

Annual Management Report of Fund Performance As at October 31, 2012 Front Street Resource Class (Formerly 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 Class (the "Fund"), a class of shares of Front Street Mutual Funds Limited. The annual financials of the Fund are attached behind this report and you can also get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-800-513-2832, by writing to us at Front Street Capital 2004, 33 Yonge Street, Suite 600, Toronto, Ontario M5E 1G4 or by visiting our web site at www.frontstreetcapital.com or SEDAR at www.sedar.com

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

Forward Looking Information

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

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

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

Management Discussion of Fund Performance

INVESTMENT OBJECTIVES AND STRATEGIES

The investment objective of the Fund is to 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, mineral 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 mineral 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 Class'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. Although the Canadian dollar started and ended the year at parity with the US dollar, there were a few swings of greater than 5% in relative value. Currency risk impacted principally the Fund's investments that had revenue in U.S. dollars. Volatility in currency markets continues to be high, suggesting uncertainty going forward on this front.

Equity risk also affected Fund volatility. Market volatility was very high this year, as each recovery seemed to be met by a sell-off. Fears of political and economic events around the world influenced stock market direction.

Interest-rate risk was also a factor, as global central banks and bond and equity markets closely monitored the U.S. Federal Reserve's monetary policy activities and public communications for indications as to interest rate policy. Any major increase in interest rates could stifle economic growth.

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

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

The risks of investing in the Fund are further discussed in the Fund's Annual Information Form.

RESULTS OF OPERATIONS

For the year ended October 31, 2012, the Front Street Resource Class returned -23.62% (net of expenses) while the benchmark returned 3.42%. The past year has been challenging for resource markets, with the TSX Energy Index down 6% and the Materials Index down 9%. Small-cap names, particularly those operating in foreign jurisdictions, were the hardest hit, as investors fled to the perceived safety and liquidity of larger-cap issuers. During the year, we balanced the fund towards larger-cap issuers. We still maintain our philosophy of investing in growth names, however, we are looking for that growth in larger names, preferring to keep the Fund nimble.

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

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

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

During the year ended October 31, 2012, the Fund earned investment income of \$343,631 from dividends, security lending revenue and interest (net of foreign withholding taxes). There were net realized losses on the sale of investments of \$39.6 million and an unrealized appreciation on the value of investments of \$1.4 million.

Operating expenses, excluding management fees, performance fees and servicing fees, totalled \$290,343 during the year ended October 31, 2012.

RECENT DEVELOPMENTS

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

On February 3, 2012, the Fund acquired the net assets of the Front Street Flow-Through 2010-I Limited Partnership, as well as the Front Street Flow-Through 2010-II Limited Partnership, on a tax-deferred rollover basis whereby the Partnership Units were converted at the rate of 1.872974 Series B shares of the Fund for each Front Street Flow-Through 2010-I Limited Partnership Unit, and 1.483177 Series B shares of the Fund for each Front Street Flow-Through 2010-II Limited Partnership Unit, respectively.

On January 7, 2013, the Fund announced the acquisition of the Front Street Flow-Through 2011-I Limited Partnership, as well as the Front Street Flow-Through 2011-II Limited Partnership, on a tax-deferred rollover basis (the "Mutual Fund Rollover Transaction"). The Mutual Fund Rollover Transaction will take place on January 31, 2013, after the close of business.

International Financial Reporting Standards (“IFRS”)

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

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

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

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

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

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

RELATED-PARTY TRANSACTIONS

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

	2012	2011
Management fees	\$ 2,306,491	\$ 3,102,840
Servicing fees	1,064,801	1,530,665
Operating costs	84,170	44,545
Performance fees	-	2,087,254
Redemption fees	<u>355,584</u>	<u>286,922</u>
	<u>\$ 3,811,046</u>	<u>\$ 7,052,226</u>

Included in accrued expenses are amounts payable to the Manager as follows:

	2012	2011
Management fees payable	\$ 167,609	\$ 221,234
Servicing fees payable	83,177	100,227
Operating costs payable	<u>43,338</u>	<u>3,712</u>
	<u>\$ 294,124</u>	<u>\$ 325,173</u>

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

	2012	2011
Series B shares held by Partners of the Manager	20,773.35	257,798.22
Percentage of Series B shares held by Partners of the Manager	0.21%	2.84%
Series F shares held by relatives of Partners of the Manager	866.94	866.94
Percentage of Series F shares held by relatives of Partners of the Manager	06.2%	0.53%
Series L shares held by Partners of the Manager	394,993.93	387,493.93
Percentage of Series L shares held by Partners of the Manager	13.13%	9.48%
Series L shares held by relatives of Partners of the Manager	81,800.00	81,800.00
Percentage of Series L shares held by relatives of Partners of the Manager	2.72%	2.00%

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution only basis. During the year ended October 31, 2012, Tuscarora Capital Inc., a company under common control to the Manager, received \$6,764 (2011 - \$64,477) 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 statements.

Series A

The Fund's Net Assets per Share ⁽¹⁾

	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$	October 31 2008 \$
Net Assets, beginning of the year	10.76	12.68	8.93	6.22	15.14
Increase (decrease) from operations:					
Total revenue	0.02	0.03	0.20	0.03	0.06
Total expenses	(0.26)	(0.64)	(0.55)	(0.34)	(0.50)
Realized gains (losses) for the year	(2.81)	1.71	2.67	0.10	(1.09)
Unrealized gains (losses) for the year	0.43	(3.20)	1.33	2.91	(7.37)
Total increase (decrease) from operations ⁽²⁾	(2.62)	(2.10)	3.65	2.70	(8.90)
Distributions to Shareholders:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
Total distributions to Shareholders ⁽³⁾	—	—	—	—	—
Net Assets, end of the year	8.19	10.76	12.68	8.93	6.22

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

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	2,752	3,842	4,274	3,594	2,701
Number of shares outstanding ⁽¹⁾	334,969	357,157	335,892	400,753	426,887
Management expense ratio ⁽²⁾	2.85%	4.92%	5.36%	4.92%	4.01%
Management expense ratio before waivers or absorptions	2.85%	4.92%	5.36%	4.92%	4.01%
Trading expense ratio ⁽³⁾	0.50%	0.50%	0.37%	0.34%	0.59%
Portfolio turnover rate ⁽⁴⁾	104.60%	121.62%	100.06%	88.34%	113.44%
Net asset value per share (\$)	8.22	10.76	12.72	8.97	6.33

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

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

	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$	October 31 2008 \$
Net Assets, beginning of the year	10.17	11.96	8.43	5.90	15.02
Increase (decrease) from operations:					
Total revenue	0.02	0.02	0.22	0.03	0.06
Total expenses	(0.24)	(0.59)	(0.51)	(0.32)	(0.51)
Realized gains (losses) for the year	(2.67)	1.74	2.40	0.18	(1.11)
Unrealized gains (losses) for the year	0.01	(3.23)	1.42	2.89	(6.88)
Total increase (decrease) from operations ⁽²⁾	(2.88)	(2.06)	3.53	2.78	(8.44)
Distributions to Shareholders:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
Total distributions to Shareholders ⁽³⁾	—	—	—	—	—
Net Assets, end of the year	7.74	10.17	11.96	8.43	5.90

