

FRONT STREET SMALL CAP FUND

FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

INDEX

	Page
Management Report	1
Auditors' Report	2
Statement of Net Assets	3
Statement of Operations	4 - 5
Statement of Changes in Net Assets	6 - 8
Statement of Investment Portfolio	9 - 10
Notes to the Financial Statements	11 - 28

MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Small Cap Fund of Front Street Mutual Funds Limited have been prepared by the management of Front Street Capital 2004, the Manager of the Fund, and approved by the Board of Directors of Front Street Mutual Funds Limited. The Manager is responsible for the information and representations contained in these financial statements.

The Manager maintains processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies, which the Manager believes are appropriate for the Fund, are described in note 2 to the financial statements.

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

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

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



Gary P. Selke
Management Committee Member
Front Street Capital 2004



Normand G. Lamarche
Management Committee Member
Front Street Capital 2004

January 19, 2011
Toronto, Ontario

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AUDITORS' REPORT

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

We have audited the statements of net assets of the Front Street Small Cap Fund, (the "Fund") as at October 31, 2010 and 2009 and the statements of operations and changes in net assets for the years then ended and the statement of investment portfolio as at October 31, 2010. These financial statements are the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at October 31, 2010 and 2009 and the results of its operations and changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
January 19, 2011

FRONT STREET SMALL CAP FUND

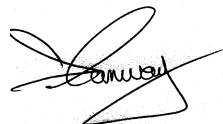
STATEMENT OF NET ASSETS AS AT OCTOBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Investments, at fair value (cost - \$29,024,514; 2009 - \$12,874,506)	\$ 35,475,987	\$ 17,698,544
Cash and cash equivalents	1,691,895	586,511
Accounts receivable relating to shares issued	716,138	583,638
Amounts receivable relating to accrued income	8,985	8,432
	<u>\$ 37,893,005</u>	<u>\$ 18,877,125</u>
LIABILITIES		
Obligations from portfolio assets sold short, at fair value	\$ 165,676	\$ —
Liabilities for portfolio assets purchased	696,880	400,000
Accrued expenses	174,315	92,083
Accounts payable relating to shares redeemed	81,834	144,190
Performance fees payable	—	470,044
	<u>1,118,705</u>	<u>1,106,317</u>
Net assets representing shareholders' equity	<u>\$ 36,774,300</u>	<u>\$ 17,770,808</u>
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 12,138,788	\$ 4,426,945
Shares outstanding, Series A, note 3	402,295	203,619
Net assets per share, Series A	<u>\$ 30.17</u>	<u>\$ 21.74</u>
Net assets, Series B	\$ 21,137,687	\$ 12,363,845
Shares outstanding, Series B, note 3	705,899	573,487
Net assets per share, Series B	<u>\$ 29.94</u>	<u>\$ 21.56</u>
Net assets, Series F	\$ 3,373,497	\$ 980,018
Shares outstanding, Series F, note 3	113,897	45,788
Net assets per share, Series F	<u>\$ 29.62</u>	<u>\$ 21.40</u>
Net assets, Series X	\$ 124,328	\$ —
Shares outstanding, Series X, note 3	4,109	—
Net assets per share, Series X	<u>\$ 30.26</u>	<u>\$ —</u>

