>\$ 11,980,763</u>
Telecommunication Services (8.8%)			
COM DEV International Limited	150,000	\$ 829,475	\$ 711,000
Enablence Technologies Inc.	254,615	243,319	453,215
* Polycom Inc.	80,000	2,403,178	2,078,810
Redline Communications Group Inc.	210,928	1,456,048	1,303,657
SAVVIS Inc.	70,000	2,803,987	2,463,171
* Telefonaktiebolaget LM Ericsson	55,000	2,114,883	1,564,474
Wi-LAN Inc.	350,000	1,314,410	1,330,000
		<u>\$ 11,165,300</u>	<u>\$ 9,904,327</u>

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2007

	Number of Shares / Units	Cost \$	Fair Value \$
Industrials (7.7%)			
AG Growth Income Fund	15,000	\$ 390,450	\$ 372,000
Intermap Technologies Limited	316,289	1,982,928	2,656,828
Intrinsyc Software International Inc.	1,000,000	641,668	680,000
MacDonald Dettwiler and Associates	43,326	1,910,432	1,927,140
* SiRF Technology Holdings Inc.	110,000	2,467,011	3,092,382
Sustainable Energy Technologies Limited Warrants November 16, 2008	93,619	-	18,256
		<u>\$ 7,392,489</u>	<u>\$ 8,746,606</u>
Health Care (3.9%)			
AEterna Zentaris Inc.	321,810	1,035,825	579,258
Atrium Innovations Inc.	36,652	690,802	827,969
BioSyntech Inc. Warrants March 30, 2009	18,000	99	-
Cardiome Pharma Corporation	93,540	973,336	919,498
* Executive Development Corporation Restricted	2,500	2,264	1,900
Isotechnika Inc.	425,256	651,658	438,014
Isotechnika Inc. Warrants February 15, 2009	12,556	3	-
Medicure Inc.	200,000	306,325	182,000
Response Biomedical Corporation	117,500	99,490	113,975
Response Biomedical Corporation Restricted	100,000	100,000	95,060
SemBioSys Genetics Inc.	100,000	372,495	290,000
Theratechnologies Inc.	30,020	207,540	344,029
TSO3 Inc.	266,648	684,481	565,294
		<u>\$ 5,124,318</u>	<u>\$ 4,356,997</u>
Consumer Discretionary (1.7%)			
Evertz Technologies Limited	29,883	\$ 467,135	\$ 1,128,980
GlobalOptions Group Inc.	150,000	655,461	551,329
Immersive Media Corporation Warrants March 8, 2009	12,000	-	-
TireStamp Inc. Restricted	124,451	241,289	195,025
		<u>\$ 1,363,885</u>	<u>\$ 1,875,334</u>
Consumer Staples (1.2%)			
CoolBrands International Inc.	294,251	\$ 292,723	\$ 270,711
* USANA Health Sciences Inc.	30,000	1,388,002	1,139,129
		<u>\$ 1,680,725</u>	<u>\$ 1,409,840</u>

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2007

	Number of Shares / Units	Cost \$	Fair Value \$
Utilities (1.1%)			
Boralex Inc.	32,231	\$ 486,482	\$ 604,976
Plutonic Power Corporation	72,468	<u>535,095</u>	<u>656,560</u>
		<u>\$ 1,021,577</u>	<u>\$ 1,261,536</u>
Corporate Bonds (0.3%)			
BlueGrouse Seismic Solutions Limited 10.00% Convertible Debentures November 21, 2008	60,000	\$ 60,024	\$ 60,000
Coalcorp Mining Inc. 12.00% August 31, 2011 Series 'A'	1,800	1,933	1,675
Western Canadian Coal Corporation 7.50% Convertible Debentures March 24, 2011	299,583	<u>293,966</u>	<u>263,633</u>
		<u>\$ 355,923</u>	<u>\$ 325,308</u>
Total Long Positions		<u>\$ 94,576,414</u>	<u>\$ 101,252,344</u>
Short Positions (-1.0%)			
Information Technology (-0.9%)			
SAP AG	(20,000)	<u>\$ (1,095,091)</u>	<u>\$ (1,049,472)</u>
Materials (-0.1%)			
Inspiration Mining Corporation	(3,745)	<u>\$ (18,650)</u>	<u>\$ (19,399)</u>
Total Short Positions		<u>\$ (1,113,741)</u>	<u>\$ (1,068,871)</u>
Transaction costs, note 2		<u>\$ (460,755)</u>	-
Total Investments (88.7%)		<u>\$ 93,001,918</u>	100,183,473
Cash and cash equivalents (8.6%)			9,678,810
Other assets less other liabilities (2.7%)			<u>3,035,559</u>
Net assets (100.0%)			<u>\$ 112,897,842</u>

* Non Canadian Holdings

See accompanying notes to the financial statements

FRONT STREET CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

1. THE FUND

Front Street Canadian Equity Fund Class (the "Fund") is a class of shares of Front Street Mutual Funds Limited (the "Corporation"), a mutual fund corporation incorporated under the Canada Business Corporations Act on April 11, 2006, and is authorized to issue an unlimited number of classes of shares in multiple series. Reference is made to the Fund's simplified Prospectus for additional information on the Fund's structure. Series A commenced operations on June 28, 2006. Series B commenced operations on June 22, 2006. Series F commenced operations on August 3, 2006.

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.

Management of Front Street Mutual Funds Limited 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. RBC Dominion Securities Inc. is the custodian and Felcom Data Services Inc. provides fund accounting and shareholder recordkeeping services.