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- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	76,980	92,186	116,476	73,111	3,201
Number of shares outstanding ⁽¹⁾	9,909,609	9,067,021	9,707,218	8,638,251	533,568
Management expense ratio ⁽²⁾	2.82%	4.73%	5.29%	4.82%	4.01%
Management expense ratio before waivers or absorptions	2.82%	4.73%	5.29%	4.82%	4.01%
Trading expense ratio ⁽³⁾	0.50%	0.50%	0.37%	0.34%	0.59%
Portfolio turnover rate ⁽⁴⁾	104.60%	121.62%	100.06%	88.34%	113.44%
Net asset value per share (\$)	7.77	10.17	12.00	8.46	6.00

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

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

	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$	October 31 2008 \$
Net Assets, beginning of the year	10.07	11.75	8.29	5.77	14.94
Increase (decrease) from operations:					
Total revenue	0.02	0.02	0.18	0.03	0.06
Total expenses	(0.16)	(0.45)	(0.49)	(0.32)	(0.52)
Realized gains (losses) for the year	(2.61)	1.25	2.47	0.27	(1.12)
Unrealized gains (losses) for the year	0.70	(3.26)	1.08	2.14	(7.70)
Total increase (decrease) from operations ⁽²⁾	(2.05)	(2.44)	3.24	2.12	(9.28)
Distributions to Shareholders:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
Total distributions to Shareholders ⁽³⁾	—	—	—	—	—
Net Assets, end of the year	7.74	10.07	11.75	8.29	5.77

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- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial year.
- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	1,093	1,637	1,045	397	239
Number of shares outstanding ⁽¹⁾	140,741	162,639	88,668	47,677	40,661
Management expense ratio ⁽²⁾	1.89%	3.81%	5.12%	4.73%	4.15%
Management expense ratio before waivers or absorptions	1.89%	3.81%	5.12%	4.73%	4.15%
Trading expense ratio ⁽³⁾	0.50%	0.50%	0.37%	0.34%	0.59%
Portfolio turnover rate ⁽⁴⁾	104.60%	121.62%	100.06%	88.34%	113.44%
Net asset value per share (\$)	7.76	10.07	11.79	8.32	5.87

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- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessary a relationship between a high turnover rate and the performance of a fund.

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

	October 31 2012 \$	For the period from amalgamation on February 28, 2011 to October 31 2011 \$
Net Assets, beginning of the year	11.49	15.94*
Increase (decrease) from operations:		
Total revenue	0.03	0.02
Total expenses	(0.28)	(0.30)
Realized gains (losses) for the year	(2.97)	—
Unrealized gains (losses) for the year	0.30	(4.27)
Total increase (decrease) from operations ⁽²⁾	(2.92)	(4.55)
Distributions to Shareholders:		
From income (excluding dividends)	—	—
From dividends	—	—
From capital gains	—	—
Return of capital	—	—
Total distributions to Shareholders ⁽³⁾	—	—
Net Assets, end of the year	8.74	11.49

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- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	26,380	46,939
Number of shares outstanding ⁽¹⁾	3,007,667	4,088,336
Management expense ratio ⁽²⁾	2.86%	3.40%
Management expense ratio before waivers or absorptions	2.86%	3.40%
Trading expense ratio ⁽³⁾	0.50%	0.50%
Portfolio turnover rate ⁽⁴⁾	104.60%	121.62%
Net asset value per share (\$)	8.77	11.48

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- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessary a relationship between a high turnover rate and the performance of a fund.

* Initial price

Series X

The Fund's Net Assets per Share ⁽¹⁾

For the period from commencement of
operations on January 26, 2012 to
October 31
2012
\$

Net Assets, beginning of the period	10.55 *
Increase (decrease) from operations:	
Total revenue	0.02
Total expenses	(0.14)
Realized gains (losses) for the period	(2.32)
Unrealized gains (losses) for the period	0.12
Total increase (decrease) from operations ⁽²⁾	(2.32)
Distributions to Shareholders:	
From income (excluding dividends)	—
From dividends	—
From capital gains	—
Return of capital	—
Total distributions to Shareholders ⁽³⁾	—
Net Assets, end of the period	8.24

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- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial period.
- (3) Distributions were paid in cash/reinvested in additional shares of the Fund or both.

Ratios and Supplemental Data

Total net asset value (\$000's) ⁽¹⁾	8
Number of shares outstanding ⁽¹⁾	947
Management expense ratio ⁽²⁾	2.05%
Management expense ratio before waivers or absorptions	2.05%
Trading expense ratio ⁽³⁾	0.50%
Portfolio turnover rate ⁽⁴⁾	104.60%
Net asset value per share (\$)	8.26

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- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (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 period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessary a relationship between a high turnover rate and the performance of a fund.

* Initial price

MANAGEMENT & PERFORMANCE FEES

The Fund pays a monthly management fee equal to 1/12 of 1.5 % of the net asset value of Series A, Series B, Series F, and Series X shares and 1/12 of 2.1% of the net asset value of Series L shares of the Fund calculated and paid at the end of each month in arrears from each Fund series. Effective October 1, 2012, management fee of Series L was reduced to 1.1% of the net asset value as the Manager has received all cost recovery amounts related to the agent's fees and additional offering expenses of Front Street Resource Performance Fund Limited's initial public offering.

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 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 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.

DEALER COMPENSATION

Brokers, dealers and advisors may be paid a "trailer commission" for assets that their sales representatives place in the Series A, Series B, Series L and Series X 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.

