

Annual Management Report of Fund Performance As at October 31, 2012 Front Street Growth Class (Formerly Front Street Small Cap Fund)

This Annual Management Report of Fund Performance contains financial highlights but does not contain the complete Annual financial statements for Front Street Growth Class (the "Fund"), a class of shares of Front Street Mutual Funds Limited. 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 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 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 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 OBJECTIVES AND STRATEGIES

The investment objective of the Fund is to seek capital appreciation primarily through investment in equity securities of a diversified group of publicly traded small capitalization companies and to a lesser extent in equity securities of a diversified group of private companies.

The Investment Advisor 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.

Although the Fund invests primarily in Canadian companies, it may invest anywhere in the world and, depending on market conditions, it may shift its emphasis from one industry sector to another. The Fund focuses on companies that have the potential for further growth, and on securities of growing companies.

The Fund may invest in foreign securities up to a maximum of 40% of the total cost of the Fund's property. Typically, the Fund invests between 0% and 10% of the total cost of the Fund's property in foreign securities.

The 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 and use of derivatives.

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 traded in a wide range relative to the U.S. dollar, over the year. Although the Canadian dollar started and ended the year at parity with the US dollar, there were a few swings of greater than 5% in relative value. 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. Market volatility was very high this year, as each recovery seemed to be met by a sell-off. Fears of political and economic events around the world influenced stock market direction.

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 interest rate policy. Any major increase in interest rates could stifle economic growth.

Credit risk was another factor this past year. In the aftermath of the credit crisis banks are only now starting to lend, but with much higher fees attached. Many companies which are relying on debt to finance expansions have had to halt plans as the funds are not currently available.

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 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.

RESULTS OF OPERATIONS

For the year ended October 31, 2012, the Front Street Growth Class returned -26.66%, net of expenses, while the benchmark, the S&P/TSX Small Cap Total Return Index returned -4.24%.

The past year has been challenging for resource markets, with the TSX Energy Index down 6% and the Materials Index down 9%. Small-cap names, particularly those operating in foreign jurisdictions, were the hardest hit, as investors fled to the perceived safety and liquidity of larger-cap issuers.

Looking at the different commodity groups on a year-over-year basis, while many didn't see significant moves, there was tremendous volatility during the year. Gold, for example, started and ended the year around \$1,725 U.S. per ounce. However, during the year, there were four swings of over \$200 per ounce (two up and two down). Oil also didn't change significantly year-over-year. However, in the second quarter of 2012, it fell 30% from its peak, before rebounding.

Weakness in the Chinese economy during the year caused investors to exit resource markets as China has become the largest consumer of many commodities. We believe that much of the slowdown in their economy was manufactured through the Chinese government raising interest rates in a battle to combat high inflation. It appears that this goal was achieved, and with the worst economic news behind them, the government stated that stimulus is available should any economic weakness persist.

One trend we have been following has been the conversion of many resource companies to high dividend-paying corporations, particularly in the energy sector. These companies, with stable production levels, have decided they can get better valuations for their shares by slowing down their growth and returning part of their earnings to shareholders. Much like we saw during the days of the income trusts, these companies are being afforded higher valuations by the market. We expect increased M&A activity, as these companies use their more expensive paper to buy cheaper competitors.

During the year ended October 31, 2012, the Fund earned investment income of \$415,835 from dividends and interest. There were net realized loss on the sale of investments of \$11.2 million and an unrealized appreciation on the value of investments of \$507,507.

Operating expenses, excluding management fees, performance fees and servicing fees, totalled \$305,572 during the year ended October 31, 2012.

RECENT DEVELOPMENTS

Post year end, we started to see signs of resurgence in Chinese manufacturing, which should give a boost to the mining sector. Obama won the Presidential election, and will now have to deal with the so-called “fiscal cliff,” a scenario of tax increases and spending cuts that threaten to push the U.S. back into a recession. Europe continues its negotiations in an effort to support its weaker members.

International Financial Reporting Standards (“IFRS”)

Effective for its fiscal year commencing November 1, 2014, the Fund must adopt IFRS. In preparation thereof, the Manager continues to monitor and implement the Fund’s changeover plan and will continue to assess the impact on the implementation as new IFRS guidance become available from the International Accounting Standards Board (“IASB”).

The Manager has reviewed the current IFRS against the Fund’s current accounting policies and financial statement presentation under Canadian generally accepted accounting principles (“Canadian GAAP”), and the following areas of differences have been identified:

- a) IAS 32, Financial Instruments: Disclosure and Presentation, requires shareholders’ equity to be classified as liability unless certain criteria are met.
- b) IFRS 13, Fair Value Measurements, that was released in May 2011 provides guidance on the fair value measurements and allows for the possible use of closing prices to value investments.

The Manager is monitoring these developments and will assess the impact of any changes in accounting policies or financial statement presentation as necessary to determine an appropriate approach.

The anticipated impact of IFRS on accounting policies and implementation decisions will be on the financial statement presentation and note disclosures in the Fund’s financial statements. In particular, the Fund will be required to present a statement of shareholders’ equity and a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

The Fund’s changeover plan includes key activities in (a) preparation of financial statements, (b) information processing and record-keeping, (c) business policy assessment and (d) systems and controls. Based on the Manager’s current analysis, the Manager believes the changeover to IFRS will not materially affect the Fund’s existing business arrangements.

RELATED PARTY-TRANSACTIONS

During the years ended October 31, 2012 and 2011, fees paid to the Manager were as follows:

	2012	2011
Management fees	\$ 626,754	\$ 970,885
Servicing fees	314,966	495,776
Operating costs	35,264	44,544
Performance fees	<u>-</u>	<u>900,036</u>
	<u>\$ 976,984</u>	<u>\$ 2,411,241</u>

Included in accrued expenses are amounts payable to (receivable from) the Manager as follows:

	2012	2011
Management fees payable	\$ 47,562	\$ 60,101
Servicing fees payable	22,889	29,902
Operating costs payable	<u>(5,568)</u>	<u>3,712</u>
	<u>\$ 64,883</u>	<u>\$ 93,715</u>

The following shares are held by related parties of the Fund:

	2012	2011
Series F shares held by Partners of the Manager	-	54,461.04
Percentage of Series F shares held by Partners of the Manager	Nil%	17.79%
Series F shares held by relatives of Partners of the Manager	1,198.14	1,198.14
Percentage of Series F shares held by relatives of Partners of the Manager	0.36%	0.39%

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, 2012, Tuscarora Capital Inc, a company under common control to the Manager, received \$99 (2011 - \$3,154) in commissions on portfolio transactions for the Fund.