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



Gary P. Selke
Chief Executive Officer and Director



David A. Conway
Chief Financial Officer

FRONT STREET SMALL CAP FUND

STATEMENT OF OPERATIONS FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	2010	2009
Investment income		
Interest	\$ 46,984	\$ 24,888
Dividends	15,285	26,070
	<u>62,269</u>	<u>50,958</u>
Expenses		
Management fees, notes 4 and 7	455,166	119,389
Servicing fees, notes 4 and 7	265,185	66,824
Administration fees	185,349	44,525
Performance fees, notes 4 and 7	178,917	483,880
Audit fees	51,737	47,610
Legal fees	32,881	9,329
Operating costs, notes 4 and 7	29,187	—
Securityholder reporting costs	12,262	7,232
Custodian fees	4,200	—
Independent review committee	3,140	1,810
	<u>1,218,024</u>	<u>780,599</u>
Net investment loss for the year	<u>(1,155,755)</u>	<u>(729,641)</u>
Net realized and unrealized gains on investments		
Net realized gain on sale of investments	7,651,904	1,076,643
Transaction costs, notes 6 and 7	(127,798)	(64,300)
Change in the unrealized appreciation of the value of investments	<u>1,721,753</u>	<u>4,824,038</u>
Net gain on investments for the year	<u>9,245,859</u>	<u>5,836,381</u>
Net increase in net assets from operations for the year	<u>\$ 8,090,104</u>	<u>\$ 5,106,740</u>

See accompanying notes to the financial statements

FRONT STREET SMALL CAP FUND

STATEMENT OF OPERATIONS FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	2010	2009
Increase in net assets from operations applicable to outstanding shares allocated as follows:		
Increase in net assets from operations, Series A	\$ 2,568,148	\$ 1,016,488
Increase in net assets from operations per share, Series A	<u>\$ 7.67</u>	<u>\$ 11.18</u>
Increase in net assets from operations, Series B	\$ 4,900,488	\$ 3,713,019
Increase in net assets from operations per shares, Series B	<u>\$ 6.82</u>	<u>\$ 11.32</u>
Increase in net assets from operations, Series F	\$ 610,301	\$ 377,233
Increase in net assets from operations per shares, Series F	<u>\$ 6.49</u>	<u>\$ 10.12</u>
Increase in net assets from operations, Series X	\$ 11,167	\$ -
Increase in net assets from operations per shares, Series X	<u>\$ 15.58</u>	<u>\$ -</u>

See accompanying notes to the financial statements

FRONT STREET SMALL CAP FUND

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

	2010	2009
Series A		
Net assets, beginning of year	<u>\$ 4,426,945</u>	<u>\$ 12</u>
Net increase in net assets from operations	<u>2,568,148</u>	<u>1,016,488</u>
Shareholder transactions		
Proceeds from the issuance of shares	7,456,617	3,643,892
Aggregate amounts paid on the redemption of shares	<u>(2,312,922)</u>	<u>(233,447)</u>
	<u>5,143,695</u>	<u>3,410,445</u>
Net increase in net assets for the year	<u>7,711,843</u>	<u>4,426,933</u>
Net assets, end of year	<u><u>\$ 12,138,788</u></u>	<u><u>\$ 4,426,945</u></u>
Series B		
Net assets, beginning of year	<u>\$ 12,363,845</u>	<u>\$ -</u>
Net increase in net assets from operations	<u>4,900,488</u>	<u>3,713,019</u>
Shareholder transactions		
Proceeds from the issuance of shares	15,388,784	12,917,424
Aggregate amounts paid on the redemption of shares	<u>(11,515,430)</u>	<u>(4,266,598)</u>
	<u>3,873,354</u>	<u>8,650,826</u>
Net increase in net assets for the year	<u>8,773,842</u>	<u>12,363,845</u>
Net assets, end of year	<u><u>\$ 21,137,687</u></u>	<u><u>\$ 12,363,845</u></u>

See accompanying notes to the financial statements

FRONT STREET SMALL CAP FUND

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

	2010	2009
Series F		
Net assets, beginning of year	\$ 980,018	\$ -
Net increase in net assets from operations	610,301	377,233
Shareholder transactions		
Proceeds from the issuance of shares	2,897,779	1,072,633
Aggregate amounts paid on the redemption of shares	(1,114,601)	(469,848)
	1,783,178	602,785
Net increase in net assets for the year	2,393,479	980,018
Net assets, end of year	\$ 3,373,497	\$ 980,018
Series X		
Net assets, beginning of year	\$ -	\$ -
Net increase in net assets from operations	11,167	-
Shareholder transactions		
Proceeds from the issuance of shares	113,161	-
Aggregate amounts paid on the redemption of shares	-	-
	113,161	-
Net increase in net assets for the year	124,328	-
Net assets, end of year	\$ 124,328	\$ -