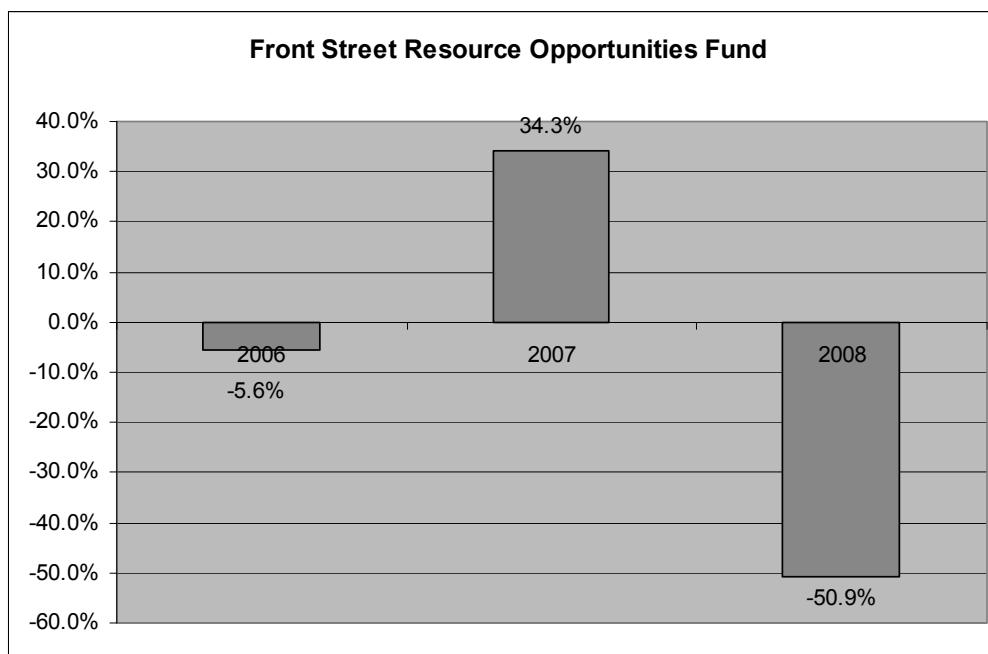
Series	Trailer Annual Rate	Annual Payment per \$1,000 of Fund securities held
A	1.00%	\$10.00
B	1.00%	\$10.00
F	0.00%	Nil
L	0.40%	\$4.00
X	0.50%	\$5.00

PAST PERFORMANCE

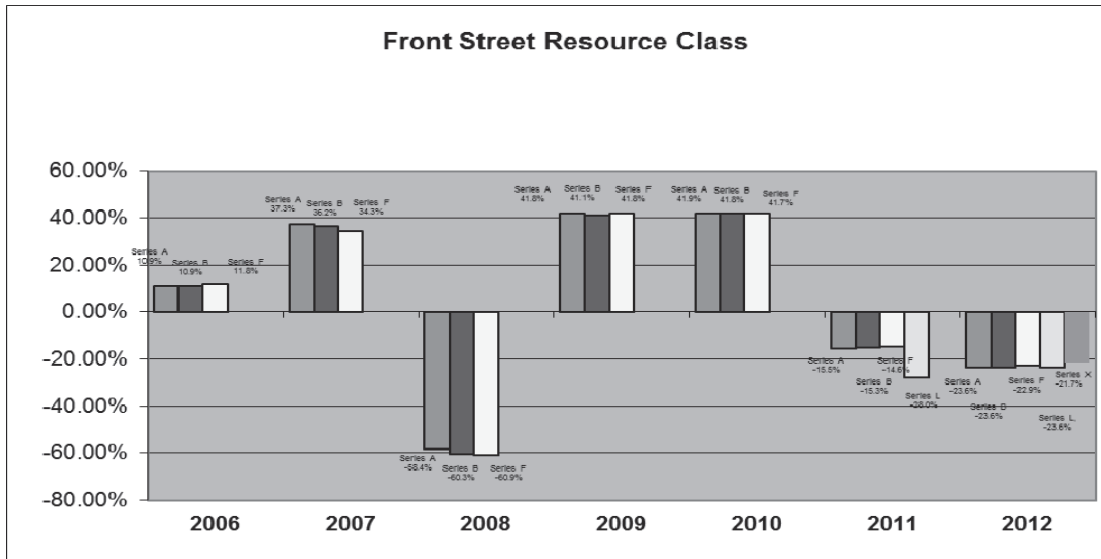
The past performance of the Fund is set out below and includes year-by-year returns.

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

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



The above chart is the year-by year returns for Front Street 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 Class, a class of Front Street Mutual Funds Ltd. The Fund was merged with Front Street Resource Opportunities Fund on November 1, 2008 and fund performance for the discontinued fund has not been included in the chart above in the 2008 period. The Fund also merged with Front Street Resource Performance Fund Ltd. on February 28, 2011 and Series L commenced operations.

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 Class Series A	6.75%
Front Street Resource Class Series B	6.68%
Front Street Resource Class Series F	7.25%
Blended Benchmark Index	9.38%

The above annual compound returns are for Front Street Resource Class 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.

	Since amalgamation February 28, 2011
Front Street Resource Class Series L	-30.13%
Blended Benchmark Index	-17.19%

Summary of Investment Portfolio as at October 31, 2012

Portfolio by Category

	Percentage of Transactional Net Asset Value
Long Positions	
Energy	41.6%
Materials	36.2%
Australia	16.5%
Cayman Islands	3.1%
United States	1.6%
United Kingdom	1.1%
Bermuda	1.0%
British Virgin Island	0.0%
Short Positions	
Bank overdraft	-0.3%
Other assets less other liabilities	
	-0.8%
	100.0%

Top 25 Holdings

	Percentage of Transactional Net Asset Value
Laricina Energy Limited	6.4%
Athabasca Oil Corporation	4.5%
Tiger Resources Limited	4.1%
Sandfire Resources NL	3.7%
Papillon Resources Limited	3.4%
Regis Resources Limited	3.1%
Coastal Energy Company	3.1%
Antrim Energy Inc.	3.1%
Griffiths Energy International Inc.	2.9%
Silver Wheaton Corporation	2.8%
DeeThree Exploration Limited	2.7%
Manitok Energy Inc.	2.4%
Yamana Gold Inc.	2.4%
B2Gold Corporation	2.3%
Premier Gold Mines Limited	2.3%
Celtic Exploration Limited	2.1%
Crew Energy Inc.	2.1%
IAMGOLD Corporation	2.0%
Tourmaline Oil Corporation	1.9%
Lundin Mining Corporation	1.9%
Trevali Mining Corporation	1.9%
Parex Resources Inc.	1.9%
CanElson Drilling Inc.	1.7%
Mawson West Limited	1.7%
Rio Alto Mining Limited	1.6%
	68.0%
TOTAL TRANSACTIONAL NET ASSET VALUE (000's)	\$107,213

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

**FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)**

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

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MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

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

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



Gary P. Selke
Management Committee Member
Front Street Capital 2004



Normand G. Lamarche
Management Committee Member
Front Street Capital 2004

January 18, 2013
Toronto, Ontario

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

Phone. 416 391 4499
Fax. 416 391 3280
Toll Free. 1 800 206 7307
info@segalllp.com

A MEMBER OF DFK INTERNATIONAL

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Front Street Resource Class
(Formerly Front Street Resource Fund)**

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



Assurance.
Business Advisory.
Financial Recovery.
Tax Solutions.