Management fees, servicing fees, operating costs 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 Fund, 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.

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 the past financial years. This information is derived from the Fund's audited annual financial statements.

Series A

The Fund's Net Assets per Share ⁽¹⁾

	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$
Net Assets, beginning of the year	25.35	30.17	21.74	12.00
Increase (decrease) from operations:				
Total revenue	0.25	0.15	0.06	0.10
Total expenses	(0.77)	(1.55)	(1.11)	(1.61)
Realized gains (losses) for the year	(7.01)	1.18	6.89	2.34
Unrealized gains (losses) for the year	0.49	(7.40)	1.83	10.35
Total increase (decrease) from operations ⁽²⁾	(7.04)	(7.62)	7.67	11.18
Distributions to Shareholders:				
From income (excluding dividends)	—	—	—	—
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	—	—	—	—
Total annual distributions to Shareholders ⁽³⁾	—	—	—	—
Net Assets, end of the year	18.71	25.35	30.17	21.74

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per share presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements].
- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	10,875	14,671	12,133	4,450
Number of shares outstanding ⁽¹⁾	580,136	574,001	402,295	203,619
Management expense ratio ⁽²⁾	3.40%	4.88%	4.34%	9.28%
Management expense ratio before waivers or absorptions	3.40%	4.88%	4.34%	9.28%
Trading expense ratio ⁽³⁾	0.25%	0.30%	0.44%	0.84%
Portfolio turnover rate ⁽⁴⁾	52.75%	55.44%	66.12%	84.07%
Net asset value per share (\$)	18.75	25.56	30.16	21.85

- (1) This information is provided as at end of the year shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
- (4) 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 necessary a relationship between a high turnover rate and the performance of a fund.

Series B
The Fund's Net Assets per Share ⁽¹⁾

	October 31 2012	October 31 2011	October 31 2010	October 31 2009
	\$	\$	\$	\$
Net Assets, beginning of the year	25.18	29.94	21.56	-
Increase (decrease) from operations:				
Total revenue	0.24	0.14	0.05	0.08
Total expenses	(0.77)	(1.57)	(1.06)	(1.72)
Realized gains (losses) for the year	(6.61)	1.24	6.39	2.31
Unrealized gains (losses) for the year	0.36	(6.75)	1.44	10.65
Total increase (decrease) from operations ⁽²⁾	(6.78)	(6.94)	6.82	11.32
Distributions to Shareholders:				
From income (excluding dividends)	—	—	—	—
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	—	—	—	—
Total annual distributions to Shareholders ⁽³⁾	—	—	—	—
Net Assets, end of the year	18.58	25.18	29.94	21.56

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per share presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements].
- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	14,366	22,818	21,129	12,429
Number of shares outstanding ⁽¹⁾	771,683	898,985	705,899	573,487
Management expense ratio ⁽²⁾	3.40%	4.95%	4.23%	10.18%
Management expense ratio before waivers or absorptions	3.40%	4.95%	4.23%	10.18%
Trading expense ratio ⁽³⁾	0.25%	0.30%	0.44%	0.84%
Portfolio turnover rate ⁽⁴⁾	52.75%	55.44%	66.12%	84.07%
Net asset value per share (\$)	18.62	25.38	29.93	21.67

- (1) This information is provided as at end of the year shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
- (4) 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 necessary a relationship between a high turnover rate and the performance of a fund.

Series F
The Fund's Net Assets per Share ⁽¹⁾

	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$
Net Assets, beginning of the year	25.02	29.62	21.40	-
Increase (decrease) from operations:				
Total revenue	0.24	0.15	0.05	0.12
Total expenses	(0.54)	(1.12)	(0.85)	(1.57)
Realized gains (losses) for the year	(5.95)	1.09	6.51	1.22
Unrealized gains (losses) for the year	(0.25)	(9.06)	0.78	10.35
Total increase (decrease) from operations ⁽²⁾	(6.50)	(8.94)	6.49	10.12
Distributions to Shareholders:				
From income (excluding dividends)	—	—	—	—
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	—	—	—	—
Total annual distributions to Shareholders ⁽³⁾	—	—	—	—
Net Assets, end of the year	18.64	25.02	29.62	21.40

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per share presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements].
- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	6,278	7,722	3,372	985
Number of shares outstanding ⁽¹⁾	336,020	306,160	113,897	45,788
Management expense ratio ⁽²⁾	2.38%	3.59%	3.39%	10.25%
Management expense ratio before waivers or absorptions	2.38%	3.59%	3.39%	10.25%
Trading expense ratio ⁽³⁾	0.25%	0.30%	0.44%	0.84%
Portfolio turnover rate ⁽⁴⁾	52.75%	55.44%	66.12%	84.07%
Net asset value per share (\$)	18.68	25.22	29.61	21.52

- (1) This information is provided as at end of the year shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
- (4) 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 necessary a relationship between a high turnover rate and the performance of a fund.

Series X
The Fund's Net Assets per Share ⁽¹⁾

	October 31 2012	October 31 2011	For the period from commencement of operations on December 1, 2009 to October 31 2010
	\$	\$	\$
Net Assets, beginning of the year	25.40	30.26	23.96*
Increase (decrease) from operations:			
Total revenue	0.24	0.15	0.08
Total expenses	(0.67)	(1.35)	(0.86)
Realized gains (losses) for the year	(6.35)	1.48	8.53
Unrealized gains (losses) for the year	(0.30)	(9.66)	7.83
Total increase (decrease) from operations ⁽²⁾	(7.08)	(9.38)	15.58
Distributions to Shareholders:			
From income (excluding dividends)	—	—	—
From dividends	—	—	—
From capital gains	—	—	—
Return of capital	—	—	—
Total annual distributions to Shareholders ⁽³⁾	—	—	—
Net Assets, end of the year	18.85	25.40	30.26

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per share presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements].
- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	164	449	124
Number of shares outstanding ⁽¹⁾	8,692	17,518	4,109
Management expense ratio ⁽²⁾	2.90%	4.21%	3.74%
Management expense ratio before waivers or absorptions	2.90%	4.21%	3.74%
Trading expense ratio ⁽³⁾	0.25%	0.30%	0.44%
Portfolio turnover rate ⁽⁴⁾	52.75%	55.44%	66.12%
Net asset value per share (\$)	18.89	25.60	30.25

- (1) This information is provided as at end of the year shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
- (4) 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 necessary a relationship between a high turnover rate and the performance of a fund.

