



Annual Management Report of Fund Performance As at October 31, 2010 Front Street Resource Fund

This Annual Management Report of Fund Performance contains financial highlights but does not contain the complete Annual financial statements for Front Street Resource 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 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 maximize capital appreciation by investing in small and medium-sized business entities in a range of natural resource sector industries, including base and precious metal mining and exploration, and in energy-related industries. The Investment Advisor, Front Street Investment Management Inc., will assist the Fund in selecting investments primarily in equity and equity-related securities, although the Fund may also invest in other securities, including preferred shares, of such resource issuers, including junior resource issuers, in accordance with the investment strategies and guidelines outlined herein, with the objective of achieving capital appreciation for Shareholders. Such investments may include short selling of securities which the Investment Advisor believes are overvalued.

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.

The Fund's investment strategy entails initially investing in shares of resource issuers engaged in oil and gas or mining exploration, development or production or energy production, including alternative energy production such as from wind, and that (i) have experienced management; (ii) have a strong exploration program in place; (iii) may require time to mature; and (iv) offer potential for future growth. It is anticipated that the resource issuers will include a significant number of junior resource issuers.

The Investment Advisor will manage the investment portfolio so as to achieve capital appreciation of the Fund's investments. This continuing investment management program may involve the divestiture of shares and other investments and the reinvestment of the net proceeds from such dispositions in securities of Resource Issuers, as well as other issuers in the oil and gas, mining, pulp and paper, and forestry industries, energy producers and related resource business issuers, such as pipeline or service companies and utilities. All investments will be made in accordance with the Fund's investment policies and restrictions described herein.

The Front Street Resource 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, 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 traded in a wide range 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. Market volatility was very high this year, as a sharp recovery in commodity prices and early signs of a global recovery positively affected Canadian equity markets.

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.

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. Government measures to stimulate bank lending have been met with mixed success to date.

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

Through 2009 and early 2010 the Fund benefited from a recovery in resource markets throughout this year. Oil and base metal stocks, in particular, performed strongly as commodities rose on buying out of China, economic stimulus programs, and early signs of an economic recovery elsewhere in the world. The price of gold rose to an all time high as investors bought the metal as protection against inflation, as well as for a store of value against falling currencies and rising national debt levels.

Those companies that have strong balance sheets are starting to buy assets at compelling valuations. The Fund is long the group, focusing on companies with strong balance sheets or strategic assets, whose values now will look very attractive when the world comes out of its economic slowdown.



RECENT DEVELOPMENTS

Since the end of the year equity markets around the world experienced continued volatility in November 2010. Ireland was on the verge of bankruptcy and had to accept bailout funds from the IMF and the European Union. Fears were stoked that other European central banks may be on the verge of the same situation as Ireland. This uncertainty in Europe sent many investors to the perceived safety of the US dollar, leading to weakness in the prices of many commodities.

On November 24, 2009, the shareholders of the Fund approved the special resolutions to authorize the amalgamation of Front Street Mutual Funds Limited with Front Street Special Opportunities Canadian Fund, another mutual fund corporation managed by Front Street Capital 2004. The effective date of the amalgamation was the close of business on December 1, 2009. The merger was accomplished by the amalgamation of these two mutual fund corporations under the Canada Business Corporations Act (Canada). Upon amalgamation, Front Street Mutual Funds Limited was considered to be continuing Fund for securities regulatory purposes. A new class of shares of Front Street Mutual Funds Limited was created, being the Front Street Special Opportunities Canadian Fund.

Ontario sales tax and GST harmonization

Effective July 1, 2010, Ontario provincial sales tax was harmonized with the federal goods and services tax ("GST"), resulting in a federally administered harmonized sales tax of 13% (the "HST"). Prior to that date, management fees and other service fees charged to the Fund were not subject to Ontario Retail Sales Tax ("ORST"). Under Ontario's harmonization with the GST, these services are now subject to an additional tax of 8%. In addition, other operating costs, such as administrative expenses, audit fees, legal fees, and clearing and settlement and back office fees are subject to an additional tax of 8%. However, investment funds in Canada are required to calculate the HST rate using specific rules. These rules require HST to be calculated using the residency of the shareholders and the current value of their interests, rather than the physical location of the Fund manager. These rules will allow the Fund to use a "blended rate" that will reduce the effect of harmonization, to the extent that the Fund has shareholders resident in provinces not subject to HST.

On December 23, 2010, Front Street Mutual Funds Limited ("FSMFL") and Front Street Resource Performance Fund Ltd. ("FSRPFL") issued a notice of special meeting of shareholders pertaining to the proposed amalgamation of Front Street Mutual Funds Limited and Front Street Resource Performance Fund Ltd. If the resolution is approved by the shareholders of the FSMFL and FSRPFL, the effective date of the amalgamation will be the close of business on February 28, 2011. The merger will be accomplished by the amalgamation of these two mutual fund corporations under the Canada Business Corporations Act (Canada). Upon amalgamation, FSMFL is considered to be the continuing fund for securities regulatory purposes. A new class of shares of FSMFL will be created, namely Series L of Front Street Resource Fund. Existing shareholders of FSRPFL will receive one share of Series L shares of Front Street Resource Fund class of shares of FSMFL.

On January 4, 2011, the Fund announced the acquisition of Front Street Flow-Through 2009-I Limited Partnership and Front Street Flow-Through 2009-II Limited Partnership on a tax deferred rollover basis (the "Mutual Fund Rollover Transaction"). The Mutual Fund Rollover Transaction will take place on February 3, 2011 after the close of business.

International Financial Reporting Standards ("IFRS")

Effective for its fiscal year commencing November 1, 2012, 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 of the implementation as new IFRS guidance become available from the International Accounting Standards Board.



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 does not expect the adoption of IFRS will have a material effect on the Fund's net asset value per share for all series of shares. The primary 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 preliminary analysis, the Manager believes the changeover to IFRS will not materially affect the Fund's existing business arrangements.

RELATED-PARTY TRANSACTIONS

Management fees of \$1,619,512 (2009 - \$1,001,461) were paid to the Manager during the year. Servicing fees of \$1,043,359 (2009 - \$625,999) were paid to the Manager during the year. Operating costs of \$44,475 (2009 - \$Nil) were paid to the Manager during the year. Performance fees of \$2,581,877 (2009 - \$1,007,797) were incurred with the Manager during the year. Included in accrued expenses are \$148,994 (2009 - \$158,932) of management fees payable to the Manager. Included in accrued expenses are \$65,782 (2009 - \$76,274) of accrued servicing fees payable to the Manager. Included in accrued expenses are \$3,712 (2009 - \$Nil) of accrued operating costs payable to the Manager. Performance fees payable reflects performance fees of \$2,169,293 (2009 - \$1,007,797) payable to the Manager.