Independent Auditor's Report
Page 2

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

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

Opinion

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

Segal LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
January 18, 2013

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

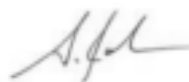
STATEMENTS OF NET ASSETS
AS AT OCTOBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Investments, at fair value (cost - \$123,078,279; 2011 - \$161,201,689)	\$ 108,106,074	\$ 144,849,925
Accounts receivable relating to portfolio assets sold	252,669	143,069
Accounts receivable relating to shares issued	100	48,719
Amounts receivable relating to accrued income	-	2,126
Cash and cash equivalents	-	1,765,705
	<u>\$ 108,358,843</u>	<u>\$ 146,809,544</u>
LIABILITIES		
Accrued expenses, note 7	\$ 553,289	\$ 722,362
Bank overdraft	345,582	-
Accounts payable relating to shares redeemed	338,645	504,013
Liabilities for portfolio assets purchased	241,686	143,967
Obligations from portfolio assets sold short, at fair value	-	753,841
	<u>1,479,202</u>	<u>2,124,183</u>
Net assets representing shareholders' equity	<u>\$ 106,879,641</u>	<u>\$ 144,685,361</u>
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 2,743,627	\$ 3,844,319
Shares outstanding, Series A, note 3	334,969	357,157
Net assets per share, Series A	<u>\$ 8.19</u>	<u>\$ 10.76</u>
Net assets, Series B	\$ 76,740,838	\$ 92,237,399
Shares outstanding, Series B, note 3	9,909,609	9,067,021
Net assets per share, Series B	<u>\$ 7.74</u>	<u>\$ 10.17</u>
Net assets, Series F	\$ 1,089,424	\$ 1,638,374
Shares outstanding, Series F, note 3	140,741	162,639
Net assets per share, Series F	<u>\$ 7.74</u>	<u>\$ 10.07</u>
Net assets, Series L	\$ 26,297,953	\$ 46,965,269
Shares outstanding, Series L, note 3	3,007,667	4,088,336
Net assets per share, Series L	<u>\$ 8.74</u>	<u>\$ 11.49</u>
Net assets, Series X	\$ 7,799	\$ -
Shares outstanding, Series X, note 3	947	-
Net assets per share, Series X	<u>\$ 8.24</u>	<u>\$ -</u>

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



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



Susan Johnson
 Chief Financial Officer

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

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

	2012	2011
Investment income		
Dividends	\$ 300,995	\$ 327,042
Security lending revenue, note 8	32,044	-
Interest	11,591	24,646
Less: Foreign withholding taxes	<u>(999)</u>	<u>(10,277)</u>
	<u>343,631</u>	<u>341,411</u>
Expenses		
Management fees, notes 4 and 7	2,306,491	3,102,840
Servicing fees, notes 4 and 7	1,064,801	1,530,665
Operating costs, notes 4 and 7	84,170	44,545
Administration fees	71,505	776,475
Audit fees	62,995	58,400
Legal fees	38,688	77,154
Securityholder reporting costs	25,469	42,448
Independent review committee	5,206	6,794
Compensatory dividends	2,310	3,015
Performance fees, notes 4 and 7	-	2,087,254
Custodial fees	<u>-</u>	<u>20,997</u>
	<u>3,661,635</u>	<u>7,750,587</u>
Net investment loss for the year	<u>(3,318,004)</u>	<u>(7,409,176)</u>
Net realized and unrealized gains (losses) on investments		
Net realized gain (loss) on the sale of investments	(39,576,851)	19,862,960
Transaction costs, notes 6 and 7	(650,195)	(972,767)
Change in the unrealized appreciation (depreciation) of the value of investments	<u>1,362,310</u>	<u>(54,116,647)</u>
Net loss on investments for the year	<u>(38,864,736)</u>	<u>(35,226,454)</u>
Net decrease in net assets from operations for the year	<u>\$ (42,182,740)</u>	<u>\$ (42,635,630)</u>
Decrease in net assets from operations applicable to outstanding shares allocated as follows:		
Decrease in net assets from operations, Series A	\$ (914,626)	\$ (786,671)
Decrease in net assets from operations per share, Series A	<u>\$ (2.62)</u>	<u>\$ (2.10)</u>
Decrease in net assets from operations, Series B	\$ (30,707,817)	\$ (21,417,162)
Decrease in net assets from operations per share, Series B	<u>\$ (2.88)</u>	<u>\$ (2.06)</u>
Decrease in net assets from operations, Series F	\$ (302,783)	\$ (312,555)
Decrease in net assets from operations per share, Series F	<u>\$ (2.05)</u>	<u>\$ (2.44)</u>
Decrease in net assets from operations, Series L	\$ (10,255,313)	\$ (20,119,242)
Decrease in net assets from operations per share, Series L	<u>\$ (2.92)</u>	<u>\$ (4.55)</u>
Decrease in net assets from operations, Series X	\$ (2,201)	\$ -
Decrease in net assets from operations per share, Series X	<u>\$ (2.32)</u>	<u>\$ -</u>
See accompanying notes to the financial statements		

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

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

	2012	2011
Series A		
Net assets, beginning of year	\$ 3,844,319	\$ 4,259,207
Net decrease in net assets from operations	(914,626)	(786,671)
Shareholder transactions		
Proceeds from the issuance of shares	178,465	1,830,277
Aggregate amounts paid on the redemption of shares	(364,531)	(1,458,494)
	(186,066)	371,783
Net decrease in net assets for the year	(1,100,692)	(414,888)
Net assets, end of year	\$ 2,743,627	\$ 3,844,319
Series B		
Net assets, beginning of year	\$ 92,237,399	\$ 116,076,117
Net decrease in net assets from operations	(30,707,817)	(21,417,162)
Shareholder transactions		
Proceeds from the issuance of shares	89,620,541	114,898,518
Aggregate amounts paid on the redemption of shares	(74,409,285)	(117,320,074)
	15,211,256	(2,421,556)
Net decrease in net assets for the year	(15,496,561)	(23,838,718)
Net assets, end of year	\$ 76,740,838	\$ 92,237,399

See accompanying notes to the financial statements

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

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

	2012	2011
Series F		
Net assets, beginning of year	\$ 1,638,374	\$ 1,041,979
Net decrease in net assets from operations	<u>(302,783)</u>	<u>(312,555)</u>
Shareholder transactions		
Proceeds from the issuance of shares	273,423	1,482,793
Aggregate amounts paid on the redemption of shares	<u>(519,590)</u>	<u>(573,843)</u>
	<u>(246,167)</u>	<u>908,950</u>
Net increase (decrease) in net assets for the year	<u>(548,950)</u>	<u>596,395</u>
Net assets, end of year	<u>\$ 1,089,424</u>	<u>\$ 1,638,374</u>
Series L		
Net assets, beginning of year	\$ 46,965,269	\$ -
Net decrease in net assets from operations	<u>(10,255,313)</u>	<u>(20,119,242)</u>
Shareholder transactions		
Proceeds from the issuance of shares	-	76,607,929
Aggregate amounts paid on the redemption of shares	<u>(10,412,003)</u>	<u>(9,523,418)</u>
	<u>(10,412,003)</u>	<u>67,084,511</u>
Net increase (decrease) in net assets for the year	<u>(20,667,316)</u>	<u>46,965,269</u>
Net assets, end of year	<u>\$ 26,297,953</u>	<u>\$ 46,965,269</u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