* Initial price

MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee equal to 1/12 of 1.5% of the net asset value of the Fund calculated and paid at the end of each month in arrears from each Fund series.

The Manager may, at its discretion, add a service charge of up to 15% of the costs incurred for any operating and administrative costs charged to the Fund other than management services which are already included in the management fee rate which the Manager receives from the Fund.

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 Fund's 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 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 is the S&P/TSX Small Cap Total Return Index. The fee is 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, in which a performance fee was paid. The starting reference point for the next fiscal quarter's calculation is 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.

DEALER COMPENSATION

Brokers, dealers and advisors may be paid a "trailer commission" for assets that their sales representatives place in the Series A, Series B and Series X Fund shares. 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 monthly at rates set within ranges according to the following table.

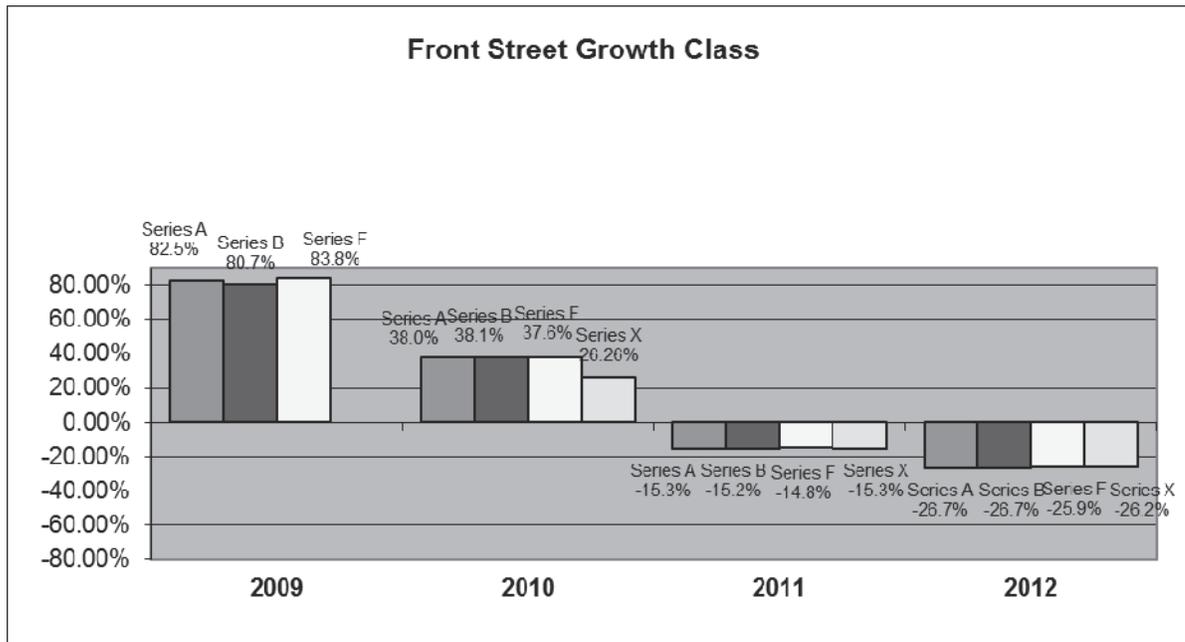
Series	Trailer Annual Rate	Annual Payment per \$1,000 of Fund securities held
A	1.00%	\$10.00
B	1.00%	\$10.00
F	0.00%	Nil
X	0.50%	\$5.00

PAST PERFORMANCE

The past performance of the Fund is set out below and includes year-by year 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.



The above chart is the year-by year returns for Front Street Growth Class, a class of Front Street Mutual Funds Ltd. The Fund was merged with the discontinuing Fund being Front Street Small Cap Opportunities Fund on November 1, 2008 and fund performance for the discontinued fund has not been included in the chart above in the 2008 period.

ANNUAL COMPOUND RETURNS

The following table shows the Fund's historical annual compound total return since inception, as compared to the performance of the S&P/TSX Small Cap Total Return Index (the "Index") as at October 31, 2012.

	Since Amalgamation November 1, 2008
Front Street Growth Class Series A	11.85%
Front Street Growth Class Series B	11.62%
Front Street Growth Class Series F	12.39%
S&P/TSX Small Cap Total Return Index	15.00%
	Since Amalgamation December 2, 2009
Front Street Growth Class Series X	-6.77%
S&P/TSX Small Cap Total Return Index	6.28%

Summary of Investment Portfolio as at October 31, 2012

Portfolio by Category

	Percentage of Transactional Net Asset Value
LONG POSITIONS	
Energy	65.7%
Cash & Cash Equivalents	18.8%
Materials	8.6%
United States	5.9%
Corporate Bonds	2.3%
Australia	1.4%
Industrials	1.3%
Bermuda	1.0%
Utilities	0.5%
SHORT POSITIONS	
Energy	-4.9%
Other assets less other liabilities	-0.6%
	100.0%

Top 25 Holdings

	Percentage of Transactional Net Asset Value
LONG POSITIONS	
Laricina Energy Limited	7.3%
CanElsion Drilling Inc.	6.8%
Whitecap Resources Inc.	6.2%
Tourmaline Oil Corporation	6.0%
Ensign Energy Services Inc.	5.5%
Angle Energy Inc.	5.3%
PHX Energy Services Corporation	5.3%
The Dow Chemical Company	4.9%
Crew Energy Inc.	4.4%
Southern Pacific Resource Corporation	4.3%
Athabasca Oil Corporation	2.8%
Calfrac Well Services Limited	2.3%
Wildcat Silver Corporation	1.5%
Trican Well Service Limited	1.5%
HudBay Minerals Inc.	1.4%
Xinergy Limited	1.4%
Mirabela Nickel Limited	1.4%
Northwest Upgrading Inc.	1.3%
Capstone Mining Corporation	1.3%
Mullen Group Limited	1.2%
Lithium Americas Corporation	1.2%
Xinergy Corporation*	1.2%
Banro Corporation*	1.1%
Continental Gold Limited	1.0%
SHORT POSITION	
EnCana Corporation	-4.9%
	71.7%
TOTAL TRANSACTIONAL NET ASSET VALUE (000's)	\$31,683

*Debt Instrument

The information contained in the foregoing list may change due to the ongoing portfolio transactions of the Fund.

**FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)**

**FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011**

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MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Growth Class (formerly Front Street Small Cap Fund) of Front Street Mutual Funds Limited 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 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 judgments. 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 Growth 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 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

January 18, 2013
Toronto, Ontario

SEGAL LLP
2005 Sheppard Ave E, No. 500
Toronto, Ontario M2J 5B4

Phone. 416 391 4499
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Toll Free. 1 800 206 7307
info@segallp.com

A MEMBER OF DFK INTERNATIONAL

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Front Street Growth Class (the "Fund")
(Formerly Front Street Small Cap Fund) of
Front Street Mutual Funds Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of Front Street Growth Class which comprise the statements of net assets as at October 31, 2012 and 2011, the statements of operations and the statements of changes in net assets for the years then ended, the statement of investment portfolio as at October 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



Assurance.
Business Advisory.
Financial Recovery.
Tax Solutions.

Independent Auditor's Report
Page 2

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Front Street Growth Class as at October 31, 2012 and 2011, and its operations and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Segal LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
January 18, 2013

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

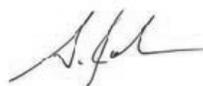
STATEMENTS OF NET ASSETS
AS AT OCTOBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Investments, at fair value (cost - \$33,371,833; 2011 - \$51,214,381)	\$ 27,387,376	\$ 44,549,698
Cash and cash equivalents	5,945,733	970,663
Accounts receivable relating to shares issued	127,891	501,291
Amounts receivable relating to accrued income	46,365	39,656
Accounts receivable relating to portfolio assets sold	<u>1,782</u>	<u>75,582</u>
	<u>\$ 33,509,147</u>	<u>\$ 46,136,890</u>
LIABILITIES		
Obligations from portfolio assets sold short, at fair value	\$ 1,541,250	\$ -
Accounts payable relating to shares redeemed	186,624	103,721
Accrued expenses, note 7	163,794	197,803
Liabilities for portfolio assets purchased	<u>-</u>	<u>543,895</u>
	<u>1,891,668</u>	<u>845,419</u>
Net assets representing shareholders' equity	<u>\$ 31,617,479</u>	<u>\$ 45,291,471</u>
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 10,852,641	\$ 14,552,720
Shares outstanding, Series A, note 3	580,136	574,001
Net assets per share, Series A	<u>\$ 18.71</u>	<u>\$ 25.35</u>
Net assets, Series B	\$ 14,336,241	\$ 22,633,655
Shares outstanding, Series B, note 3	771,683	898,985
Net assets per share, Series B	<u>\$ 18.58</u>	<u>\$ 25.18</u>
Net assets, Series F	\$ 6,264,751	\$ 7,660,164
Shares outstanding, Series F, note 3	336,020	306,160
Net assets per share, Series F	<u>\$ 18.64</u>	<u>\$ 25.02</u>
Net assets, Series X	\$ 163,846	\$ 444,932
Shares outstanding, Series X, note 3	8,692	17,518
Net assets per share, Series X	<u>\$ 18.85</u>	<u>\$ 25.40</u>

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



Gary P. Selke
 Chief Executive Officer and Director



Susan Johnson
 Chief Financial Officer

See accompanying notes to the financial statements

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	2012	2011
Investment income		
Dividends	\$ 308,783	\$ 179,114
Interest	<u>107,052</u>	<u>98,847</u>
	<u>415,835</u>	<u>277,961</u>
Expenses		
Management fees, notes 4 and 7	626,754	970,885
Servicing fees, notes 4 and 7	314,966	495,776
Administration fees	125,547	189,117
Custodial fees	50,125	31,887
Audit fees	46,324	33,217
Operating costs, notes 4 and 7	35,264	44,544
Legal fees	22,000	13,814
Compensatory dividends	13,369	7,347
Securityholder reporting costs	11,423	18,847
Independent review committee	1,520	2,217
Performance fees, notes 4 and 7	<u>-</u>	<u>900,036</u>
	<u>1,247,292</u>	<u>2,707,687</u>
Net investment loss for the year	<u>(831,457)</u>	<u>(2,429,726)</u>
Net realized and unrealized gains (losses) on investments		
Net realized gain (loss) on the sale of investments	(11,233,029)	2,325,739
Transaction costs, notes 6 and 7	(92,611)	(168,826)
Change in the unrealized appreciation (depreciation) of the value of investments	<u>507,507</u>	<u>(13,087,138)</u>
Net loss on investments for the year	<u>(10,818,133)</u>	<u>(10,930,225)</u>
Net decrease in net assets from operations for the year	<u>\$ (11,649,590)</u>	<u>\$ (13,359,951)</u>
Decrease in net assets from operations applicable to outstanding shares allocated as follows:		
Decrease in net assets from operations, Series A	\$ (4,082,876)	\$ (4,245,096)
Decrease in net assets from operations per share, Series A	<u>\$ (7.04)</u>	<u>\$ (7.62)</u>
Decrease in net assets from operations, Series B	\$ (5,635,618)	\$ (6,710,334)
Decrease in net assets from operations per share, Series B	<u>\$ (6.78)</u>	<u>\$ (6.94)</u>
Decrease in net assets from operations, Series F	\$ (1,820,625)	\$ (2,256,208)
Decrease in net assets from operations per share, Series F	<u>\$ (6.50)</u>	<u>\$ (8.94)</u>
Decrease in net assets from operations, Series X	\$ (110,471)	\$ (148,313)
Decrease in net assets from operations per share, Series X	<u>\$ (7.08)</u>	<u>\$ (9.38)</u>

