

Annual Management Report of Fund Performance As at October 31, 2012 Front Street Special Opportunities Class (Formerly Front Street Special Opportunities Canadian Fund)

This Annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements for Front Street Special Opportunities Class (the "Fund"), a class of shares of Front Street Mutual Funds Limited. You can get a copy of the annual or interim financial statements at your request, and at no cost, by calling 1-800-513-2832, by writing to us at Front Street Capital, 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 investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the investment 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 Objective and Strategies

The Fund's investment objective is to provide Fund securityholders capital appreciation through the investment in equity securities of companies whose product, service or management team the Manager believes can realize value and growth. The Manager may rely on "top down" fundamental research to identify equity securities of companies in a particular industry or sector, but portfolio diversification will be driven primarily from the Fund's investments, as opposed to targeting sector weights.

The Investment Advisor will employ alternative investment strategies, including event-related special situations investing (including, for instance, investment in securities of issuers undergoing or undertaking tenders, mergers and acquisitions, liquidations, spin-offs and recapitalizations) and the purchase of undervalued shares in the equity markets.

From time to time the Fund may use clearing corporation options and listed warrants ("permitted derivatives") as permitted by Canadian securities regulators and consistent with the investment objectives and strategies of the Fund. The Fund may use these permitted derivatives for hedging and non-hedging purposes.

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

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 that operated in foreign jurisdictions, were the hardest hit as investors fled to the perceived safety and liquidity of larger cap issuers.

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

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

One trend we have been following has been the conversion of many resource companies to high dividend-paying corporations, particularly in the energy sector. These companies, with stable production levels, have decided they can get better valuations for their shares by slowing down their growth and returning part of their earnings to their 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 \$2.6 million from dividends and interest. There were net realized losses on the sale of investments of \$60.5 million and an unrealized depreciation on the value of investments of \$37.1 million.

Operating expenses, excluding management fees, performance fees and servicing fees, totalled \$1.6 million during the year ended October 31, 2012.

Recent Developments

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

International Financial Reporting Standards (“IFRS”)

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

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

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

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

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

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

Related Party Transactions

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

	2012	2011
Management fees	\$ 7,129,641	\$ 9,240,133
Servicing fees	3,652,952	4,729,687
Operating costs	197,474	95,832
Performance fees	<u>-</u>	<u>8,280,992</u>
	<u>\$ 10,980,067</u>	<u>\$ 22,346,644</u>

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

	2012	2011
Management fees payable	\$ 597,651	\$ 655,940
Servicing fees payable	314,750	343,167
Operating costs payable	<u>109,627</u>	<u>7,986</u>
	<u>\$ 1,022,028</u>	<u>\$ 1,007,093</u>

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

	2012	2011
Series F shares held by Partners of the Manager	40,161.99	39,536.12
Percentage of Series F shares held by Partners of the Manager	0.54%	0.58%
Series F shares held by relatives of Partners of the Manager	19,473.18	27,991.81
Percentage of Series F shares held by relatives of Partners of the Manager	0.26%	0.41%
Series Y shares held by Partners of the Manager	1,765,622.31	1,826,888.31
Percentage of Series Y shares held by Partners of the Manager	12.50%	11.21%
Series Y shares held by relatives of Partners of the Manager	1,708,655.85	1,746,175.32
Percentage of Series Y shares held by relatives of Partners of the Manager	12.10%	10.71%

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 \$27,892 (2011 - \$35,885) 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. 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 \$
Net assets, beginning of the year	8.85	9.91	0.00
Increase (decrease) from operations:			
Total revenue	0.04	0.03	0.01
Total expenses	(0.23)	(0.43)	(0.76)
Realized gains (losses) for the year	(0.98)	0.52	0.76
Unrealized gains (losses) for the year	(0.62)	(2.26)	2.83
Total increase (decrease) from operations ⁽²⁾	(1.79)	(2.14)	2.84
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	7.13	8.85	9.91

- (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⁾	98,701	99,061	45,430
Number of shares outstanding ⁽¹⁾	13,763,999	11,120,549	4,585,825
Management expense ratio ⁽²⁾	3.05%	4.15%	10.03%
Management expense ratio before waivers or absorptions	3.05%	4.15%	10.03%
Trading expense ratio ⁽³⁾	0.34%	0.24%	0.37%
Portfolio turnover rate ⁽⁴⁾	47.70%	32.82%	61.06%
Net asset value per share (\$)	7.17	8.91	9.91

- (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 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 \$
Net assets, beginning of the year	8.85	9.90	-
Increase (decrease) from operations:			
Total revenue	0.04	0.03	0.01
Total expenses	(0.23)	(0.43)	(0.76)
Realized gains (losses) for the year	(1.01)	0.53	0.77
Unrealized gains (losses) for the year	(0.61)	(2.18)	2.75
Total increase (decrease) from operations ⁽²⁾	(1.81)	(2.05)	2.77
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	7.12	8.85	9.90