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

	2012	2011
Series X		
Net assets, beginning of year	\$ -	\$ -
Net decrease in net assets from operations	(2,201)	-
Shareholder transactions		
Proceeds from the issuance of shares	10,000	-
Aggregate amounts paid on the redemption of shares	-	-
	<u>10,000</u>	<u>-</u>
Net increase in net assets for the year	<u>7,799</u>	<u>-</u>
Net assets, end of year	<u>\$ 7,799</u>	<u>\$ -</u>
Total		
Net assets, beginning of year	\$ 144,685,361	\$ 121,377,303
Net decrease in net assets from operations	(42,182,740)	(42,635,630)
Shareholder transactions		
Proceeds from the issuance of shares	90,082,429	194,819,517
Aggregate amounts paid on the redemption of shares	(85,705,409)	(128,875,829)
	<u>4,377,020</u>	<u>65,943,688</u>
Net increase (decrease) in net assets for the year	<u>(37,805,720)</u>	<u>23,308,058</u>
Net assets, end of year	<u>\$ 106,879,641</u>	<u>\$ 144,685,361</u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Long Positions (101.1%)			
Energy (41.7%)			
Africa Hydrocarbons Inc.	1,388,900	\$ 229,169	\$ 166,668
Africa Hydrocarbons Inc. Warrants	694,450	20,834	1
Andora Energy Corporation	332,107	895,998	199,264
Antrim Energy Inc.	3,970,725	3,809,869	3,255,995
Athabasca Oil Sands Corporation	399,485	5,046,578	4,829,774
C&C Energia Limited	176,890	2,359,713	1,027,731
Canyon Services Group Inc.	104,445	869,326	1,115,473
CanElson Drilling Inc.	387,750	1,841,813	1,826,303
Celtic Exploration Limited	87,668	1,241,380	2,283,751
Crew Energy Inc.	288,101	3,260,510	2,215,497
DeeThree Exploration Limited	422,200	1,551,183	2,917,402
Estrella International Energy Services Limited Warrants	344,128	-	14,235
Fission Energy Corporation	1,095,000	908,850	388,725
Griffiths Energy International Inc.	517,500	2,250,000	3,105,000
Laricina Energy Limited	228,100	6,898,044	6,843,000
Lipari Energy Inc.	753,421	1,373,583	161,986
Lipari Energy Inc. Warrants	301,399	1,104	1,507
Manitok Energy Inc.	1,060,539	1,890,592	2,577,110
New Zealand Energy Corporation	348,800	1,046,400	592,960
Niko Resources Limited	61,935	800,072	784,097
Parex Resources Inc.	449,113	3,557,685	2,003,044
Precision Drilling Corporation	150,000	1,237,498	1,072,500
Renegade Petroleum Limited	414,912	1,589,113	1,095,368
Royal Coal Corporation Warrants	3,617,762	736	18,089
Southern Pacific Resource Corporation	888,700	1,401,794	1,199,745
Tourmaline Oil Corporation	63,200	1,683,008	2,085,600
Triaxon Oil Corporation	655,000	982,500	982,500
Whitecap Resources Inc.	142,979	1,253,931	1,135,253
Yangarra Resources Limited	2,155,101	1,012,895	700,405
		<u>\$ 49,014,178</u>	<u>\$ 44,598,983</u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Materials (36.2%)			
Alacer Gold Corporation	87,655	\$ 291,973	\$ 478,596
Amerix Precious Metals Corporation	2,306,005	505,797	253,661
Amerix Precious Metals Corporation Warrants	1,171,822	-	63,548
Argonaut Gold Inc.	100,000	980,020	1,062,000
B2Gold Corporation	609,988	1,122,086	2,519,250
Barisan Gold Corporation	1,433,938	620,480	215,091
Barisan Gold Corporation Warrants	358,483	-	-
Barrick Gold Corporation	20,930	970,343	845,153
Canfor Corporation	100,000	1,168,000	1,416,000
Century Iron Mines Corporation	994,989	2,545,219	945,240
Champion Iron Mines Ltd	1,049,480	1,784,309	598,204
Colonial Coal International Corporation Warrants	1,206,560	262,248	71,300
Colossus Minerals Inc.	273,395	2,249,464	1,547,416
Duran Ventures Inc.	7,686,441	1,518,614	883,941
Duran Ventures Inc. Warrants	3,993,220	187,779	10,714
East Asia Minerals Corporation	2,024,847	3,914,719	415,094
East Asia Minerals Corporation Warrants	1,913,745	-	91,942
Flemish Gold Corporation	620,095	465,071	248,038
Focus Graphite Inc. Warrants	1,807,089	52,460	108,425
Galway Resources Limited	565,366	897,931	1,255,113
Ginguro Exploration Inc. Warrants	416,666	-	-
Goldcorp Inc.	27,500	1,143,948	1,241,625
Goldquest Mining Corporation	436,931	696,344	301,482
IAMGOLD Corporation	136,477	2,380,159	2,109,934
Labrador Iron Mines Holdings Limited	583,939	4,388,441	554,742
Lumina Copper Corporation	122,890	1,424,130	1,160,082
Lundin Mining Corporation	399,705	2,078,549	2,074,469
Mincore Inc.	3,583,213	1,145,803	358,321
Namibia Rare Earths Inc.	2,090,716	1,318,557	564,493
Nemaska Lithium Inc. Warrants	1,000,000	-	1
New Gold Inc.	94,820	1,165,338	1,104,653
Oceanic Iron Ore Corporation	5,092,944	2,652,716	891,265
Orbite Aluminae Inc. Warrants	468,995	-	98,681
Passport Potash Inc. Warrants	1,250,000	-	47,139
Premier Gold Mines Limited	434,206	2,407,731	2,422,869
Quia Resources Inc. Warrants December 22, 2012	375,000	-	-
Quia Resources Inc. Warrants January 6, 2013	1,555,559	-	2