See accompanying notes to the financial statements

FRONT STREET SMALL CAP FUND

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

	2010	2009
Total		
Net assets, beginning of year	\$ 17,770,808	\$ 12
Net increase in net assets from operations	8,090,104	5,106,740
Shareholder transactions		
Proceeds from the issuance of shares	25,856,341	17,633,949
Aggregate amounts paid on the redemption of shares	(14,942,953)	(4,969,893)
	10,913,388	12,664,056
Net increase in net assets for the year	19,003,492	17,770,796
Net assets, end of year	\$ 36,774,300	\$ 17,770,808

See accompanying notes to the financial statements

FRONT STREET SMALL CAP FUND

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2010

	Number of Shares/ Units	Cost \$	Fair Value \$
LONG POSITIONS			
Corporate Bonds (1.2%)			
First Uranium Corporation, 7%, Mar. 31, 2013	500,000	\$ 500,000	\$ 440,000
Energy (60.9%)			
Africa Oil Corporation Warrants	263,158	\$ -	\$ 215,206
Alange Energy Corporation	2,833,450	1,323,320	2,040,084
Athabasca Oil Sands Corporation	196,606	2,339,013	2,229,511
C&C Energia Limited	120,000	1,020,000	1,206,000
Crew Energy Inc.	144,502	1,513,769	2,849,579
Eaglewood Energy Inc.	290,034	507,560	234,928
Gasfrac Energy Services Inc.	172,626	937,370	1,313,684
Laricina Energy Limited	77,196	1,310,880	2,315,880
Madalena Ventures Inc.	373,500	151,081	239,040
Midway Energy Limited	465,347	884,159	1,712,477
Parex Resources Inc.	155,000	669,500	992,000
Petroamerica Oil Corporation	1,200,000	840,000	612,000
Petroamerica Oil Corporation Warrants	1,200,000	-	262,104
Petrolifera Petroleum Limited	378,297	354,036	253,459
Phoenix Technology Income Fund	154,156	1,415,995	1,604,764
Pristine Power Inc.	150,000	332,250	504,000
Pristine Power Inc. Warrants	75,000	27,750	7,500
Ram Power Corporation	126,000	378,000	272,160
Shamaran Capital Inc.	210,108	111,252	170,187
SouthGobi Resources Limited	69,632	734,927	756,204
Surge Energy Inc.	93,066	490,458	594,692
Surge Energy Inc. Subscription Receipts	14,556	76,419	85,572
Trican Well Service Limited	109,170	1,559,232	1,930,126
		<u>\$ 16,976,971</u>	<u>\$ 22,401,157</u>
Financials (1.7%)			
CanElson Drilling Inc.	231,508	\$ 633,768	\$ 636,647
Industrials (2.7%)			
Calmena Energy Services Inc.	1,542,700	\$ 1,646,047	\$ 1,002,755