257,798.22 (2009 - 228,626.64) of series B shares outstanding at year end representing 2.66% (2009 - 2.65%) of the total series B shares of the Fund are held by the Partners of the Manager.

Nil (2009 - 3,677.76) of series B shares outstanding at year end representing Nil% (2009 - 0.04%) of the total series B shares of the Fund are held by the relatives of the Partners of the Manager.

866.94 (2009 - 866.942) of series F shares outstanding at year end representing 0.98% (2009 - 1.82%) of the total series F shares of the Fund are held by relatives of the Partners of the Manger.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of 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. During the year ended October 31, 2010, Tuscarora Capital Inc, a company under common control to the Manager, received \$55,478 (2009 - \$1,221) 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 five financial years. This information is derived from the Fund's audited annual financial.

Series A

The Fund's Net Assets per Unit ⁽¹⁾

	October 31, 2010 \$	October 31, 2009 \$	October 31, 2008 \$	October 31, 2007 \$	October 31, 2006 \$
Net Assets, beginning of the year	8.93	6.22	15.14	10.96	10.00
Increase (decrease) from operations:					
Total revenue	0.20	0.03	0.06	0.13	0.05
Total expenses	(0.55)	(0.34)	(0.50)	(1.12)	(0.81)
Realized gains (losses) for the year	2.67	0.10	(1.09)	0.89	0.20
Unrealized gains (losses) for the year	1.33	2.91	(7.37)	3.87	1.79
Total increase (decrease) from operations ⁽²⁾	3.65	2.70	(8.90)	3.77	1.23
Distributions to Unitholders:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
Total distributions to Unitholders ⁽³⁾	—	—	—	—	—
Net Assets, end of the year	12.68	8.93	6.22	15.14	11.09

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per security 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 units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

Ratios and Supplemental Data

Total net asset value (000's) ⁽¹⁾	4,274	3,594	2,701	6,101	517
Number of units outstanding ⁽¹⁾	335,892	400,753	426,887	400,363	46,587
Management expense ratio ⁽²⁾	5.36%	4.92%	4.01%	8.22%	21.73%
Management expense ratio before waivers or absorptions	5.36%	4.92%	4.01%	8.22%	21.73%
Trading expense ratio ⁽³⁾	0.37%	0.34%	0.59%	0.71%	0.82%
Portfolio turnover rate ⁽⁴⁾	100.06%	88.34%	113.44%	80.56%	105.69%
Net asset value per unit	\$ 12.72	\$ 8.97	\$ 6.33	\$ 15.24	\$ 11.09

- (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 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 assets 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 Unit ⁽¹⁾

	October 31, 2010 \$	October 31, 2009 \$	October 31, 2008 \$	October 31, 2007 \$	October 31, 2006 \$
Net Assets, beginning of the year	8.43	5.90	15.02	10.96	10.00
Increase (decrease) from operations:					
Total revenue	0.22	0.03	0.06	0.13	0.06
Total expenses	(0.51)	(0.32)	(0.51)	(1.19)	(0.63)
Realized gains (losses) for the year	2.40	0.18	(1.11)	0.87	0.20
Unrealized gains (losses) for the year	1.42	2.89	(6.88)	3.45	1.18
Total increase (decrease) from operations ⁽²⁾	3.53	2.78	(8.44)	3.26	0.81
Distributions to Unitholders:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
Total distributions to Unitholders ⁽³⁾	—	—	—	—	—
Net Assets, end of the year	11.96	8.43	5.90	15.02	11.09

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per security 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 units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

Ratios and Supplemental Data

Total net asset value (000's) ⁽¹⁾	116,476	73,111	3,201	11,906	427
Number of units outstanding ⁽¹⁾	9,707,218	8,638,251	533,568	787,473	38,543
Management expense ratio ⁽²⁾	5.29%	4.82%	4.01%	8.77%	17.13%
Management expense ratio before waivers or absorptions	5.29%	4.82%	4.01%	8.77%	17.13%
Trading expense ratio ⁽³⁾	0.37%	0.34%	0.59%	0.71%	0.82%
Portfolio turnover rate ⁽⁴⁾	100.06%	88.34%	113.44%	80.56%	105.69%
Net asset value per unit	\$ 12.00	\$ 8.46	\$ 6.00	\$ 15.12	\$ 11.09

- (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 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 assets 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 Unit ⁽¹⁾

	October 31, 2010 \$	October 31, 2009 \$	October 31, 2008 \$	October 31, 2007 \$	October 31, 2006 \$
Net Assets, beginning of the year	8.29	5.77	14.94	11.05	10.00
Increase (decrease) from operations:					
Total revenue	0.18	0.03	0.06	0.12	0.05
Total expenses	(0.49)	(0.32)	(0.52)	(1.51)	(0.73)
Realized gains (losses) for the year	2.47	0.27	(1.12)	0.97	0.14
Unrealized gains (losses) for the year	1.08	2.14	(7.70)	1.05	1.56
Total increase (decrease) from operations ⁽²⁾	3.24	2.12	(9.28)	0.63	1.02
Distributions to Unitholders:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
Total distributions to Unitholders ⁽³⁾	—	—	—	—	—
Net Assets, end of the year	11.75	8.29	5.77	14.94	11.18

- (1) This information is derived from the Fund's audited annual financial statements. The net assets per security 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 units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional units of the Fund or both.

Ratios and Supplemental Data

Total net asset value (000's) ⁽¹⁾	1,045	397	239	740	316
Number of units outstanding ⁽¹⁾	88,668	47,677	40,661	49,207	28,244
Management expense ratio ⁽²⁾	5.12%	4.73%	4.15%	12.89%	23.27%
Management expense ratio before waivers or absorptions	5.12%	4.73%	4.15%	12.89%	23.27%
Trading expense ratio ⁽³⁾	0.37%	0.34%	0.59%	0.71%	0.82%
Portfolio turnover rate ⁽⁴⁾	100.06%	88.34%	113.44%	80.56%	105.69%
Net asset value per unit	\$ 11.79	\$ 8.32	\$ 5.87	\$ 15.04	\$ 11.18

- (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 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 assets 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.



MANAGEMENT & PERFORMANCE FEES

The Fund pays the Manager a monthly fee equal to one-twelfth of 1.5% 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 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 Manager 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 (the ‘Benchmark’) over the same period. The Benchmark for the Fund is calculated as follows:

- 25% of the percentage gain or loss of the S&P/TSX Capped Gold Index
- + 25% of the percentage gain or loss of the S&P/TSX Paper & Forest Products Index
- + 25% of the percentage gain or loss of the S&P/TSX Diversified Materials Index
- + 25% of the percentage gain or loss of the S&P/TSX Diversified Energy 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 Benchmark 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 “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.