See accompanying notes to the financial statements

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Materials (36.2%) (continued...)			
Rio Alto Mining Limited	303,408	1,311,632	1,711,221
Rockex Mining Corporation	417,555	179,549	50,107
Roxgold Inc.	1,003,400	1,837,698	812,754
Royal Nickel Corporation Warrants	200,000	14,000	1,000
Silver Wheaton Corporation	75,000	3,071,357	3,016,500
Sirocco Mining Inc.	1,554,217	1,757,581	1,103,494
Sona Resources Corporation Warrants	300,000	-	-
Taku Gold Corporation Warrants	835,000	-	1
Trevali Mining Corporation	2,000,000	2,170,498	2,000,000
West Fraser Timber Company Limited	25,000	1,276,010	1,512,250
Yamana Gold Inc.	126,700	<u>2,112,652</u>	<u>2,555,539</u>
		<u>\$ 54,069,206</u>	<u>\$ 38,721,350</u>
Global Equities			
Australia (16.4%)			
Mawson West Limited	1,831,682	\$ 2,960,440	\$ 1,795,048
Papillon Resources Limited	1,878,005	1,342,864	3,552,772
Perseus Mining Limited	260,933	772,362	694,082
Regis Resources Limited	597,700	2,534,579	3,308,508
Sandfire Resources NL	452,861	2,201,080	3,943,228
Tiger Resources Limited	13,517,266	<u>5,009,633</u>	<u>4,273,626</u>
		<u>\$ 14,820,958</u>	<u>\$ 17,567,264</u>
Bermuda (1.0%)			
Petra Diamonds Limited	682,218	<u>\$ 1,391,569</u>	<u>\$ 1,092,854</u>
British Virgin Island (0.0%)			
Frontier Rare Earths Limited Warrants	159,156	<u>\$ 61,301</u>	<u>\$ 796</u>
Cayman Islands (3.1%)			
Coastal Energy Corporation	176,428	<u>\$ 844,348</u>	<u>\$ 3,293,911</u>
United Kingdom (1.1%)			
Eland Oil & Gas PLC	637,000	<u>\$ 992,088</u>	<u>\$ 1,128,669</u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
United States (1.6%)			
Northern Tier Energy LP	78,400	\$ 1,721,715	\$ 1,701,554
Oilsands Quest Inc.	136,000	<u>162,916</u>	<u>693</u>
		<u>\$ 1,884,631</u>	<u>\$ 1,702,247</u>
Total Long Positions (101.1%)		<u>\$ 123,078,279</u>	<u>\$ 108,106,074</u>
Transaction costs, note 2		<u>\$ (105,350)</u>	
Total Investments (101.1%)		<u>\$ 122,972,929</u>	108,106,074
Bank overdraft (-0.3%)			(345,582)
Other assets less other liabilities (-0.8%)			<u>(880,851)</u>
Net assets (100.0%)			<u>\$ 106,879,641</u>

See accompanying notes to the financial statements

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

1. THE FUND

Front Street Resource Class (formerly 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. Pursuant to the notice of change in legal structure, the name of the Fund was changed to Front Street Resource Class on June 27, 2012. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure. Series A commenced operations on June 22, 2006. Series B commenced operations on June 22, 2006. Series F commenced operations on July 13, 2006. Series L commenced operations on February 28, 2011. Series X commenced operations on January 26, 2012.

On February 28, 2011, the shareholders of Front Street Mutual Funds Limited (the "Corporation") approved the special resolutions to authorize the amalgamation of the Corporation with Front Street Resource Performance Fund Ltd., another mutual fund corporation managed by Front Street Capital 2004. The effective date of the amalgamation was the close of business on February 28, 2011. 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 security regulatory purposes. A new class of shares of Front Street Mutual Funds Limited was created, namely Series L. Existing shareholders of Front Street Resource Performance Fund Ltd. received one share of Series L of Front Street Resource Fund class of shares of Front Street Mutual Funds Limited.

The transactional net asset value of the Front Street Resource Performance Limited acquired was as follows:

Total assets	\$ 82,407,507
Total liabilities	<u>5,799,578</u>
Transactional NAV	<u>\$ 76,607,929</u>

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

	Shares	Transactional NAV
Series L	<u>4,804,892</u>	<u>\$ 76,607,929</u>

On February 3, 2011, the Fund acquired the net assets of Front Street Flow Through 2009-I Limited Partnership and Front Street Flow Through 2009-II Limited Partnership on a tax deferred rollover basis whereby the Partnership units were converted at the rate of 2.517111 Series B shares of the Fund for each Front Street Flow Through 2009-I Limited Partnership unit and 2.260165 Series B shares of the Fund for each Front Street Flow Through 2009-II Limited Partnership unit respectively.

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

The net assets of the Front Street Flow Through 2009-I Limited Partnership acquired were as follows:

Total assets	\$ 61,515,366
Total liabilities	<u>4,685,160</u>
Net assets representing partners' equity	<u>\$ 56,830,206</u>

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

	Shares	Transactional NAV
Series B	<u>3,984,592</u>	<u>\$ 56,830,206</u>

The net assets of the Front Street Flow-Through 2009-II Limited Partnership acquired were as follows:

Total assets	\$ 43,411,167
Total liabilities	<u>1,850,581</u>
Net assets representing partners' equity	<u>\$ 41,560,586</u>

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

	Shares	Transactional NAV
Series B	<u>2,913,981</u>	<u>\$ 41,560,586</u>

On February 3, 2012, the Fund acquired the net assets of Front Street Flow-Through 2010-I Limited Partnership and Front Street Flow-Through 2010-II Limited Partnership on a tax deferred rollover basis whereby the Partnership units were converted at the rate of 1.872974 Series B shares of the Fund for each Front Street Flow Through 2010-I Limited Partnership unit and 1.483177 Series B shares of the Fund for each Front Street Flow Through 2010-II Limited Partnership unit respectively.

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

The net assets of the Front Street Flow Through 2010-I Limited Partnership acquired were as follows:

Total assets	\$ 70,843,116
Total liabilities	<u>294,842</u>
Net assets representing partners' equity	<u>\$ 70,548,274</u>

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

	Shares	Transactional NAV
Series B	<u>6,760,782</u>	<u>\$ 70,548,274</u>

The net assets of the Front Street Flow-Through 2010-II Limited Partnership acquired were as follows:

Total assets	\$ 18,720,250
Total liabilities	<u>148,077</u>
Net assets representing partners' equity	<u>\$ 18,572,173</u>

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

	Shares	Transactional NAV
Series B	<u>1,779,812</u>	<u>\$ 18,572,173</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, 2012.

Front Street Capital 2004 is the manager of the Fund (the "Manager"). Front Street Investment Management Inc. (the "Investment Advisor") has been retained by the Manager, on behalf of the Fund, to provide investment advisory and portfolio management services to the Fund. NBCN 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 CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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 and amounts receivable relating to accrued income are classified as loans and receivables. Accounts payable relating to shares redeemed, accrued expenses and liabilities for portfolio assets purchased are classified as other financial liabilities.

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 9) as well as description of the differences between the valuation principles and practices used by the Manager to calculate the net asset value and those prescribed by Canadian GAAP.

b) Valuation of investments

i) Investments listed on an exchange are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The difference between this amount and cost is shown as the change in the unrealized appreciation (depreciation) of the value of investments. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques to be used in the determination of fair value. When current market prices or quotations are not readily available, valuations are established using specific procedures in order to estimate what the fair value would be, in an arms length transaction, motivated by normal business considerations. Valuation techniques principally include the use of the last publicly traded price, the issuance price of securities at the date of the most recent financing of the entity or a price established by the Manager in accordance with its fair value policy.

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

b) Valuation of investments (Continued...)