See accompanying notes to the financial statements

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	2012	2011
Series A		
Net assets, beginning of year	\$ 14,552,720	\$ 12,138,788
Net decrease in net assets from operations	<u>(4,082,876)</u>	<u>(4,245,096)</u>
Shareholder transactions		
Proceeds from the issuance of shares	3,430,140	11,981,791
Aggregate amounts paid on the redemption of shares	<u>(3,047,343)</u>	<u>(5,322,763)</u>
	<u>382,797</u>	<u>6,659,028</u>
Net increase (decrease) in net assets for the year	<u>(3,700,079)</u>	<u>2,413,932</u>
Net assets, end of year	<u>\$ 10,852,641</u>	<u>\$ 14,552,720</u>
Series B		
Net assets, beginning of year	\$ 22,633,655	\$ 21,137,687
Net decrease in net assets from operations	<u>(5,635,618)</u>	<u>(6,710,334)</u>
Shareholder transactions		
Proceeds from the issuance of shares	4,114,609	23,728,076
Aggregate amounts paid on the redemption of shares	<u>(6,776,405)</u>	<u>(15,521,774)</u>
	<u>(2,661,796)</u>	<u>8,206,302</u>
Net increase (decrease) in net assets for the year	<u>(8,297,414)</u>	<u>1,495,968</u>
Net assets, end of year	<u>\$ 14,336,241</u>	<u>\$ 22,633,655</u>

See accompanying notes to the financial statements

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	2012	2011
Series F		
Net assets, beginning of year	\$ 7,660,164	\$ 3,373,497
Net decrease in net assets from operations	<u>(1,820,625)</u>	<u>(2,256,208)</u>
Shareholder transactions		
Proceeds from the issuance of shares	3,410,213	8,009,856
Aggregate amounts paid on the redemption of shares	<u>(2,985,001)</u>	<u>(1,466,981)</u>
	<u>425,212</u>	<u>6,542,875</u>
Net increase (decrease) in net assets for the year	<u>(1,395,413)</u>	<u>4,286,667</u>
Net assets, end of year	<u>\$ 6,264,751</u>	<u>\$ 7,660,164</u>
Series X		
Net assets, beginning of year	\$ 444,932	\$ 124,328
Net decrease in net assets from operations	<u>(110,471)</u>	<u>(148,313)</u>
Shareholder transactions		
Proceeds from the issuance of shares	-	609,949
Aggregate amounts paid on the redemption of shares	<u>(170,615)</u>	<u>(141,032)</u>
	<u>(170,615)</u>	<u>468,917</u>
Net increase (decrease) in net assets for the year	<u>(281,086)</u>	<u>320,604</u>
Net assets, end of year	<u>\$ 163,846</u>	<u>\$ 444,932</u>
Total		
Net assets, beginning of year	\$ 45,291,471	\$ 36,774,300
Net decrease in net assets from operations	<u>(11,649,590)</u>	<u>(13,359,951)</u>
Shareholder transactions		
Proceeds from the issuance of shares	10,954,962	44,329,672
Aggregate amounts paid on the redemption of shares	<u>(12,979,364)</u>	<u>(22,452,550)</u>
	<u>(2,024,402)</u>	<u>21,877,122</u>
Net increase (decrease) in net assets for the year	<u>(13,673,992)</u>	<u>8,517,171</u>
Net assets, end of year	<u>\$ 31,617,479</u>	<u>\$ 45,291,471</u>

See accompanying notes to the financial statements

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Long Positions (86.6%)			
Corporate Bonds (2.3%)			
Banro Corporation 10.00%, March 1, 2017	400,000	\$ 365,177	\$ 352,894
Xinergy Corporation 9.25%, May 15, 2019	661,128	<u>639,265</u>	<u>381,357</u>
		<u>\$ 1,004,442</u>	<u>\$ 734,251</u>
Energy (65.6%)			
Anatolia Energy Corp Warrants	220,625	\$ -	\$ -
Angle Energy Inc.	449,296	3,111,590	1,684,860
Athabasca Oil Corporation	73,175	960,729	884,686
C&C Energia Limited	22,448	189,902	130,423
Calfrac Well Services Limited	32,284	779,249	738,658
Calmena Energy Services Inc.	1,518,209	1,041,156	296,051
CanElson Drilling Inc.	452,117	1,891,808	2,129,471
Crew Energy Inc.	182,061	2,679,846	1,400,049
Ensign Energy Services Inc.	116,900	1,963,831	1,741,810
Gasfrac Energy Services Inc.	187,678	974,006	262,749
Laricina Energy Limited	77,196	1,310,880	2,315,880
Lipari Energy Inc.	72,014	234,046	15,483
Lipari Energy Inc. Warrants	372,207	-	1,862
Madalena Ventures Inc.	408,343	263,997	114,336
Manitok Energy Inc.	43,000	80,767	104,490
Mullen Group Limited	18,745	434,756	388,209
Nuvista Energy Limited	52,096	237,980	270,899
P1 Energy Corporation	83,634	250,902	54,362
PHX Energy Services Corporation	196,509	1,917,191	1,660,501
Parex Resources Inc.	18,712	93,874	83,456
Petroamerica Oil Corporation Warrants	1,200,000	-	33,719
Precision Drilling Corporation	28,362	226,632	202,788
Southern Pacific Resource Corporation	999,352	1,393,513	1,349,125
Spartan Oil Corporation	18,875	67,950	85,881
Tourmaline Oil Corporation	58,000	1,654,190	1,914,000
Trican Well Service Limited	40,789	575,913	481,718
Whitecap Resources Inc.	248,350	1,619,541	1,971,899
Xinergy Limited	440,656	<u>1,355,712</u>	<u>423,030</u>
		<u>\$ 25,309,961</u>	<u>\$ 20,740,395</u>

See accompanying notes to the financial statements

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Industrials (1.3%)			
Northwest Upgrading Inc.	200,000	\$ 252,000	\$ 420,000
Materials (8.6%)			
Banro Corporation Warrants	19,200	\$ 34,404	\$ 27,781
Capstone Mining Corporation	169,711	500,924	419,186
Conifex Timber Inc.	30,600	211,209	240,210
Dalradian Resources Inc.	185,940	282,762	288,207
Golden Predator Corporation	362,600	119,727	121,471
HudBay Minerals Inc.	48,265	483,615	446,934
Lithium Americas Corporation	414,737	655,537	381,558
Sintana Energy Inc.	120,400	13,254	29,498
Sirocco Mining Inc.	396,400	289,441	281,444
Wildcat Silver Corporation	369,200	626,855	479,960
		<u>\$ 3,217,728</u>	<u>\$ 2,716,249</u>
Utilities (0.5%)			
GWR Global Water Resources Corporation	52,332	\$ 392,716	\$ 150,193
Australia (1.4%)			
Mirabela Nickel Limited	966,187	\$ 803,682	\$ 434,784
Bermuda (1.0%)			
Continental Gold Limited	33,271	\$ 253,780	\$ 316,407
United States (5.9%)			
Huntsman Corporation	4,800	\$ 59,528	\$ 72,122
The Dow Chemical Company	53,133	1,846,666	1,556,330
United States Steel Corporation	12,100	231,330	246,645
		<u>\$ 2,137,524</u>	<u>\$ 1,875,097</u>
Total Long Positions (86.6%)		<u>\$ 33,371,833</u>	<u>\$ 27,387,376</u>