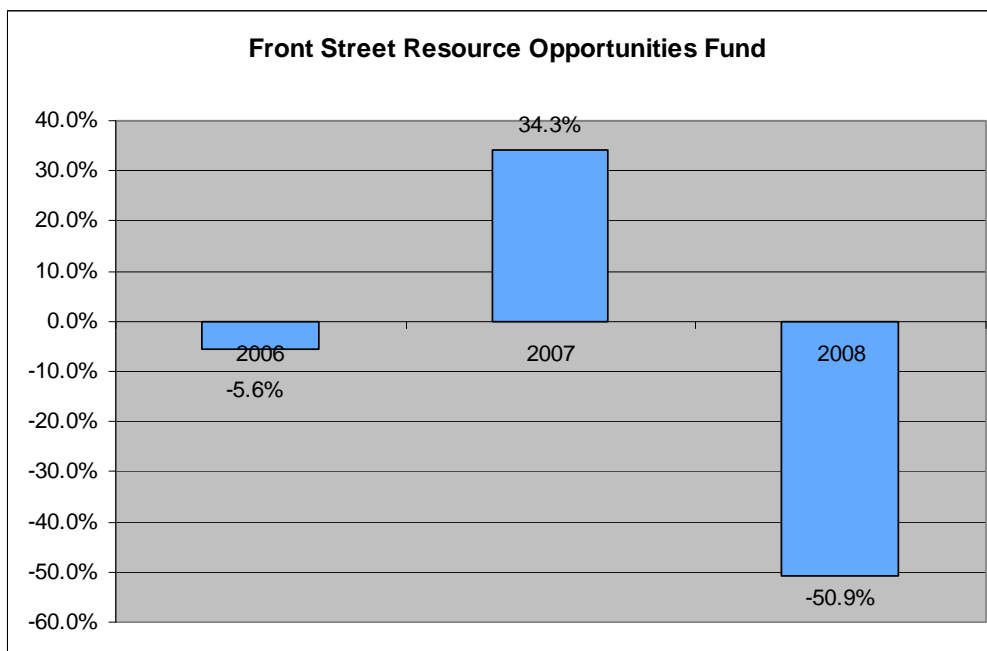
Series	Trailer Annual Rate	Annual Payment per \$1,000 of Fund securities held
A	1.00%	\$10.00
B	1.00%	\$10.00
F	0.00%	Nil

PAST PERFORMANCE

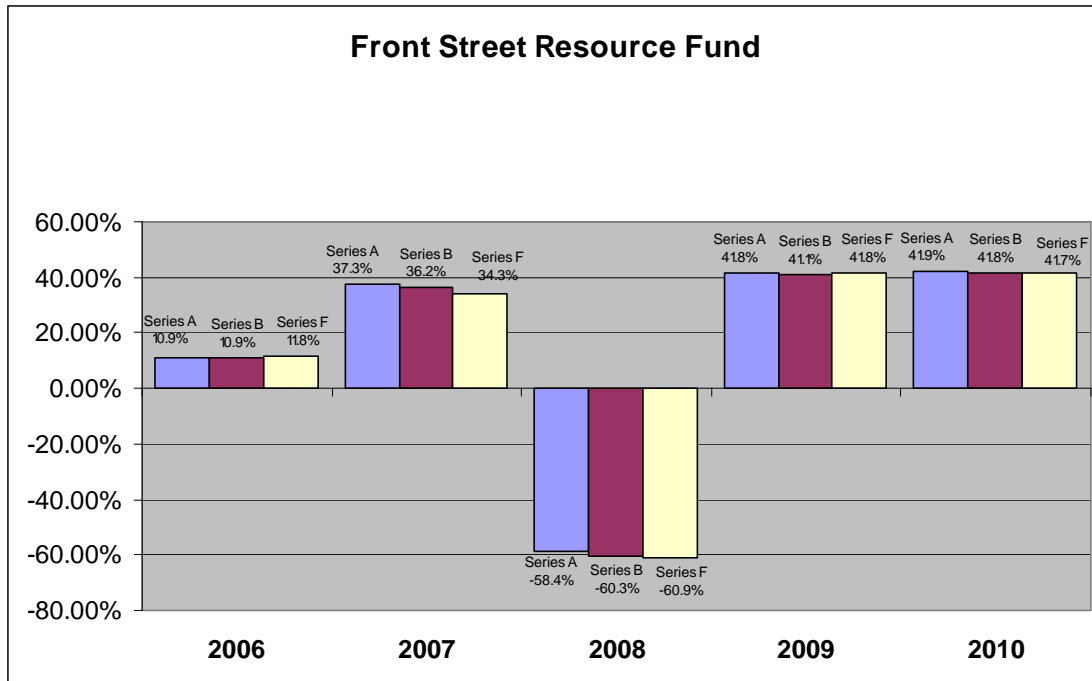
The past performance of the Fund is set out below and includes year-by-year returns.

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 Resource Opportunities Fund, a class of Front Street Opportunity Funds Ltd. The Fund was merged with the continuing Fund being Front Street Resource Fund on November 1, 2008.



The above chart is the year-by year returns for Front Street Resource Fund, a class of Front Street Mutual Funds Ltd. The Fund was merged with the discontinuing Fund being Front Street Resource Opportunities Fund on November 1, 2008

Annual Compound Returns

The following table shows the Fund's historical annual compound total return since inception as compared to the performance of the blended benchmark index using 25% of S&P/TSX Capped Gold Index, 25% of S&P/TSX Paper & Forest Product Index, 25% of S&P/TSX Diversified Materials Index and 25% of S&P/TSX Diversified Energy Index ("Blended Benchmark Index").

	Since amalgamation November 1, 2008
Front Street Resource Fund Series A	41.96%
Front Street Resource Fund Series B	41.56%
Front Street Resource Fund Series F	41.86%
Blended Benchmark Index	33.5%

The above annual compound returns are for Front Street Resource Fund and does not include the returns or performance of the Front Street Resource Opportunities Fund which merged with the continuing Fund being Front Street Resource Fund on November 1, 2008.