See accompanying notes to the financial statements

FRONT STREET SMALL CAP FUND

STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2010

	Number of Shares/ Units	Cost \$	Fair Value \$
Materials (26.5%)			
Capstone Mining Corporation	173,511	\$ 512,141	\$ 615,964
Conifex Timber Inc.	36,701	302,783	247,732
Continental Gold Limited Warrants	260,000	-	1,133,438
Entree Gold Inc.	201,800	273,682	530,734
Gold Wheaton Gold Corporation Warrants	15,000	-	3,675
Lithium Americas Corporation	498,896	767,724	833,156
Lundin Mining Corporation	209,755	768,750	1,344,530
Medoro Resources Limited	1,067,733	2,245,067	2,018,014
Medoro Resources Limited Warrants	250,000	-	30,000
Quadra FNX Mining Limited	62,226	857,596	892,943
Southern Pacific Resources Corporation	619,952	738,887	824,536
Xinergy Limited	558,503	1,496,030	1,234,293
		<u>\$ 7,962,660</u>	<u>\$ 9,709,015</u>
Australia (3.5%)			
Mirabela Nickel Limited	545,909	\$ 909,762	\$ 873,454
Western Areas NL	74,381	395,306	412,959
		<u>\$ 1,305,068</u>	<u>\$ 1,286,413</u>
Total Long Positions		<u>\$ 29,024,514</u>	<u>\$ 35,475,987</u>
SHORT POSITIONS			
Energy (-0.5%)			
Birchcliff Energy Limited	(19,400)	\$ (170,332)	\$ (165,676)
Total Short Positions		<u>\$ (170,332)</u>	<u>\$ (165,676)</u>
Transaction costs, note 2		<u>\$ (89,663)</u>	
Total Investments (96.0%)		<u>\$ 28,764,519</u>	35,310,311
Cash and cash equivalents (4.6%)			1,691,895
Other assets less other liabilities (-0.6%)			<u>(227,906)</u>
Net assets (100.0%)			<u>\$ 36,774,300</u>

See accompanying notes to the financial statements

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

1. THE FUND

Front Street Small Cap Fund (the "Fund") is a class of shares of Front Street Mutual Funds Limited (the "Corporation"), a mutual fund corporation incorporated under the Canada Business Corporations Act on April 11, 2006, and is authorized to issue an unlimited number of classes of shares in multiple series. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure. Series A commenced operations on October 31, 2008. Series B commenced operations on October 31, 2008. Series F commenced operations on October 31, 2008. Series X commenced operations on December 21, 2009.

At a special meeting held on October 15, 2008, the applicable securityholders approved the special resolutions authorizing the amalgamation of Front Street Mutual Funds Limited and Front Street Opportunities Funds Ltd. to form Front Street Mutual Funds Limited pursuant to an amalgamation agreement entered into as of October 31, 2008 and the filing of such articles of amalgamation with an effective date of November 1, 2008. Pursuant to the amalgamation, the Fund amalgamated with Front Street Small Cap Opportunities Fund of Front Street Opportunities Funds Ltd. to form Front Street Small Cap Fund. Each former shareholder of Front Street Small Cap Canadian Fund Class received one share of Front Street Small Cap Fund. Each former shareholder of the Front Street Small Cap Opportunities Fund received 1.000 shares for Series A; 1.000 shares for Series B, and 1.000 shares for Series F, respectively.

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

Total assets	\$	4,077,732
Total liabilities		1,456,049
Transactional NAV		2,621,683

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

	Shares	Transactional NAV
Series A	44,102	\$ 499,878
Series B	159,429	1,834,248
Series F	<u>25,568</u>	<u>287,557</u>
	<u>229,099</u>	<u>\$ 2,621,683</u>

Summary financial information for Front Street Small Cap Opportunities Fund, for the 8 2/3 months ended October 31, 2008 is as follows:

Investment income	\$	28,864
Total expenses		191,457
Net realized and unrealized gain on investments		125,479
Net decrease in net assets from operations for the period		37,114

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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

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

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

The foregoing financial statements and accompanying notes to the financial statements presented herein are for the Fund. Separate financial statements of each of the other classes of shares of the Corporation have also been prepared as at October 31, 2010.

Front Street Capital 2004 is the manager of the Fund (the "Manager"). Front Street Investment Management Inc. (the "Investment Advisor") has been retained by the Manager, on behalf of the Fund, to provide investment advisory and portfolio management services to the Fund. RBC Dominion Securities Inc. is the custodian. Citigroup Fund Services Canada Inc. provides fund accounting services and shareholder recordkeeping services.