See accompanying notes to the financial statements

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Short Position (-4.9%)			
Energy(-4.9%)			
EnCana Corporation	(68,500)	<u>\$ (1,418,907)</u>	<u>\$ (1,541,250)</u>
Total Short Positions (-4.9%)		<u>\$ (1,418,907)</u>	<u>\$ (1,541,250)</u>
Transaction costs, note 2		<u>\$ (72,960)</u>	
Total Investments (81.7%)		<u>\$ 31,879,966</u>	25,846,126
Cash and cash equivalents (18.8%)			5,945,733
Other assets less other liabilities (-0.5%)			<u>(174,380)</u>
Net assets (100.0%)			<u>\$ 31,617,479</u>

See accompanying notes to the financial statements

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

1. THE FUND

Front Street Growth Class (formerly Front Street Small Cap Fund) (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. Pursuant to the notice of change in legal structure, the name of the Fund was changed to Front Street Growth Class on June 27, 2012. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure. Series A commenced operations on October 31, 2008. Series B commenced operations on October 31, 2008. Series F commenced operations on October 31, 2008. Series X commenced operations on December 21, 2009.

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, 2012.

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. RBC Dominion Securities Inc. is the custodian. Citigroup Fund Services Canada Inc. provides fund accounting services and shareholder record keeping services.

The Fund's investment objective is to seek capital appreciation primarily through investment in equity securities of a diversified group of publicly traded small capitalization companies and to a lesser extent in equity securities of a diversified group of private companies.

Although the Fund invests primarily in Canadian companies, it may invest anywhere in the world and depending on market conditions, it may shift its emphasis from one industry sector to another. The Fund focuses on companies that have the potential for further growth, and on securities of growing companies.

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The following is a summary of the significant accounting policies followed by the Fund:

a) Financial instruments

Investments, at fair value, and obligations from portfolio assets sold short, at fair value have been classified as held for trading. Accounts receivable relating to shares issued and amounts receivable relating to accrued income, and accounts receivable relating to portfolio assets sold are classified as loans and receivables. Accounts payable relating to shares redeemed, accrued expenses and liabilities for portfolio assets purchased have been classified as other financial liabilities.

The Canadian Securities Administrators adopted changes to National Instrument 81-106 on Investment Fund Continuous Disclosure. The changes are essentially aimed at modifying the requirements pertaining to the calculation of the unit value due to the inclusion of Section 3855, Financial Instruments - Recognition and Measurement of the CICA Handbook. These changes allow the Fund to report two distinct net asset values: one for the financial statements, which is calculated in accordance with Canadian GAAP (called "net assets") and another for all other purposes, such as unit pricing (called "net asset value"). A reconciliation between the net assets per unit and the net asset value per unit is required (see note 8) as well as description of the differences between the valuation principles and practices used by the Manager to calculate the net asset value and those prescribed by Canadian GAAP.

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. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques to be used in the determination of fair value. When current market prices or quotations are not readily available, valuations are established using specific procedures in order to estimate what the fair value would be, in an arms length transaction, motivated by normal business considerations. Valuation techniques principally include the use of the last publicly traded price, the issuance price of securities at the date of the most recent financing of the entity or a price established by the Manager in accordance with its fair value policy.

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

b) Valuation of investments (Continued...)

- ii) Investments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided in paragraph (i) 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.

- iii) 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.
- iv) Investments in mutual funds or pooled funds are valued based on the net asset value per unit at the close of trading on the financial statement date.
- v) The Fund values its investments in limited partnerships at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. 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.
- 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.

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

c) Financial instruments disclosure and presentation and fair value measurements

The Fund adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation. These standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Fund has managed those risks. See note 9 for additional details.

The Fund adopted the amendments to CICA 3862, Financial Instruments - Disclosures. CICA 3862 establishes a three tier hierarchy as a framework for disclosing fair value based on the inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

See note 11 for additional details.

d) Transaction costs

Portfolio transaction costs are expensed and are included in "Transaction costs" in the Statements 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.

e) 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.

f) 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 weighted average cost of the securities on disposition.

Interest income is recorded on an accrual basis. Dividend income is recorded on the ex dividend date.

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

g) 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.

h) Net increase (decrease) in net assets from operations per share

Net increase (decrease) in net assets from operations per share are based on the increase (decrease) in net assets from operations attributable to each series of shares divided by the average number of shares outstanding of that series during the year.

i) 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.

j) Capital disclosures

The Fund has adopted CICA Handbook Section 1535, Capital Disclosures, which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. See note 10 for additional details.

k) General standards on financial statement presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, includes requirements to assess and disclose an entity's ability to continue as a going concern. The Manager of the Fund has made this assessment and concluded that there are currently no material uncertainties that cast doubt on the Fund's ability to continue as a going concern.

l) 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 amounts 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 year. Significant estimates include the fair value of the Fund's investments in private companies and the fair value of the Fund's investments in corporate warrants which are not traded in active markets. Actual results may differ from those estimates.

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

m) Future accounting pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, which have a potential implication for the Fund, are as follows:

International financial reporting standards ("IFRS")

Effective for its fiscal year commencing November 1, 2014, the Fund must adopt IFRS. In preparation thereof, the Manager continues to monitor and implement the Fund's changeover plan and will continue to assess the impact on the implementation as new IFRS guidance become available from the International Accounting Standards Board ("IASB").

The Manager has reviewed the current IFRS against the Fund's current accounting policies and financial statement presentation under Canadian generally accepted accounting principles ("Canadian GAAP"), and the following areas of differences have been identified:

- (a) IAS 32, Financial Instruments: Disclosure and Presentation, requires shareholders' equity to be classified as liability unless certain criteria are met.
- (b) IFRS 13, Fair Value Measurements, that was released in May 2011 provides guidance on the fair value measurements and allows for the possible use of closing prices to value investments.