Summary of Investment Portfolio as at October 31, 2010

Portfolio by Category

	Percentage of Transactional Net Asset Value
LONG POSITIONS	
Materials	37.1%
Energy	36.1%
Australia	17.1%
United States	4.6%
Cash and cash equivalents	2.4%
Cayman Islands	2.0%
British Virgin Island	1.8%
Bermuda	1.6%
Industrials	0.6%
SHORT POSITIONS	
Energy	-1.1%
OTHER	
	-2.2%
100.0%	

Top 25 Holdings

	Percentage of Transactional Net Asset Value
Tourmaline Oil Corporation	5.5%
Tiger Resources Limited	3.4%
Uranium Energy Corporation	3.3%
Crew Energy Inc.	3.2%
Lundin Mining Corporation	3.2%
Royal Nickel Corporation	3.1%
Sandfire Resources NL	2.9%
Petrominerales Limited	2.6%
Pacific Rubiales Energy Corporation	2.5%
Laricina Energy Limited	2.5%
Berkeley Resources Limited	2.4%
Anatolia Minerals Development Limited	2.4%
B2Gold Corporation	2.2%
Baffinland Iron Mines Corporation	2.2%
Petrobank Energy and Resources Limited	2.2%
Anvil Mining Limited	2.0%
Coastal Energy Corporation	2.0%
Precision Drilling Corporation	1.9%
Athabasca Oil Sands Corporation	1.9%
Quadra FNX Mining Limited	1.8%
Premier Gold Mines Limited	1.8%
Western Areas NL	1.8%
Labrador Iron Mines Holdings Limited	1.8%
CIC Energy Corporation	1.8%
Centamin Egypt Limited	1.7%
62.1%	
TOTAL TRANSACTIONAL NET ASSET VALUE (000) \$121,795	

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

FRONT STREET RESOURCE FUND

**FINANCIAL STATEMENTS
OCTOBER 31, 2010 AND 2009**

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MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Resource 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 Resource Fund. They are appointed by the Manager of the Fund. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out below.

On behalf of Management of Front Street Capital 2004,
Manager of the Fund.



Gary P. Selke
Management Committee Member
Front Street Capital 2004



Normand G. Lamarche
Management Committee Member
Front Street Capital 2004

January 19, 2011
Toronto, Ontario

AUDITORS' REPORT

To the Shareholders of Front Street Resource Fund (the "Fund") of Front Street Mutual Funds Limited

We have audited the statements of net assets of the Front Street Resource Fund, (the "Fund") as at October 31, 2010 and 2009 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, 2010. 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, 2010 and 2009 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
January 19, 2011

FRONT STREET RESOURCE FUND

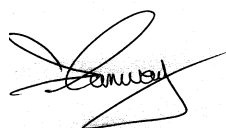
STATEMENT OF NET ASSETS AS AT OCTOBER 31, 2010 and 2009

	2010	2009
ASSETS		
Investments, at fair value		
(cost - \$84,847,569; 2009-\$56,816,284)	\$ 122,437,139	\$ 78,630,255
Cash and cash equivalents	2,955,939	61,030
Accounts receivable relating to portfolio assets sold	272,337	—
Accounts receivable relating to shares issued	179,049	35,065
Amounts receivable relating to accrued income	5,313	13,170
Other receivable	—	13,269
	<u>\$ 125,849,777</u>	<u>\$ 78,752,789</u>
LIABILITIES		
Performance fees payable	\$ 2,169,293	\$ 1,007,797
Obligations from portfolio assets sold short, at fair value	1,333,402	—
Accounts payable relating to shares redeemed	570,526	492,633
Accrued expenses	399,253	462,431
Liabilities for portfolio assets purchased	—	—
	<u>4,472,474</u>	<u>1,962,861</u>
Net assets representing shareholders' equity	<u>\$ 121,377,303</u>	<u>\$ 76,789,928</u>
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 4,259,207	\$ 3,579,358
Shares outstanding, Series A, note 3	335,892	400,753
Net assets per share, Series A	<u>\$ 12.68</u>	<u>\$ 8.93</u>
Net assets, Series B	\$ 116,076,117	\$ 72,815,452
Shares outstanding, Series B, note 3	9,707,218	8,638,251
Net assets per share, Series B	<u>\$ 11.96</u>	<u>\$ 8.43</u>
Net assets, Series F	\$ 1,041,979	\$ 395,118
Shares outstanding, Series F, note 3	88,668	47,677
Net assets per share, Series F	<u>\$ 11.75</u>	<u>\$ 8.29</u>