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

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

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial instruments

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

In June 2008, the Canadian Securities Administrators adopted changes to National Instrument 81-106 on Investment Fund Continuous Disclosure. The changes are essentially aimed at modifying the requirements pertaining to the calculation of the unit value due to the inclusion of Section 3855, Financial Instruments - Recognition and Measurement of the CICA Handbook. These changes allow the Fund to report two distinct net asset values: one for the financial statements, which is calculated in accordance with Canadian GAAP (called "net assets") and another for all other purposes, such as unit pricing (called "net asset value"). A reconciliation between the net assets per unit and the net asset value per unit is required (see note 8) as well as description of the differences between the valuation principles and practices used by the Manager to calculate the net asset value and those prescribed by Canadian GAAP. The changes are effective November 1, 2008 and have been reflected in these financial statements.

b) Valuation of investments

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

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

b) Valuation of investments (continued...)

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

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

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

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

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

c) Financial instruments disclosure and presentation and fair value measurements

The Fund has adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments - Presentation, which have replaced Section 3861, Financial Instruments - Disclosure and Presentation. These new standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Fund has managed those risks. See note 9 for additional details.

The Fund adopted the amendments to CICA 3862, Financial Instruments – Disclosures on January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on the inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

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

See note 11 for additional details.

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

d) Transaction costs

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

e) Cash and cash equivalents

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

f) Investment transactions and income recognition

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

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

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

g) Foreign currency translation

Income, expenses and investment transactions in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the dates of such transactions. Assets and liabilities in foreign currencies are translated into Canadian dollars at the closing exchange rates on each valuation day.

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

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

i) Net assets per share

The net assets per share are calculated by dividing the net assets of a series of shares by the total number of shares of the series outstanding at the end of the year.

j) Capital disclosures

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

k) General standards on financial statement presentation

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

l) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting year. Significant estimates include the fair value of the Fund's investments in private companies and the fair value of the Fund's investments in corporate warrants which are not traded in active markets. Actual results may differ from those estimates.

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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

m) Future accounting pronouncements

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

International financial reporting standards ("IFRS")

Effective for its fiscal year commencing November 1, 2012, the Fund must adopt IFRS. In preparation thereof, the Manager continues to monitor and implement the Fund's changeover plan and will continue to assess the impact of the implementation as new IFRS guidance become available from the International Accounting Standards Board.

The Manager has reviewed the current IFRS against the Fund's current accounting policies and financial statement presentation under Canadian generally accepted accounting principles ("Canadian GAAP"), and does not expect the adoption of IFRS will have a material effect on the Fund's net asset value per share for all series of shares. The primary impact of IFRS on accounting policies and implementation decisions will be on the financial statement presentation and note disclosures in the Fund's financial statements. In particular, the Fund will be required to present a statement of shareholders' equity and a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

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

3. **SHARES ISSUED AND OUTSTANDING**

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

Series A shares

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

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.

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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

Series F shares

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

Series X shares

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

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

The following share transactions took place during the year:

	2010	2009
Shares outstanding, beginning of the year:		
Series A	203,619	1
Series B	573,487	-
Series F	45,788	-
Series X	-	-
Shares issued during the year:		
Series A	291,868	216,572
Series B	598,171	838,174
Series F	113,373	77,238
Series X	4,109	-
Share distributions reinvested during the year:		
Series A	-	-
Series B	-	-
Series F	-	-
Series X	-	-
Shares redeemed during the year:		
Series A	93,192	12,954
Series B	465,759	264,687
Series F	45,264	31,450
Series X	-	-
Shares outstanding, end of the year:		
Series A	402,295	203,619
Series B	705,899	573,487
Series F	113,897	45,788
Series X	4,109	-

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

4. FEES AND EXPENSES

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

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

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees, custodial fees, fees payable to, and expenses incurred by, the Fund's Independent Review Committee and expenses of making distributions to shareholders. As the Fund has more than one series of shares, the shareholders of each series, bear their pro rata share of those expenses which are common to the operation of all series, as well as those expenses which are attributable solely to that series.