The Manager is monitoring these developments and will assess the impact of any changes in accounting policies or financial statement presentation as necessary to determine an appropriate approach.

The anticipated impact of IFRS on accounting policies and implementation decisions will be on the financial statement presentation and note disclosures in the Fund's financial statements. In particular, the Fund will be required to present a statement of shareholders' equity and a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

The Fund's changeover plan includes key activities in (a) preparation of financial statements, (b) information processing and record-keeping, (c) business policy assessment and (d) systems and controls. Based on the Manager's current analysis, the Manager believes the changeover to IFRS will not materially affect the Fund's existing business arrangements.

FRONT STREET GROWTH CLASS
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3. SHARES ISSUED AND OUTSTANDING

The authorized capital of the Fund consists of an unlimited number of mutual fund shares, available in four 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 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.

Series X 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 5% applies to shares of this series sold within the first year following acquisition. A redemption fee of 3% applies to shares of this series sold within the second year following acquisition. A redemption fee of 1.5% applies to shares of this series sold within the third year following acquisition. No redemption fee applies to shares of this series sold after the third year following acquisition.

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 GROWTH CLASS
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NOTES TO THE FINANCIAL STATEMENTS
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3. **SHARES ISSUED AND OUTSTANDING** (Continued...)

The following share transactions took place during the year:

	2012	2011
Shares outstanding, beginning of the year:		
Series A	574,001	402,295
Series B	898,985	705,899
Series F	306,160	113,897
Series X	17,518	4,109
Shares issued during the year:		
Series A	148,934	352,837
Series B	180,345	708,420
Series F	165,993	238,792
Series X	-	17,648
Shares redeemed during the year:		
Series A	142,799	181,131
Series B	307,647	515,334
Series F	136,133	46,529
Series X	8,826	4,239
Shares outstanding, end of the year:		
Series A	580,136	574,001
Series B	771,683	898,985
Series F	336,020	306,160
Series X	8,692	17,518

FRONT STREET GROWTH CLASS
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4. FEES AND EXPENSES

The Fund pays a monthly management fee equal to 1/12 of 1.5% 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 pays a monthly service fee of 1/12 of 1% of the net asset value of the Series A and Series B shares calculated at the end of each month. The Fund pays a monthly service fee of 1/12 of 0.50% of the net asset value of Series X shares.

The Manager may, at its discretion, add a service charge of up to 15% of the costs incurred for any operating and administrative costs charged to the Fund other than management services which are already included in the management fee rate which the Manager receives from the Fund.

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 Fund's 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 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 is the S&P/TSX Small Cap Total Return Index. The fee is 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, in which a performance fee was paid. The starting reference point for the next fiscal quarter's calculation is 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.

FRONT STREET GROWTH CLASS
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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, 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. 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.

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 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, 2012 was \$92,611 (2011 - \$168,826).

FRONT STREET GROWTH CLASS
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NOTES TO THE FINANCIAL STATEMENTS
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7. RELATED PARTY TRANSACTIONS

During the years ended October 31, 2012 and 2011, fees paid to the Manager were as follows:

	2012	2011
Management fees, note 4	\$ 626,754	\$ 970,885
Servicing fees, note 4	314,966	495,776
Operating costs, note 4	35,264	44,544
Performance fees, note 4	<u>-</u>	<u>900,036</u>
	<u>\$ 976,984</u>	<u>\$ 2,411,241</u>

Included in accrued expenses are amounts payable to (receivable from) the Manager as follows:

	2012	2011
Management fees payable	\$ 47,562	\$ 60,101
Servicing fees payable	22,889	29,902
Operating costs payable	<u>(5,568)</u>	<u>3,712</u>
	<u>\$ 64,883</u>	<u>\$ 93,715</u>

The following shares are held by related parties of the Fund:

	2012	2011
Series F shares held by Partners of the Manager	-	54,461.04
Percentage of Series F shares held by Partners of the Manager	Nil%	17.79%
Series F shares held by relatives of Partners of the Manager	1,198.14	1,198.14
Percentage of Series F shares held by relatives of Partners of the Manager	0.36%	0.39%

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, 2012, Tuscarora Capital Inc, a company under common control to the Manager, received \$99 (2011 - \$3,154) in commissions on portfolio transactions for the Fund.

Management fees, servicing fees, operating costs 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 Fund, 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.

FRONT STREET GROWTH CLASS
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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

8. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS FOR FINANCIAL STATEMENTS

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 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 sale 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 in general practice in the investment funds industry.

These changes account for the difference between transactional NAV and GAAP NAV. The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

As at October 31, 2012

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per share	GAAP NA per share
Series A	\$ 10,875,170	\$ (22,529)	\$ 10,852,641	\$ 18.75	\$ 18.71
Series B	14,365,752	(29,511)	14,336,241	18.62	18.58
Series F	6,277,637	(12,886)	6,264,751	18.68	18.64
Series X	164,183	(337)	163,846	18.89	18.85
Total	\$ 31,682,742	\$ (65,263)	\$ 31,617,479		

As at October 31, 2011

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per share	GAAP NA per share
Series A	\$ 14,671,379	\$ (118,659)	\$ 14,552,720	\$ 25.56	\$ 25.35
Series B	22,817,918	(184,263)	22,633,655	25.38	25.18
Series F	7,722,274	(62,110)	7,660,164	25.22	25.02
Series X	448,552	(3,620)	444,932	25.60	25.40
Total	\$ 45,660,123	\$ (368,652)	\$ 45,291,471		

FRONT STREET GROWTH CLASS
(Formerly Front Street Small Cap Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

9. **FINANCIAL INSTRUMENTS**

The Fund's assets and liabilities classified in accordance with CICA Handbook Section 3855 are as follows:

As at October 31,

	2012	2011
Assets		
Held for trading	\$ 27,387,376	\$ 44,549,698
Cash and cash equivalents	5,945,733	970,663
Loans and receivables	<u>176,038</u>	<u>616,529</u>
Total Assets	<u>\$ 33,509,147</u>	<u>\$ 46,136,890</u>
Liabilities		
Held for trading	\$ 1,541,250	\$ -
Other financial liabilities at amortized cost	<u>350,418</u>	<u>845,419</u>
Total liabilities	<u>\$ 1,891,668</u>	<u>\$ 845,419</u>
Net Assets	<u>\$ 31,617,479</u>	<u>\$ 45,291,471</u>