- (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⁾	121,668	148,345	79,411
Number of shares outstanding ⁽¹⁾	16,976,892	16,664,913	8,023,393
Management expense ratio ⁽²⁾	3.03%	4.21%	9.94%
Management expense ratio before waivers or absorptions	3.03%	4.21%	9.94%
Trading expense ratio ⁽³⁾	0.34%	0.24%	0.37%
Portfolio turnover rate ⁽⁴⁾	47.70%	32.82%	61.06%
Net asset value per share (\$)	7.17	8.90	9.90

- (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 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 \$
Net assets, beginning of the year	9.32	10.32	-
Increase (decrease) from operations:			
Total revenue	0.04	0.03	0.01
Total expenses	(0.16)	(0.37)	(0.56)
Realized gains (losses) for the year	(1.06)	0.57	0.70
Unrealized gains (losses) for the year	(0.63)	(1.73)	2.47
Total increase (decrease) from operations ⁽²⁾	(1.81)	(1.50)	2.62
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	7.58	9.32	10.32

- (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⁾	56,431	64,099	47,345
Number of shares outstanding ⁽¹⁾	7,401,198	6,835,684	4,590,213
Management expense ratio ⁽²⁾	2.05%	3.37%	7.15%
Management expense ratio before waivers or absorptions	2.05%	3.37%	7.15%
Trading expense ratio ⁽³⁾	0.34%	0.24%	0.37%
Portfolio turnover rate ⁽⁴⁾	47.70%	32.82%	61.06%
Net asset value per share (\$)	7.62	9.38	10.31

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

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

	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$
Net assets, beginning of the year	9.05	10.04	-
Increase (decrease) from operations:			
Total revenue	0.04	0.02	0.01
Total expenses	(0.20)	(0.44)	(0.54)
Realized gains (losses) for the year	(1.11)	0.58	0.66
Unrealized gains (losses) for the year	(0.54)	(0.97)	2.29
Total increase (decrease) from operations ⁽²⁾	(1.81)	(0.81)	2.41
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	7.32	9.05	10.04

- (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⁾	53,628	82,474	115,199
Number of shares outstanding ⁽¹⁾	7,275,494	9,056,325	11,471,008
Management expense ratio ⁽²⁾	2.50%	4.11%	7.19%
Management expense ratio before waivers or absorptions	2.50%	4.11%	7.19%
Trading expense ratio ⁽³⁾	0.34%	0.24%	0.37%
Portfolio turnover rate ⁽⁴⁾	47.70%	32.82%	61.06%
Net asset value per share (\$)	7.37	9.11	10.04

- (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 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 Y
The Fund's Net Assets per Share ⁽¹⁾

	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$
Net assets, beginning of the year	9.09	10.07	-
Increase (decrease) from operations:			
Total revenue	0.04	0.02	0.01
Total expenses	(0.19)	(0.41)	(0.54)
Realized gains (losses) for the year	(1.10)	0.58	0.65
Unrealized gains (losses) for the year	(0.56)	(1.04)	2.30
Total increase (decrease) from operations ⁽²⁾	(1.81)	(0.85)	2.42
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	7.37	9.09	10.07

- (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⁾	104,724	149,128	192,339
Number of shares outstanding ⁽¹⁾	14,123,916	16,299,465	19,100,381
Management expense ratio ⁽²⁾	2.38%	3.90%	7.23%
Management expense ratio before waivers or absorptions	2.38%	3.90%	7.23%
Trading expense ratio ⁽³⁾	0.34%	0.24%	0.37%
Portfolio turnover rate ⁽⁴⁾	47.70%	32.82%	61.06%
Net asset value per share (\$)	7.41	9.15	10.07

- (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 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.

Management and Performance Fees

The Fund pays a monthly management fee equal to 1/12 of 1.5% of the net asset value of the Fund calculated and paid at the end of each month payable monthly in arrears for series A, B, F and X of the Fund. The Fund pays a monthly management fee equal to 1/12 of 1% of the net asset value of Series Y calculated and paid at the end of each month payable monthly 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 quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the S&P/TSX Composite Index (the "Benchmark") over the same period. 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 quarter. The starting reference point for the next quarter's calculation is based on the higher of either the Benchmark performance adjusted net asset value per share or the adjusted actual net asset value per share, both with respect to the previous quarter in which a performance fee was payable.