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



Gary P. Selke
Chief Executive Officer and Director



David A. Conway
Chief Financial Officer

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

STATEMENT OF OPERATIONS

FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	2010	2009
Investment income		
Dividends	\$ 2,336,097	\$ 256,640
Interest	82,963	286
Less: Foreign withholding taxes	(4,323)	(4,062)
	<u>2,414,737</u>	<u>252,864</u>
Expenses		
Performance fees, notes 4 and 7	2,581,877	1,007,797
Management fees, notes 4 and 7	1,619,512	1,001,461
Servicing fees, notes 4 and 7	1,043,359	625,999
Administration fees	273,822	209,000
Custodial fees	54,559	19,862
Audit fees	54,549	86,496
Operating costs, notes 4 and 7	44,475	—
Securityholder reporting costs	26,484	38,192
Legal fees	16,319	73,138
Independent review committee	7,252	13,743
	<u>5,722,208</u>	<u>3,075,688</u>
Net investment loss for the year	<u>(3,307,471)</u>	<u>(2,822,824)</u>
Net realized and unrealized gains on investments		
Net realized gain on sale of investments	26,891,923	2,678,827
Transaction costs, notes 6 and 7	(402,522)	(215,999)
Change in the unrealized appreciation of the value of investments	16,073,511	26,806,518
Net gain on investments for the year	<u>42,562,912</u>	<u>29,269,346</u>
Net increase in net assets from operations for the year	<u>\$ 39,255,441</u>	<u>\$ 26,446,522</u>
Increase in net assets from operations applicable to outstanding shares allocated as follows:		
Increase in net assets from operations, Series A	\$ 1,313,790	\$ 1,138,330
Increase in net assets from operations per share, Series A	<u>\$ 3.65</u>	<u>\$ 2.70</u>
Increase in net assets from operations, Series B	\$ 37,735,550	\$ 25,230,600
Increase in net assets from operations per share, Series B	<u>\$ 3.53</u>	<u>\$ 2.78</u>
Increase in net assets from operations, Series F	\$ 206,101	\$ 77,592
Increase in net assets from operations per share, Series F	<u>\$ 3.24</u>	<u>\$ 2.12</u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	2010	2009
Series A		
Net assets, beginning of year	<u>\$ 3,579,358</u>	<u>\$ 2,655,624</u>
Net increase in net assets from operations	<u>1,313,790</u>	<u>1,138,330</u>
Shareholder transactions		
Proceeds from the issuance of shares	553,080	217,184
Aggregate amounts paid on the redemption of shares	<u>(1,187,021)</u>	<u>(431,780)</u>
	<u>(633,941)</u>	<u>(214,596)</u>
Net increase in net assets for the year	<u>679,849</u>	<u>923,734</u>
Net assets, end of year	<u><u>\$ 4,259,207</u></u>	<u><u>\$ 3,579,358</u></u>
Series B		
Net assets, beginning of year	<u>\$ 72,815,452</u>	<u>\$ 3,147,687</u>
Net increase in net assets from operations	<u>37,735,550</u>	<u>25,230,600</u>
Shareholder transactions		
Proceeds from the issuance of shares	105,268,686	77,098,930
Aggregate amounts paid on the redemption of shares	<u>(99,743,571)</u>	<u>(32,661,765)</u>
	<u>5,525,115</u>	<u>44,437,165</u>
Net increase in net assets for the year	<u>43,260,665</u>	<u>69,667,765</u>
Net assets, end of year	<u><u>\$ 116,076,117</u></u>	<u><u>\$ 72,815,452</u></u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	2010	2009
Series F		
Net assets, beginning of year	<u>\$ 395,118</u>	<u>\$ 234,706</u>
Net increase in net assets from operations	<u>206,101</u>	<u>77,592</u>
Shareholder transactions		
Proceeds from the issuance of shares	909,965	366,995
Aggregate amounts paid on the redemption of shares	<u>(469,205)</u>	<u>(284,175)</u>
	<u>440,760</u>	<u>82,820</u>
Net increase in net assets for the year	<u>646,861</u>	<u>160,412</u>
Net assets, end of year	<u><u>\$ 1,041,979</u></u>	<u><u>\$ 395,118</u></u>
Total		
Net assets, beginning of year	<u>\$ 76,789,928</u>	<u>\$ 6,038,017</u>
Net increase in net assets from operations	<u>39,255,441</u>	<u>26,446,522</u>
Shareholder transactions		
Proceeds from the issuance of shares	106,731,731	77,683,109
Aggregate amounts paid on the redemption of shares	<u>(101,399,797)</u>	<u>(33,377,720)</u>
	<u>5,331,934</u>	<u>44,305,389</u>
Net increase in net assets for the year	<u>44,587,375</u>	<u>70,751,911</u>
Net assets, end of year	<u><u>\$ 121,377,303</u></u>	<u><u>\$ 76,789,928</u></u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2010

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Long Positions			
Energy (36.14%)			
Alange Energy Corporation	1,347,800	\$ 618,049	\$ 970,416
Andora Energy Corporation	332,107	895,998	498,161
Athabasca Oil Sands Corporation	201,881	1,838,477	2,289,331
Bankers Petroleum Limited	141,451	990,105	1,009,960
Canyon Services Group Inc.	226,860	929,081	1,871,595
Celtic Exploration Limited	69,600	427,240	852,600
Colonial Coal International Corporation	775,947	593,599	682,833
Colonial Coal International Corporation Warrants	775,947	3,880	511,816
Crew Energy Inc.	197,775	769,122	3,900,123
Daylight Energy Limited	106,257	1,090,915	1,050,882
Exeter Resource Corporation	151,701	314,245	892,002
Laricina Energy Limited	100,000	2,000,000	3,000,000
Midway Energy Limited	314,823	1,010,887	1,158,549
Northpine Energy Limited	92,316	270,024	6,185
Pacific Rubiales Energy Corporation	92,470	600,225	3,006,200
Petrobank Energy and Resources Limited	64,900	2,500,976	2,626,503
Petrominerales Limited	120,391	2,227,225	3,133,778
Precision Drilling Corporation	289,363	2,054,194	2,300,436
Reliable Energy Limited	3,223,969	1,160,629	1,321,827
Second Wave Petroleum Inc.	446,580	690,372	1,205,766
Tourmaline Oil Corporation Restricted	369,966	5,727,160	6,659,387
Trican Well Service Limited	74,879	1,055,538	1,323,861
Tuscany International Drilling Inc.	500,000	737,935	680,000
Tuscany International Drilling Inc. Warrants	250,000	62,500	12,500
Value Creation Inc. Restricted	640,802	2,793,058	961,203
Vero Energy Inc	304,408	1,879,842	1,932,991
Xinergy Limited Warrants	102,317	-	8,185
		<u>\$ 33,241,276</u>	<u>\$ 43,867,090</u>
Industrials (0.64%)			
Twin Butte Energy Limited	485,756	\$ 607,195	\$ 782,067

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2010

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Materials (37.11%)			
Anatolia Minerals Development Limited	391,355	\$ 1,303,579	\$ 2,931,249
Antares Minerals Inc.	254,743	268,788	1,790,843
Anvil Mining Limited	513,391	1,181,483	2,387,268
B2Gold Corporation	1,204,213	1,133,132	2,721,521
Baffinland Iron Mines Corporation	2,863,505	1,285,176	2,691,695
Changfeng Energy Inc.	2,956,788	1,164,008	975,740
Compton Petroleum Corporation Warrants	1,147,372	190,787	40,158
Dorato Resources Inc.	751,450	751,450	939,313
Dorato Resources Inc. Warrants	375,725	131,504	253,148
Dundee Precious Metals Inc. Warrants	98,300	58,587	363,710
Galway Resources Limited	513,554	365,973	421,114
Gran Columbia Gold Corporation	2,452,590	981,036	968,773
Gran Columbia Gold Corporation Warrants	1,226,295	-	226,865
Guyana Precious Metals Inc.	3,000,000	465,000	405,000
Guyana Precious Metals Inc. Warrants	1,500,000	2	17,508
Hathor Exploration Limited	728,468	1,345,949	1,966,864
Labrador Iron Mines Holdings Limited	355,934	1,975,434	2,142,723
Longford Energy Inc. Warrants	1,604,400	2	2
Lundin Mining Corporation	603,712	1,999,578	3,869,793
Mega Uranium Limited Warrants	40,500	-	-
Mincore Inc. Restricted	1,000,000	500,000	250,000
Oromin Explorations Limited	858,154	709,193	1,098,437
PC Gold Inc.	861,988	970,672	767,169
Platinum Group Metals Limited	296,887	608,618	596,743
Platmin Limited	1,176,623	1,539,478	1,221,435
Premier Gold Mines Limited	405,556	1,423,502	2,238,669
Quadra FNX Mining Limited	149,184	2,130,362	2,140,790
Quadra FNX Mining Limited Warrants	30,402	77,590	101,847
Quetzal Energy Limited	2,334,511	329,166	525,265
Royal Nickel Corporation	1,908,000	1,974,780	3,816,000
Rubicon Minerals Corporation	491,495	2,044,619	1,838,191
San Gold Corporation	554,520	1,813,280	1,785,554