- ii) Investments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided in paragraph (i) above less a discount of 2% per month up to four months.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been established had a ready market existed for these investments.

- iii) Trust units are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The cost of the trust units is reduced on an annual basis by distributions from the trust and increased by the annual income allocated to the units by the trust.
- iv) Investments in mutual funds or pooled funds are valued based on the net asset value per unit at the close of trading on the financial statement date.
- v) The Fund values its investments in limited partnerships at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The Fund calculates the cost value of its investment in limited partnerships using the equity method. Under this method, the limited partnership investments are recorded at cost plus the Fund's pro rata share in undistributed earnings since acquisition.
- vi) The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities which are sold short are valued at the last ask price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter a short sale, the Fund may need to borrow the security for delivery to the buyer.

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

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

c) Financial instruments disclosure and presentation and fair value measurements

The Fund has adopted CICA Handbook Sections 3862, Financial Instruments-Disclosures and 3863, Financial Instruments - Presentation. These standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Fund has managed those risks. See note 10 for additional details.

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

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

See note 12 for additional details.

d) Transaction costs

Portfolio transaction costs are expensed and are included in "Transaction costs" in the Statements of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges. The individual security's cost shown on the Statement of Investment Portfolio includes only those transaction costs incurred on the acquisition of portfolio investments.

e) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks and highly liquid short-term investments with original terms to maturity of less than three months.

f) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Gains and losses from such transactions are calculated using the weighted average cost of the securities on disposition.

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

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

g) Securities lending, repurchase and reverse repurchase transactions

The Fund is permitted to enter into securities lending, repurchase and reverse repurchase transactions as set out in the Simplified Prospectus. These transactions involve the temporary exchange of securities for collateral with commitment to redeliver the same securities on a future date. The value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned, sold or purchased. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the statements of operations - securities lending revenue.

h) 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.

i) 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.

j) 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.

k) 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 11 for additional details.

l) General standards on financial statement presentation

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

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

m) 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.

n) Future accounting pronouncements

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

International financial reporting standards ("IFRS")

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

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

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

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

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

n) Future accounting pronouncements (Continued...)

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

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

3. **SHARES ISSUED AND OUTSTANDING**

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

Series A shares

Redemption fees payable to the Manager may be applicable upon the sale of shares of this series based on the original cost amount and the time to disposition. A redemption fee of 3% applies to shares of this series sold within the first 18 months following acquisition. A redemption fee of 2% applies to shares of this series sold after the first 18 months and prior to 36 months following acquisition. No redemption fee applies to shares of this series sold after the first 36 months following acquisition.

Series B shares

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

Series F shares

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

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

Series L shares

Redemption or switch fees payable to the Manager would be applicable upon the redemption or conversion of this series of shares on or prior to October 31, 2013, to compensate the Manager, in part, for paying the agents' fees and the expenses of the Front Street Resource Performance Fund Limited initial public offering and additional offerings, until such time as the Manager has received the cost recovery amount. The charge per share is as follows:

Redemption date occurring	Charge per share
November 1, 2010 to October 31, 2011	\$0.40
November 1, 2011 to October 31, 2012	\$0.35
November 1, 2012 to October 31, 2013	\$0.30
On or after November 1, 2013	\$Nil

Effective October 1, 2012, no redemption fees are applicable as the Manager has received all cost recovery amounts.

Series X shares

Redemption fees payable to the Manager may be applicable upon the sale of shares of this series based on the original cost amount and the time to disposition. A redemption fee of 5% applies to shares of this series sold within the first year following acquisition. A redemption fee of 3% applies to shares of this series sold within the second year following acquisition. A redemption fee of 1.5% applies to shares of this series sold within the third year following acquisition. No redemption fee applies to shares of this series sold after the third year following acquisition.

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

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

The following share transactions took place during the year:

	2012	2011
Shares outstanding, beginning of the year:		
Series A	357,157	335,892
Series B	9,067,021	9,707,218
Series F	162,639	88,668
Series L	4,088,336	-
Series X	-	-
Shares issued during the year:		
Series A	17,912	134,906
Series B	8,594,343	8,208,879
Series F	34,334	120,485
Series L	-	4,804,892
Series X	947	-
Shares redeemed during the year:		
Series A	40,100	113,641
Series B	7,751,755	8,849,076
Series F	56,232	46,514
Series L	1,080,669	716,556
Series X	-	-
Shares outstanding, end of the year:		
Series A	334,969	357,157
Series B	9,909,609	9,067,021
Series F	140,741	162,639
Series L	3,007,667	4,088,336
Series X	947	-

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

4. FEES AND EXPENSES

The Fund pays a monthly management fee equal to 1/12 of 1.5 % of the net asset value of Series A, Series B, Series F and Series X shares and 1/12 of 2.1% of the net asset value of Series L shares of the Fund calculated and paid at the end of each month in arrears from each Fund series. Effective October 1, 2012, management fee of Series L was reduced to 1.1% of the net asset value as the Manager has received all cost recovery amounts related to the agent's fees and additional offering expenses of Front Street Resource Performance Fund Limited's initial public offering.

The Fund pays a monthly service fee of 1/12 of 1.0% of the net asset value of the Series A and Series B shares and 1/12 of 0.4% of the net asset value of Series L shares calculated and paid at the end of each month in arrears. The Fund pays a monthly service fee of 1/12 of 0.5% of the net asset value of Series X 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 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 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.

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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.

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.

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

6. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended October 31, 2012 was \$650,195 (2011 - \$972,767).

7. RELATED PARTY TRANSACTIONS

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

	2012	2011
Management fees, note 4	\$ 2,306,491	\$ 3,102,840
Servicing fees, note 4	1,064,801	1,530,665
Operating costs, note 4	84,170	44,545
Performance fees, note 4	-	2,087,254
Redemption fees	<u>355,584</u>	<u>286,922</u>
	<u>\$ 3,811,046</u>	<u>\$ 7,052,226</u>

Included in accrued expenses are amounts payable to the Manager as follows:

	2012	2011
Management fees payable	\$ 167,609	\$ 221,234
Servicing fees payable	83,177	100,227
Operating costs payable	<u>43,338</u>	<u>3,712</u>
	<u>\$ 294,124</u>	<u>\$ 325,173</u>

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

	2012	2011
Series B shares held by Partners of the Manager	20,773.35	257,798.22
Percentage of Series B shares held by Partners of the Manager	0.21%	2.84%
Series F shares held by relatives of Partners of the Manager	866.94	866.94
Percentage of Series F shares held by relatives of Partners of the Manager	06.2%	0.53%
Series L shares held by Partners of the Manager	394,993.93	387,493.93
Percentage of Series L shares held by Partners of the Manager	13.13%	9.48%
Series L shares held by relatives of Partners of the Manager	81,800.00	81,800.00
Percentage of Series L shares held by relatives of Partners of the Manager	2.72%	2.00%