The Fund's investment objective is to provide Fund security holders with long term capital growth through the selection, management and strategic trading of long and short positions in equity, debt and derivative securities. The Fund's portfolio (the "Portfolio") will include securities the Fund's 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 CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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 of the value of investments. Securities for which reliable quotations are not readily available are valued at fair value, as determined in good faith and pursuant to procedures established by the Manager.
- ii) Any investment for which a market quotation is not readily available ("private companies") shall be valued at cost, in the absence of any subsequent financing, or shall be valued at its fair value as determined by the Manager.

FRONT STREET CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (Continued..)

b) Valuation of investments (continued..)

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

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

- viii) The 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 CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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 CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

3. SHARES ISSUED AND OUTSTANDING

The authorized capital of the Fund consists of an unlimited number of mutual fund shares, available in three series. Redemption and commission fees vary according to each series of shares as follows:

Series A shares

Redemption fees payable to the Manager may be applicable upon the sale of shares of this series based on the original cost amount and the time to disposition. A redemption fee of 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 3% of the gross purchase amount, at the discretion of the broker, dealer or advisor.

Series F shares

No redemption or commission fees are applicable to shares of this series.

The Fund allocates income and expenses, and realized and unrealized capital gains and losses to each class of shares outstanding based on the average class allocation for the year.

FRONT STREET CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

3. SHARES ISSUED AND OUTSTANDING (Continued..)

The following share transactions took place during the year:

	2007	2006
Shares outstanding, beginning of the year:		
Series A	818,687	-
Series B	198,270	-
Series F	24,168	-
Shares issued during the year:		
Series A	5,393,801	844,233
Series B	2,637,397	218,942
Series F	375,779	24,168
Shares distributions reinvested during the year:		
Series A	-	-
Series B	-	-
Series F	-	-
Shares redeemed during the year:		
Series A	284,778	25,546
Series B	179,807	20,672
Series F	31,764	-
Shares outstanding, end of the year:		
Series A	5,927,710	818,687
Series B	2,655,860	198,270
Series F	368,183	24,168

FRONT STREET CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

4. MANAGEMENT AND PERFORMANCE FEES

The Fund pays the Investment Advisor a monthly management fee equal to 1/12 of 2.5 % of the 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, reporting issuer filing and sustaining fees, custodial fees, fees payable to and expenses incurred by the Independent Review Committee and expenses of making distributions to shareholders. As the Fund has more than one series of shares, the shareholders of each series bear their pro rata share of those expenses which are common to the operation of all series as well as those expenses which are attributable solely to that series.

The Fund pays the Investment Advisor a performance fee if the percentage gain in the net asset value of a series of the Fund (as adjusted for any prior return deficiencies) over the preceding fiscal quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the benchmark (the "Benchmark") over the same period. The Benchmark for the Fund will be the S&P/TSX Composite Index. The fee will be equal to this excess return per share multiplied by the number of shares outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per share of the Fund (including distributions) is greater than all previous values at the end of each previous fiscal quarter. The starting reference point for the next fiscal quarter's calculation will be based on the higher of either the Benchmark performance adjusted net asset value per share or the adjusted actual net asset value per share, both with respect to the previous quarter in which a performance fee was payable.

5. INCOME TAX AND DISTRIBUTION

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

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

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NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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

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

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

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

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

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

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

6. **TRANSACTION COSTS**

The total brokerage commissions paid by the Fund with respect to securities transactions for the year ended October 31, 2007 was \$734,266 (2006 - \$37,752)

7. **RELATED PARTY TRANSACTIONS**

Management fees of \$1,616,875 (2006 - \$52,963) were paid to the Investment Advisor, a company under common control to the Manager, during the year (see note 4). Performance fees of \$76,603 (2006 - Nil) were also paid to the Investment Advisor during the year (see note 4). Included in accrued expenses are \$225,458 (2006 - \$13,186) of management fees payable to the Investment Advisor.

28,487,222 (2006 - 8,025,441) of series B shares outstanding at year end representing 1.07% (2006 - 4.05%) of the total series B shares of the Fund are held by the Partners of Front Street Capital 2004, a partnership under common control to the Manager.

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NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

7. RELATED PARTY TRANSACTIONS (Continued.)

955.97 (2006 - Nil) of series F shares outstanding at year end representing 0.26% (2006 - Nil) of the total series F shares of the Fund are held by relatives of the Partners of Front Street Capital 2004, a partnership under common control to the Manager.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non affiliated, qualified brokerage firms, on an execution only basis. During the year ended October 31, 2007, Tuscarora Capital Inc., a company under common control to the Manager, received \$25,885 (2006 - \$2,292) 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 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 Asset Value per Share</u>		Opening NAV
	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA	Section 3855 Adjustment
Series A	75,551,790	(699,486)	74,852,304	12.75	12.63	(41,078)
Series B	33,885,003	(313,743)	33,571,260	12.76	12.64	(9,976)
Series F	4,515,955	(41,677)	4,474,278	12.27	12.15	(1,187)
Total Net Asset Value	113,952,748	(1,054,906)	112,897,842			(52,241)

FRONT STREET CANADIAN EQUITY FUND CLASS

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

9. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of investments at fair value, cash and cash equivalents, accounts receivable relating to shares issued, accounts receivable relating to portfolio assets sold, amounts receivable relating to accrued income, obligations from portfolio assets sold short at fair value, accrued expenses, 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 fair 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 its 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.

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NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2007

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. **COMPARATIVE AMOUNTS**

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