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2010

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Materials (continued...)			
Southern Pacific Resources Corporation	760,700	912,840	1,011,731
Starfield Resources Inc. Warrants	902,870	-	1
Thompson Creek Metals Company	98,999	1,009,221	1,214,718
Thompson Creek Metals Company Warrants	102,100	222,210	436,988
Whitecap Resources Inc.	186,638	839,871	877,199
		<u>\$ 31,706,870</u>	<u>\$ 45,034,024</u>
Global Equities			
Australia (17.07%)			
Berkeley Resources Limited	1,864,483	\$ 525,376	\$ 2,959,822
Berkeley Resources Limited Option	56,297	-	46,090
Centamin Egypt Limited	728,515	414,382	2,083,553
Coal & Allied Industries Limited	13,242	970,039	1,480,089
Goldminex Resources Limited	1,110,724	731,666	177,434
Northern Iron Limited	1,226,353	1,436,744	1,854,975
Perseus Mining Limited	674,320	1,213,776	2,029,703
Sandfire Resources NL	449,824	1,611,962	3,583,897
Tiger Resources Limited	11,856,400	2,174,753	4,083,965
Western Areas NL	384,513	1,677,737	2,134,559
White Canyon Uranium Limited	2,370,518	414,853	284,011
		<u>\$ 11,171,288</u>	<u>\$ 20,718,098</u>
Bermuda (1.57%)			
Petra Diamonds Limited	1,301,179	\$ 1,259,916	\$ 1,906,252
British Virgin Island (1.77%)			
CIC Energy Corporation	361,513	\$ 1,334,154	\$ 2,151,002
Cayman Islands (1.93%)			
Coastal Energy Corporation	526,193	\$ 2,075,984	\$ 2,341,559

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2010

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
United States (4.64%)			
Kodiak Energy Inc.	1,000,000	\$ 612,315	\$ 112,101
Oilsands Quest Inc.	136,000	162,916	60,290
Geovic Mining Corporation Warrants	180,596	9,030	1,806
Golden Minerals Company	43,977	833,179	1,176,443
Uranium Energy Corporation	1,017,235	1,831,212	4,011,881
Uranium Energy Corporation Warrants - 03/01/2012	20,273	-	29,442
Uranium Energy Corporation Warrants - 06/26/2011	208,350	2,234	245,084
		<u>\$ 3,450,886</u>	<u>\$ 5,637,047</u>
Total Long Positions		<u>\$ 84,847,569</u>	<u>\$ 122,437,139</u>
Short Positions			
Energy (-1.10%)			
Birchcliff Energy Limited	(156,136)	<u>\$ (1,506,722)</u>	<u>\$ (1,333,402)</u>
Total Short Positions		<u>\$ (1,506,722)</u>	<u>\$ (1,333,402)</u>
Transaction costs, note 2		<u>(124,591)</u>	
Total Investments (99.77%)		<u>\$ 83,216,256</u>	\$ 121,103,737
Cash and cash equivalents (2.44%)			2,955,939
Other assets less other liabilities (-2.21%)			<u>(2,682,373)</u>
Net assets (100.0%)			<u>\$ 121,377,303</u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

1. THE FUND

Front Street Resource 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. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure. Series A commenced operations on June 22, 2006. Series B commenced operations on June 22, 2006. Series F commenced operations on July 13, 2006.

At a special meeting held on October 15, 2008, the applicable securityholders approved the special resolutions authorizing the amalgamation of Front Street Mutual Funds Limited and Front Street Opportunities Funds Ltd. to form Front Street Mutual Funds Limited pursuant to an amalgamation agreement entered into as of October 31, 2008 and the filing of such articles of amalgamation with an effective date of November 1, 2008. Pursuant to the amalgamation, the Fund amalgamated with Front Street Resource Opportunities Fund of Front Street Opportunities Funds Ltd. to form Front Street Resource Fund. Each former shareholder of Front Street Resource Fund Class received one share of Front Street Resource Fund. Each former shareholder of the Front Street Resource Opportunities Fund received 0.4767 shares for each Series A; 0.4767 shares for each Series B, and 0.5086 shares for each Series F, share respectively.

The transactional net asset value of the Front Street Resource Opportunities Fund acquired was as follows:

Total assets	\$ 40,896,332
Total liabilities	2,370,153
Transactional NAV	38,526,179

Aggregate consideration was paid through the issuance of the following shares:

	Shares	Transactional NAV
Series A	-	\$ -
Series B	6,392,286	38,411,455
Series F	<u>19,387</u>	<u>114,724</u>
	<u>6,411,673</u>	<u>\$ 38,526,179</u>

Summary financial information for Front Street Resource Opportunities Fund for the year ended October 31, 2008 is as follows:

Investment income	143,688
Total expenses	2,608,138
Net realized and unrealized loss on investments	53,421,097
Net decrease in net assets from operations for the year	55,885,547

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

1. THE FUND (Continued...)

On February 5, 2009, the Fund acquired the net assets of Front Street Flow Through 2007-I Limited Partnership on a tax deferred rollover basis whereby the Partnership units were converted at the rate of 1.076997 Series B shares of the Fund for each Partnership unit.

The net assets of the Front Street Flow Through 2007-I Limited Partnership acquired were as follows:

Total assets	\$ 36,444,507
Total liabilities	222,461
Net assets representing partners' equity	36,222,046

Aggregate consideration was paid through the issuance of the following shares:

	Shares	Transactional NAV
Series B	<u>6,461,991</u>	<u>\$ 36,222,046</u>

On July 17, 2009, the Fund acquired the net assets of Brompton 2007 Flow-Through LP on a tax deferred rollover basis whereby the Partnership units were converted at the rate of 0.294958 Series B shares of the Fund for each Partnership unit.

The net assets of the Brompton 2007 Flow-Through LP acquired were as follows:

Total assets	\$ 1,755,187
Total liabilities	-
Net assets representing partners' equity	1,755,187

Aggregate consideration was paid through the issuance of the following shares:

	Shares	Transactional NAV
Series B	<u>251,863</u>	<u>\$ 1,755,187</u>

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

1. THE FUND (Continued...)

On November 24, 2009 the shareholders of Front Street Mutual Funds Limited (the "Corporation") approved the special resolutions to authorize the amalgamation of the corporation with Front Street Special Opportunities Canadian Fund Ltd., another mutual fund corporation managed by Front Street Capital 2004. The effective date of the amalgamation was the close of business on December 1, 2009. The merger was accomplished by the amalgamation of these two mutual fund corporations under the Canada Business Corporations Act (Canada).