The Fund's financial instruments consist of investments, at fair value, cash and cash equivalents, accounts receivable relating to shares issued, amounts receivable relating to accrued income, accounts receivable relating to portfolio assets sold, obligations from portfolio assets sold short, at fair value, accounts payable relating to shares redeemed, accrued expenses and liabilities for portfolio assets purchased. It is the Manager's opinion that due to the short term nature of these financial instruments, the Fund is not exposed to significant market price, currency, interest rate, liquidity, cash flow and credit risks arising from these financial instruments except as described below. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

Risk Management

The Investment Advisor seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisors, by daily monitoring of the Fund's positions and market events, and by diversifying the investment portfolio within the constraints of the investment objective. To assist in managing risk, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

FRONT STREET GROWTH CLASS
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NOTES TO THE FINANCIAL STATEMENTS
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9. **FINANCIAL INSTRUMENTS** (Continued...)

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. The Statement of Investment Portfolio presents the securities held by the Fund as at October 31, 2012, and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

i) Market price risk

Market price risk, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Fund is exposed to market price risk arising from its investments in securities. The Investment Advisor manages the Fund's market price risk on a daily basis in accordance with the Fund's investment objective and policies.

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, absent any changes in market price or investment specific events.

Included in the undernoted accounts are the following foreign currency balances:

Currency	Investments, at fair value	Cash	Net exposure	Percentage of GAAP NA
United States Dollar	\$ 2,637,129	\$ 40,737	\$ 2,677,866	8.47%
Australian Dollar	<u>434,784</u>	<u>733</u>	<u>435,517</u>	<u>1.38%</u>
	<u>\$ 3,071,913</u>	<u>\$ 41,470</u>	<u>\$ 3,113,383</u>	<u>9.85%</u>

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9. **FINANCIAL INSTRUMENTS** (Continued...)

iii) Interest rate risk

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at October 31, 2012, the bulk of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Financial assets				
Held for trading	\$ -	\$ 734,251	\$ 26,653,125	\$ 27,387,376
Other receivables	-	-	176,038	176,038
Cash and cash equivalents	<u>5,945,733</u>	<u>-</u>	<u>-</u>	<u>5,945,733</u>
Total	<u>\$ 5,945,733</u>	<u>\$ 734,251</u>	<u>\$ 26,829,163</u>	<u>\$ 33,509,147</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 1,541,250	\$ 1,541,250
Financial liabilities	<u>-</u>	<u>-</u>	<u>350,418</u>	<u>350,418</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,891,668</u>	<u>\$ 1,891,668</u>
GAAP NA				<u>\$ 31,617,479</u>

FRONT STREET GROWTH CLASS
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NOTES TO THE FINANCIAL STATEMENTS
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9. **FINANCIAL INSTRUMENTS** (Continued...)

iv) Liquidity risk

Liquidity risk is the risk the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Shareholder redemption requests are the main liquidity risk for the Fund.

The Fund maintains sufficient cash and marketable securities, and manages liquidity risk through its ability to close out market positions.

	0-12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Financial assets						
Held for trading	\$ -	\$ 35,580	\$ 380,675	\$ 381,357	\$ 26,589,764	\$ 27,387,376
Other receivables	176,038	-	-	-	-	176,038
Cash and cash equivalents	<u>5,945,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,945,733</u>
Total	<u>\$ 6,121,771</u>	<u>\$ 35,580</u>	<u>\$ 380,675</u>	<u>\$ 381,357</u>	<u>\$ 26,589,764</u>	<u>\$ 33,509,147</u>
Financial liabilities						
Held for trading	\$ -	\$ -	\$ -	\$ -	\$ 1,541,250	\$ 1,541,250
Financial liabilities	<u>350,418</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,418</u>
Total	<u>\$ 350,418</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,541,250</u>	<u>\$ 1,891,668</u>
GAAP NA						<u>\$ 31,617,479</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at October 31, 2012, the fair value of such assets was 8.82% (2011 - 7.60%) of the total net assets.

v) Cash flow risk

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 from a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

FRONT STREET GROWTH CLASS
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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

9. **FINANCIAL INSTRUMENTS** (Continued...)

vi) 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.

Financial assets which potentially expose the Fund to credit risk consist principally of investments in bonds, amounts due from brokers and derivatives. The Fund seeks to mitigate its exposure to credit risk by placing its cash, and transacting its securities activity with large financial institutions. The Fund may also invest in corporate bonds. Until the bonds are sold or mature, the Fund is exposed to credit risk relating to whether the bond issuer will meet its obligations as they come due. The extent of the Fund's exposure to credit risk in respect of these financial assets is reflected in their carrying value as recorded in the Fund's Statement of Net Assets.

As at October 31, 2012, the Fund had 2.32% (2011 - 1.79%) of holdings in long term debt instruments for which credit ratings were not available.

10. **CAPITAL MANAGEMENT**

The Manager considers the Fund's capital to consist of the issued ordinary share capital and the net assets attributable to participating shareholders.

The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, policies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet participating shareholder redemptions. The Fund's overall strategy for managing capital remains unchanged from 2011.

The Fund does not have any externally imposed capital requirements.

FRONT STREET GROWTH CLASS
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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

11. FAIR VALUE HIERARCHY

The following is a summary of inputs used as of October 31, 2012 in valuing the Fund's investments and derivatives at fair value as discussed in note 2c):

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Assets at fair value as at October 31, 2012	Level 1	Level 2	Level 3	Total
Investments, at fair value	<u>\$ 23,799,521</u>	<u>\$ 797,613</u>	<u>\$ 2,790,242</u>	<u>\$ 27,387,376</u>
Liabilities at fair value as at October 31, 2012	Level 1	Level 2	Level 3	Total
Obligations from portfolio used, at fair value	<u>\$ 1,541,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,541,250</u>

During the year ended October 31, 2012, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Investments, at fair value
Balance as at November 1, 2011	\$ 3,442,557
Gains (losses) Unrealized	<u>(652,315)</u>
Balance as at October 31, 2012	<u>\$ 2,790,242</u>



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