FRONT STREET RESOURCE CLASS
(Formerly Front Street Resource Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution only basis. During the year ended October 31, 2012, Tuscarora Capital Inc., a company under common control to the Manager, received \$6,764 (2011 - \$64,477) 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. **SECURITIES LENDING**

The Fund lends portfolio securities from time to time in order to earn additional income. The Fund has entered into a securities lending program with its custodian, NBCN Inc. The aggregate fair value of all securities loaned will not exceed 50% of the net assets of the Fund. The Fund receives collateral (in the form of obligations of, or guaranteed by, the Government of Canada, or a province thereof, or by the United States government or its agencies and/or cash) against the loaned securities. Collateral is maintained in an amount representing at least 102% of the fair value of the loaned securities during the period the loan is outstanding. The fair value of the loaned securities is determined daily at the close of business of the Fund and any additional collateral required is delivered to the Fund on the next business day. As at October 31, 2012 and 2011, the aggregate fair values of the Fund's securities loaned and the collateral received were as follows:

	2012	2011
Value of securities loaned	\$ 9,436,519	\$ -
Value of collateral received	\$ 9,687,888	\$ -

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9. 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 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.

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, 2012

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per share	GAAP NA per share
Series A	\$ 2,752,190	\$ (8,563)	\$ 2,743,627	\$ 8.22	\$ 8.19
Series B	76,980,359	(239,521)	76,740,838	7.77	7.74
Series F	1,092,822	(3,398)	1,089,424	7.76	7.74
Series L	26,379,964	(82,011)	26,297,953	8.77	8.74
Series X	7,823	(24)	7,799	8.26	8.24
Total	\$ 107,213,158	\$ (333,517)	\$ 106,879,641		

As at October 31, 2011

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per share	GAAP NA per share
Series A	\$ 3,842,190	\$ 2,129	\$ 3,844,319	\$ 10.76	\$ 10.76
Series B	92,186,342	51,057	92,237,399	10.17	10.17
Series F	1,637,473	901	1,638,374	10.07	10.07
Series L	46,939,263	26,006	46,965,269	11.48	11.49
Total	\$ 144,605,268	\$ 80,093	\$ 144,685,361		

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NOTES TO THE FINANCIAL STATEMENTS
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10. **FINANCIAL INSTRUMENTS**

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

As at October 31,

	2012	2011
Assets		
Held for trading	\$ 108,106,074	\$ 144,849,925
Cash and cash equivalents	-	1,765,705
Loans and receivables	<u>252,769</u>	<u>193,914</u>
Total Assets	<u>\$ 108,358,843</u>	<u>\$ 146,809,544</u>
Liabilities		
Held for trading	\$ -	\$ 753,841
Bank overdraft	345,582	-
Other financial liabilities at amortized cost	<u>1,133,620</u>	<u>1,370,342</u>
Total liabilities	<u>\$ 1,479,202</u>	<u>\$ 2,124,183</u>
Net Assets	<u>\$ 106,879,641</u>	<u>\$ 144,685,361</u>

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

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10. **FINANCIAL INSTRUMENTS** (Continued...)

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, 2012, and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

i) Market price risk

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

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

ii) Currency risk

The Fund may invest in financial instruments denominated in currencies other than its measurement currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of the portion of the Fund's assets or liabilities denominated in currencies other than Canadian dollars, absent any changes in market prices or investment specific events.

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10. **FINANCIAL INSTRUMENTS** (Continued...)

ii) Currency risk (continued...)

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

Currency	Investments, at Fair Value	Cash	Net Exposure	Percentage of GAAP NA
Australian Dollar	\$ 17,567,264	\$ -	\$ 17,567,264	16.44%
British Pound Sterling	2,221,523	-	2,221,523	2.08%
United States Dollar	<u>1,702,247</u>	<u>753,308</u>	<u>2,455,555</u>	<u>2.30%</u>
	<u>\$ 21,491,034</u>	<u>\$ 753,308</u>	<u>\$ 22,244,342</u>	<u>20.82%</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, 2012, 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	\$ -	\$ -	\$ 108,106,074	\$ 108,106,074
Other receivables	<u>-</u>	<u>-</u>	<u>252,769</u>	<u>252,769</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,358,843</u>	<u>\$ 108,358,843</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ -	\$ -
Bank overdraft	345,582	-	-	345,582
Other financial liabilities	<u>-</u>	<u>-</u>	<u>1,133,620</u>	<u>1,133,620</u>
Total	<u>\$ 345,582</u>	<u>\$ -</u>	<u>\$ 1,133,620</u>	<u>\$ 1,479,202</u>
GAAP NA				<u>\$ 106,879,641</u>

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NOTES TO THE FINANCIAL STATEMENTS
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10. **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	\$ 356,149	\$ 171,232	\$ -	\$ -	\$ 107,578,693	\$ 108,106,074
Other receivables	<u>252,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,769</u>
Total	<u>\$ 608,918</u>	<u>\$ 171,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,578,693</u>	<u>\$ 108,358,843</u>
Financial liabilities						
Bank overdraft	\$ 345,582	\$ -	\$ -	\$ -	\$ -	\$ 345,582
Other financial liabilities	<u>1,133,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,133,620</u>
Total	<u>\$ 1,479,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,479,202</u>
GAAP NA						<u>\$ 106,879,641</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at October 31, 2012, the fair value of such assets was 10.98% (2011 - 7.00%) 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.

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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

10. **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 and the Fund's securities lending activities. 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.

To partially mitigate credit risk with respect to its securities lending the Fund receives collateral against the securities loaned (note 8). As at October 31, 2012, the Fund loaned securities with an aggregate fair value of \$9,436,519 and received collateral with an aggregate fair value of \$9,687,888.

As at October 31, 2012, the Fund had no significant investments in long term debt instruments.

11. **CAPITAL MANAGEMENT**

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

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

The Fund does not have any externally imposed capital requirements.

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12. FAIR VALUE HIERARCHY

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

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Assets at fair value as at October 31, 2012				
Investments, at fair value	<u>\$ 95,951,994</u>	<u>\$ 417,956</u>	<u>\$ 11,736,124</u>	<u>\$ 108,106,074</u>
Liabilities at fair value as at October 31, 2012				
Obligations from portfolio used, at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

During the year ended October 31, 2012, 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, 2011	\$ 10,125,167
Purchases	3,592,250
Sales	(475,217)
Transfers out	-
Gains (losses)	
Realized	(2,587,865)
Unrealized	<u>1,081,789</u>
Balance at October 31, 2012	<u>\$ 11,736,124</u>

13. SUBSEQUENT EVENT

On January 7, 2013, the Fund announced the acquisition of Front Street Flow-Through 2011-I Limited Partnership and Front Street Flow-Through 2011-II Limited Partnership on a tax deferred rollover basis (the "Mutual Fund Rollover Transaction"). The Mutual Fund Rollover Transaction will take place on January 31, 2013 after the close of business.



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