Upon amalgamation, Front Street Mutual Funds Limited was considered to be the continuing Fund for securities regulatory purposes. A new class of shares of Front Street Mutual Funds Limited was created, namely Front Street Special Opportunities Canadian Fund (of which Series A, B, F, X and Y shares were created). Existing shareholders of the Series A, Series B and Series F of Front Street Special Opportunities Canadian Fund Ltd. received Series X, Series Y and Series F shares respectively of the Front Street Special Opportunities Canadian Fund class of shares of Front Street Mutual Funds Limited.

On December 10, 2009, the Fund acquired Brompton 2008 Flow-Through LP on a tax deferred rollover basis whereby the Partnership units were converted at the rate of 1.451704 Series B shares of the Fund on each Partnership unit.

The net assets of the Brompton 2008 Flow-Through LP acquired were as follows:

Total assets	\$ 3,814,006
Total liabilities	-
Net assets representing partners' equity	3,814,006

Aggregate consideration was paid through the issuance of the following shares:

	Shares	Transactional NAV
Series B	<u>430,882</u>	<u>\$ 3,814,006</u>

On February 4, 2010, the Fund acquired the net assets of Front Street Flow Through 2008-I Limited Partnership on a tax deferred rollover basis whereby the Partnership units were converted at the rate of 2.385013 Series B shares of the Fund for each Partnership unit.

The net assets of the Front Street Flow Through 2008-I Limited Partnership acquired were as follows:

Total assets	\$ 98,036,444
Total liabilities	356,199
Net assets representing partners' equity	97,680,245

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

1. **THE FUND** (Continued...)

Aggregate consideration was paid through the issuance of the following shares:

	Shares	Transactional NAV
Series B	<u>10,575,684</u>	<u>\$ 97,680,245</u>

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, 2010.

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 recordkeeping services.

The Fund's investment objective is to maximize capital appreciation by investing in small and medium-sized business entities in a range of natural resource sector industries, including base and precious metals, mineral exploration, and in energy-related industries. The Investment Advisor will assist the Fund in selecting investments primarily in equity and equity-related securities, although the Fund may also invest in other securities, including preferred shares, of such resource issuers, including junior resource issuers, in accordance with the investment strategies and guidelines. Such investments may include short selling of securities which the Investment Advisor believes are overvalued.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been 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 are classified as held for trading. Accounts receivable relating to portfolio assets sold, accounts receivable relating to shares issued, amounts receivable relating to accrued income and other receivable are classified as loans and receivables. Performance fees payable, accounts payable relating to shares redeemed and accrued expenses are classified as other financial liabilities.

In June 2008, the Canadian Securities Administrators adopted changes to National Instrument 81-106 on Investment Fund Continuous Disclosure. These 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. The changes are effective September 8, 2008 and have been reflected in these financial statements.

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 RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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.

c) Financial instruments disclosure and presentation and fair value measurements

The Fund has adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation, which have replaced Section 3861, Financial Instruments - Disclosure and Presentation. These new 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.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

c) Financial instruments disclosure and presentation and fair value measurements (continued...)

The Fund adopted the amendments to CICA 3862, Financial Instruments – Disclosures on January 1, 2009. 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.

These changes have no impact on the net assets, results of operations or changes in net assets of the Fund.

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 RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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 are 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, has been amended to include 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 investment in private companies and the fair value of the Fund's investment in corporate warrants which are not traded in active markets. Actual results may differ from those estimates.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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, 2012, 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 of the implementation as new IFRS guidance become available from the International Accounting Standards Board.

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 does not expect the adoption of IFRS will have a material effect on the Fund's net asset value per share for all series of shares. The primary 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 preliminary analysis, the Manager believes the changeover to IFRS will not materially affect the Fund's existing business arrangements.

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.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

3. SHARES ISSUED AND OUTSTANDING (Continued...)

Series B shares

Commission fees payable to brokers, dealers or advisors may be applicable upon the purchase of shares of this series up to 5% of the gross purchase amount, at the discretion of the broker, dealer or advisor.

Series F shares

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

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

The following share transactions took place during the year:

	2010	2009
Shares outstanding, beginning of the year:		
Series A	400,753	426,887
Series B	8,638,251	533,568
Series F	47,677	40,661
Shares issued during the year:		
Series A	50,833	32,694
Series B	11,392,464	13,216,926
Series F	91,319	57,452
Share distributions reinvested during the year:		
Series A	-	-
Series B	-	-
Series F	-	-
Shares redeemed during the year:		
Series A	115,694	58,828
Series B	10,323,497	5,112,243
Series F	50,328	50,436
Shares outstanding, end of the year:		
Series A	335,892	400,753
Series B	9,707,218	8,638,251
Series F	88,668	47,677

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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 and paid at the end of each month in arrears.

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 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 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 year. The Benchmark for the Fund is calculated as follows: 25% of the percentage gain or loss of the S&P/TSX Capped Gold Index plus 25% of the percentage gain or loss of the S&P/TSX Paper & Forest Products Index plus 25% of the percentage gain or loss of the S&P/TSX Diversified Materials Index plus 25% of the percentage gain or loss of the S&P/TSX Diversified Energy 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. 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, 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 shares 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.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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

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 security transactions for the year ended October 31, 2010 was \$402,522 (2009 - \$215,999).

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

7. RELATED PARTY TRANSACTIONS

Management fees of \$1,619,512 (2009 - \$1,001,461) were paid to the Manager during the year (see note 4). Servicing fees of \$1,043,359 (2009 - \$625,999) were paid to the Manager during the year (see note 4). Operating costs of \$44,475 (2009 - \$Nil) were paid to the Manager during the year (see note 4). Performance fees of \$2,581,877 (2009 - \$1,007,797) were incurred with the Manager during the year (see note 4). Included in accrued expenses are \$148,994 (2009 - \$158,932) of management fees payable to the Manager. Included in accrued expenses are \$65,782 (2009 - \$76,274) of accrued servicing fees payable to the Manager. Included in accrued expenses are \$3,712 (2009 - \$Nil) of accrued operating costs payable to the Manager. Performance fees payable reflects performance fees of \$2,169,293 (2009 - \$1,007,797) payable to the Manager.

257,798.22 (2009 – 228,626.64) of series B shares outstanding at year end representing 2.66% (2009 – 2.65%) of the total series B shares of the Fund are held by the Partners of the Manager.

Nil (2009 – 3,677.76) of series B shares outstanding at year end representing Nil% (2009 – 0.04%) of the total series B shares of the Fund are held by the relatives of the Partners of the Manager.