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

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

5. INCOME TAX AND DISTRIBUTION

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

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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

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

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

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

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

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

The Fund may be subject to provincial capital taxes.

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

6. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to securities transactions for the year ended October 31, 2010 was \$127,798 (2009 - \$64,300).

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

7. RELATED PARTY TRANSACTIONS

Management fees of \$455,166 (2009 - \$119,389) were paid to the Manager during the year (see note 4). Servicing fees of \$265,185 (2009 - \$66,824) were paid to the Manager during the year (see note 4). Operating costs of \$29,197 (2009 - \$Nil) were paid to the Manager during the year (see note 4). Performance fees of \$178,917 (2009 - \$483,880) were incurred with the Manager during the year (see note 4). Included in accrued expenses are \$41,215 (2009 - \$26,171) in management fees payable to the Manager. Included in accrued expenses are \$18,342 (2009 - \$7,690) in accrued servicing fees payable to the Manager. Included in accrued expenses are \$3,712 (2009 - \$Nil) in accrued operating costs payable to the Manager. Performance fees payable reflects performance fees of \$Nil (2009 - \$470,044) payable to the Manager.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non affiliated, qualified brokerage firms, on an execution only basis. During the year ended October 31, 2010, Tuscarora Capital Inc, a company under common control to the Manager, received \$2,717 (2009 - \$Nil) in commissions on portfolio transactions for the Fund.

Management fees, servicing fees, operating costs and performance fees are measured at the exchange amount of consideration prescribed by the offering documents of the Fund. When related parties enter shareholder transactions with the Fund, the exchange amount of consideration is the transactional NAV available to all other shareholders on the trade date. In the case of brokerage commissions, the exchange amount of consideration is that which is negotiated by the related parties.

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

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the transactional net asset value ("NAV") and net assets calculated using generally accepted accounting principles ("GAAP NA") of an investment fund is required for financial reporting years ending on or after October 31, 2007. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques (see note 2) rather than the use of valuation techniques in general practice in the investment funds industry.

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

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

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

As at October 31, 2010

	<u>Net Asset Value</u>			<u>Net Asset Value per Share</u>	
	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA
Series A	\$ 12,133,494	\$ 5,294	\$ 12,138,788	\$ 30.16	\$ 30.17
Series B	21,128,546	9,141	21,137,687	29.93	29.94
Series F	3,372,029	1,468	3,373,497	29.61	29.62
Series X	124,274	54	124,328	30.25	30.26
Total	\$ 36,758,343	\$ 15,957	\$ 36,774,300		

9. FINANCIAL INSTRUMENTS

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

As at October 31,

	2010	2009
Assets		
Held for trading	\$ 35,475,987	\$ 17,698,544
Cash and cash equivalents	1,691,895	586,511
Loans and receivables	725,123	592,070
Total Assets	<u>37,893,005</u>	<u>18,877,125</u>
Liabilities		
Held for trading	165,676	-
Other financial liabilities at amortized cost	953,029	1,106,317
Total liabilities	<u>1,118,705</u>	<u>1,106,317</u>
Net Assets	<u>\$ 36,774,300</u>	<u>\$ 17,770,808</u>

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

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

9. 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, 2010, and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

i) Market price risk

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

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

ii) Currency risk

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

The Fund has no material balances denominated in foreign currencies as at October 31, 2010.