Dealer Compensation

Brokers, dealers and advisors may be paid a "trailer commission" for assets that their sales representatives place in the Series A, Series B, Series X and Series Y 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
X	0.50%	\$5.00
Y	1.00%	\$10.00

Past Performance

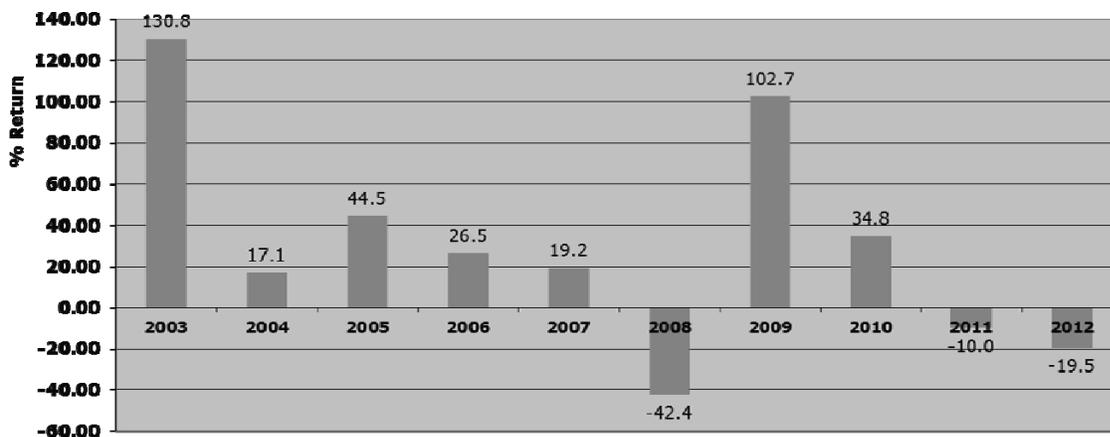
The past performance of the Fund is set out below and includes year-by-year returns and annual compound returns. With respect to the charts displayed below, please note the following:

- (a) the returns or performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units 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.

Year-By-Year Returns

The bar chart below shows the Fund's annual total return in each of the past 10 financial years. It illustrates how the Fund's performance has changed from year to year. This chart shows, in percentage terms, how much an investment made the first day of each financial year would have grown or decreased by the last day of each financial year.

Year-by-Year Returns



Annual Compound Returns

The following table shows the Fund's historical annual compound total return for the past ten, five, three and one financial year periods, as compared to the performance of the S&P/TSX Composite Index.

	Past 10 Years	Past 5 Years	Past 3 Years	Past Year
Front Street Special Opportunities Class ⁽¹⁾	21.01%	1.97%	-0.79%	-19.46%
S&P/TSX Composite Index	7.11%	-3.21%	4.42%	1.39%

- (1) Effective December 1, 2009, Front Street Special Opportunities Canadian Fund Ltd. amalgamated with Front Street Mutual Funds Limited with Front Street Special Opportunities Class being a new class of shares. The results shown include those of Front Street Special Opportunities Canadian Fund Ltd.

The S&P/TSX Composite Index is a float market capitalization that tracks the performance of some of the largest and most widely held Canadian stocks listed on the Toronto Stock Exchange (TSX).

Summary of Investment Portfolio as at October 31, 2012

Portfolio by Category

	Percentage of Transactional Net Asset Value
LONG POSITIONS	
Energy	57.3%
Materials	32.0%
Australia	5.0%
United States	2.2%
Cayman Islands	1.9%
Cash & Cash Equivalents	1.2%
Brazil	0.6%
Industrials	0.2%
SHORT POSITIONS	
Energy	-0.1%
OTHERS	-0.3%
	100.0%

Top 25 Holdings

	Percentage of Transactional Net Asset Value
Spartan Oil Corporation	6.6%
Lundin Mining Corporation	5.8%
Perseus Mining Limited	5.0%
Bankers Petroleum Limited	5.0%
Crew Energy Inc.	4.9%
Rubicon Minerals Corporation	4.4%
Augusta Resource Corporation	4.3%
Torex Gold Resources Inc.	4.3%
Twin Butte Energy Limited	4.1%
Wildcat Silver Corporation	3.8%
Celtic Exploration Limited	3.7%
Parex Resources Inc.	3.4%
Dalradian Resources Inc.	3.0%
C&C Energia Limited	2.8%
Crocotta Energy Inc.	2.7%
IROC Energy Services Corporation	2.4%
Laricina Energy Limited	2.3%
Sintana Energy Inc.	2.1%
Whitecap Resources Inc.	1.9%
Greenfields Petroleum Corporation	1.9%
RMP Energy Inc.	1.8%
Canadian International Oil Corporation	1.8%
Madalena Ventures Inc.	1.7%
Americas Petrogas Inc.	1.7%
Gran Colombia Gold Corporation	1.6%
	83.0%
TOTAL TRANSACTIONAL NET ASSET VALUE (000's)	\$435,151