866.94 (2009 – 866.942) of series F shares outstanding at year end representing 0.98% (2009 -1.82%) of the total series F shares of the Fund are held by relatives of the Partners of the Manger.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of 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. During the year ended October 31, 2010, Tuscarora Capital Inc, a company under common control to the Manager, received \$55,478 (2009 - \$1,221) 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.

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 policies ("GAAP NA") of an investment fund is required for financial reporting years ending on or after 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 in of general practice in the investment funds industry.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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

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, 2010

	Transactional NAV	<u>Net Asset Value</u>		GAAP NA	<u>Net Assets per Share</u>	
		Section 3855 Adjustment			Transactional NAV	GAAP NA
Series A	\$ 4,273,844	\$ (14,637)	\$ 4,259,207	\$ 12.72	\$ 12.68	
Series B	116,475,947	(399,830)	116,076,117	12.00	11.96	
Series F	1,045,390	(3,411)	1,041,979	11.79	11.75	
Total Net Asset Value	\$ 121,795,181	\$ (417,878)	\$ 121,377,303			

9. FINANCIAL INSTRUMENTS

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

As at October 31,

	2010	2009
Assets		
Held for trading	\$122,437,139	\$ 78,630,255
Cash and cash equivalents	2,955,939	61,030
Loans and receivables	<u>456,699</u>	<u>61,504</u>
Total Assets	<u>125,849,777</u>	<u>78,752,789</u>
Liabilities		
Held for trading	1,333,402	-
Other financial liabilities at amortized cost	<u>3,139,072</u>	<u>1,962,861</u>
Total liabilities	<u>4,472,474</u>	<u>1,962,861</u>
Net Assets	<u>\$121,377,303</u>	<u>\$ 76,789,928</u>

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

9. FINANCIAL INSTRUMENTS (Continued...)

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

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, 2010, 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 prices or investment specific events.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

9. FINANCIAL INSTRUMENTS (Continued...)

ii) Currency risk (continued...)

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

	Investment, at fair value	Cash	Foreign exchange contract	Total	Percentage of GAAP NA
Australian Dollar	\$ 15,374,876	\$ 1,016,306	\$ -	\$ 16,391,182	13.50%
Brazilian Real Sterling	1,906,252	25	-	1,906,277	1.57%
United States Dollar	<u>7,042,537</u>	<u>280</u>	<u>-</u>	<u>7,042,817</u>	<u>5.80%</u>
	<u>\$ 24,323,655</u>	<u>\$ 1,016,611</u>	<u>\$ -</u>	<u>\$ 25,340,276</u>	<u>20.87%</u>

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, 2010, the bulk of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

Financial assets	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Held for trading	\$ -	\$ -	\$ 122,437,139	\$ 122,437,139
Other receivables	-	-	456,699	456,699
Cash	<u>2,955,939</u>	<u>-</u>	<u>-</u>	<u>2,955,939</u>
Total	<u>\$ 2,955,939</u>	<u>\$ -</u>	<u>\$ 122,893,838</u>	<u>\$ 125,849,777</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 1,333,402	\$ 1,333,402
Other financial liabilities	-	-	3,139,072	3,139,072
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,472,474</u>	<u>\$ 4,472,474</u>
GAAP NA				<u>\$ 121,377,303</u>

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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	\$ -	\$ -	\$ -	\$ -	\$ 122,437,139	\$ 122,437,139
Other receivables	456,699	-	-	-	-	456,699
Cash and cash equivalents	<u>2,955,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,955,939</u>
Total	<u>\$ 3,412,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,437,139</u>	<u>\$ 125,849,777</u>
Financial liabilities						
Held for trading	\$ -	\$ -	\$ -	\$ -	\$ 1,333,402	\$ 1,333,402
Other financial liabilities	<u>3,139,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,139,072</u>
Total	<u>\$ 3,139,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,333,402</u>	<u>\$ 4,472,474</u>
GAAP NA						<u>\$ 121,377,303</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at October 31, 2010, the fair value of such assets was 12.52% 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 RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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 and amounts due from brokers. 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 when 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, 2010, the Fund had no significant investments in long term debt instruments.

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 2009.

The Fund does not have any externally imposed capital requirements.

FRONT STREET RESOURCE FUND

**NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2010 AND 2009**

11. FAIR VALUE HIERARCHY

The following is a summary of the inputs used as of October 31, 2010 in valuing the Fund's investments and derivatives carried at fair values as discussed in note 2(c):

Assets at fair value as at October 31, 2010	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Investments, at fair value	<u>\$ 106,187,395</u>	<u>\$ 1,058,808</u>	<u>\$ 15,190,936</u>	<u>\$ 122,437,139</u>
Liabilities at fair value as at October 31, 2010	Level 1	Level 2	Level 3	Total
Obligations from portfolio used, at fair value	<u>\$ 1,333,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,333,402</u>

During the year ended October 31, 2010 reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Investments, at fair value
Beginning balance as at November 1, 2009	\$ 13,754,189
Purchases	8,177,160
Sales	(3,379,900)
Transfers out	(4,207,140)
Gain (losses)	
Realized	1,265,880
Unrealized	<u>(419,253)</u>
	<u>\$ 15,190,936</u>

The securities involved in the transfers out were reallocated to level one as a result of having quoted prices in active markets for identical assets now available with respect to these holdings.

FRONT STREET RESOURCE FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

12. SUBSEQUENT EVENTS

On December 23, 2010, Front Street Mutual Funds Limited (“FSMFL”) and Front Street Resource Performance Fund Ltd. (“FSRPFL”) issued a notice of special meeting of shareholders pertaining to the proposed amalgamation of Front Street Mutual Funds Limited and Front Street Resource Performance Fund Ltd. If the resolution is approved by the shareholders of the FSMFL and FSRPFL, the effective date of the amalgamation will be the close of business on February 28, 2011. The merger will be accomplished by the amalgamation of these two mutual fund corporations under the Canada Business Corporations Act (Canada). Upon amalgamation, FSMFL is considered to be the continuing fund for securities regulatory purposes. A new class of shares of FSMFL will be created, namely Series L of Front Street Resource Fund. Existing shareholders of FSRPFL will receive one share of Series L shares of Front Street Resource Fund class of shares of FSMFL.

On January 4, 2011, the Fund announced the acquisition of Front Street Flow-Through 2009-I Limited Partnership and Front Street Flow-Through 2009-II Limited Partnership on a tax deferred rollover basis (the "Mutual Fund Rollover Transaction"). The Mutual Fund Rollover Transaction will take place on February 3, 2011 after the close of business.