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

9. FINANCIAL INSTRUMENTS (Continued...)

iii) Interest rate risk

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at October 31, 2010, the bulk of the Fund's investments are substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

Financial assets	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Held for trading	\$ -	\$ 440,000	\$ 35,035,987	\$ 35,475,987
Other receivables	-	-	725,123	725,123
Cash and cash equivalents	<u>1,691,895</u>	<u>-</u>	<u>-</u>	<u>1,691,895</u>
Total	<u>\$ 1,691,895</u>	<u>\$ 440,000</u>	<u>\$ 35,761,110</u>	<u>\$ 37,893,005</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 165,676	\$ 165,676
Other financial liabilities	<u>-</u>	<u>-</u>	<u>953,029</u>	<u>953,029</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,118,705</u>	<u>\$ 1,118,705</u>
GAAP NA				<u>\$ 36,774,300</u>

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

9. FINANCIAL INSTRUMENTS (Continued...)

iv) Liquidity risk

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

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

	0-12 months	1-3 years	3-5 years	Beyond 5 years	Indefinite Maturity	Total
Financial assets						
Held for trading	\$ -	\$ 440,000	\$ -	\$ -	\$ 35,035,987	\$ 35,475,987
Other receivables	725,123	-	-	-	-	725,123
Cash and cash equivalents	1,691,895	-	-	-	-	1,691,895
Total	<u>\$ 2,417,018</u>	<u>\$ 440,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,035,987</u>	<u>\$ 37,893,005</u>
Financial liabilities						
Held for trading	\$ -	\$ -	\$ -	\$ -	\$ 165,676	\$ 165,676
Other financial liabilities	953,029	-	-	-	-	953,029
Total	<u>\$ 953,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,676</u>	<u>\$ 1,118,705</u>
GAAP NA						<u>\$ 36,774,300</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at October 31, 2010, the fair value of such assets was 6.30% of the total net assets.

v) Cash flow risk

The risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. In the case of a floating rate debt instrument, for example, such fluctuations could result from a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

9. FINANCIAL INSTRUMENTS (Continued...)

vi) Credit risk

The Fund is exposed to credit risk arising from its transactions with its counterparties and brokers, related to securities purchases and sales. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

As at October 31, 2010, the Fund had 1.12% (2009 – Nil%) of holdings in long term debt instruments on which credit ratings are not available.

10. CAPITAL MANAGEMENT

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

The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, policies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet participating shareholder redemptions. The Fund's overall strategy for managing capital remains unchanged from 2009.

The Fund does not have any externally imposed capital requirements.

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

11. FAIR VALUE HIERARCHY

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

Assets at fair value as at October 31, 2010	Quoted price in active market for identical assets	Significant other observable input	Significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Investments, at fair value	<u>\$ 31,023,788</u>	<u>\$ 2,136,319</u>	<u>\$ 2,315,880</u>	<u>\$ 35,475,987</u>
Liabilities at fair value as at October 31, 2010	Level 1	Level 2	Level 3	Total
Obligations from portfolio used, at fair value	<u>\$ 165,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,676</u>

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

	Investments, at fair value
Balance as at October 31, 2009	\$ 1,038,500
Purchases	305,880
Gains (losses)	
Realized	-
Change in unrealized	<u>971,500</u>
Balance as at October 31, 2010	<u>\$ 2,315,880</u>

FRONT STREET SMALL CAP FUND

NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

12. SUBSEQUENT EVENTS

On December 23, 2010, Front Street Mutual Funds Limited (“FSMFL”) and Front Street Resource Performance Fund Ltd. (“FSRPFL”) issued a notice of special meeting of shareholders pertaining to the proposed amalgamation of Front Street Mutual Funds Limited and Front Street Resource Performance Fund Ltd. If the resolution is approved by the shareholders of the FSMFL and FSRPFL, the effective date of the amalgamation will be the close of business on February 28, 2011. The merger will be accomplished by the amalgamation of these two mutual fund corporations under the Canada Business Corporations Act (Canada).

Upon amalgamation, FSMFL is considered to be the continuing fund for securities regulatory purposes. A new class of shares of FSMFL will be created, namely Series L of Front Street Resource Fund. Existing shareholders of FSRPFL will receive one share of Series L shares of Front Street Resource Fund class of shares of FSMFC.

13. COMPARATIVE AMOUNTS

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