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

**FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)**

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

INDEX

	Page
Management Report	1
Independent Auditor's Report	2 - 3
Statements of Net Assets	4 - 5
Statements of Operations	6 - 7
Statements of Changes in Net Assets	8 - 10
Statement of Investment Portfolio	11 - 13
Notes to the Financial Statements	14 - 31

MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements of Front Street Special Opportunities Class (formerly Front Street Special Opportunities Canadian Fund) 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 Special Opportunities 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 Special Opportunities Class (the "Fund")
(Formerly Front Street Special Opportunities Canadian Fund) of
Front Street Mutual Funds Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of Front Street Special Opportunities 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 audit. We conducted our audit 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 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 Special Opportunities Class as at October 31, 2012 and 2011 and its operations and changes in net assets for the years then ended, and the investment portfolio as at October 31, 2012 in accordance with Canadian generally accepted accounting principles.

Segal LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
January 18, 2013

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

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

	2012	2011
ASSETS		
Investments, at fair value		
(cost - \$452,860,532; 2011 - \$501,306,356)	\$ 429,121,896	\$ 514,757,769
Cash and cash equivalents	5,065,604	33,179,271
Accounts receivable relating to shares issued	832,402	3,406,355
Accounts receivable relating to portfolio assets sold	189,287	3,204,520
Amounts receivable relating to accrued income	<u>89,949</u>	<u>54,555</u>
	<u>\$ 435,299,138</u>	<u>\$ 554,602,470</u>
LIABILITIES		
Accrued expenses, note 7	\$ 1,411,708	\$ 1,410,911
Accounts payable relating to shares redeemed	1,004,517	1,669,103
Obligations from portfolio assets sold short, at fair value	471,250	1,412,800
Liabilities for portfolio assets purchased	<u>-</u>	<u>10,384,352</u>
	<u>2,887,475</u>	<u>14,877,166</u>
Net assets representing shareholders' equity	<u>\$ 432,411,663</u>	<u>\$ 539,725,304</u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

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

	2012	2011
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 98,079,382	\$ 98,444,113
Shares outstanding, Series A, note 3	13,763,999	11,120,549
Net assets per share, Series A	<u>\$ 7.13</u>	<u>\$ 8.85</u>
Net assets, Series B	\$ 120,901,083	\$ 147,421,944
Shares outstanding, Series B, note 3	16,976,892	16,664,913
Net assets per share, Series B	<u>\$ 7.12</u>	<u>\$ 8.85</u>
Net assets, Series F	\$ 56,076,305	\$ 63,701,309
Shares outstanding, Series F, note 3	7,401,198	6,835,684
Net assets per share, Series F	<u>\$ 7.58</u>	<u>\$ 9.32</u>
Net assets, Series X	\$ 53,289,937	\$ 81,959,537
Shares outstanding, Series X, note 3	7,275,494	9,056,325
Net assets per share, Series X	<u>\$ 7.32</u>	<u>\$ 9.05</u>
Net assets, Series Y	\$ 104,064,956	\$ 148,198,401
Shares outstanding, Series Y, note 3	14,123,916	16,299,465
Net assets per share, Series Y	<u>\$ 7.37</u>	<u>\$ 9.09</u>

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



Gary P. Selke
 Chief Executive Officer and Director



Susan Johnson
 Chief Financial Officer

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

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

	2012	2011
Investment income		
Dividend income	\$ 1,535,604	\$ 90,992
Interest	<u>1,075,049</u>	<u>1,337,339</u>
	<u>2,610,653</u>	<u>1,428,331</u>
Expenses		
Management fees, notes 4 and 7	7,129,641	9,240,133
Servicing fees, notes 4 and 7	3,652,952	4,729,687
Administration fees	1,054,499	1,263,027
Operating costs, notes 4 and 7	197,474	95,832
Legal fees	104,872	160,616
Securityholder reporting costs	95,897	140,348
Custodial fees	82,795	124,757
Audit fees	69,208	77,819
Independent review committee	21,601	19,633
Performance fees, notes 4 and 7	<u>-</u>	<u>8,280,992</u>
	<u>12,408,939</u>	<u>24,132,844</u>
Net investment loss for the year	<u>(9,798,286)</u>	<u>(22,704,513)</u>
Net realized and unrealized gains (losses) on investments		
Net realized gain (loss) on the sale of investments	(60,506,236)	35,940,742
Transaction costs, notes 6 and 7	(1,601,449)	(1,421,634)
Change in the unrealized depreciation of the value of investments	<u>(37,100,361)</u>	<u>(92,751,096)</u>
Net loss on investments for the year	<u>(99,208,046)</u>	<u>(58,231,988)</u>
Net decrease in net assets from operations for the year	<u><u>\$ (109,006,332)</u></u>	<u><u>\$ (80,936,501)</u></u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

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

	2012	2011
Decrease in net assets from operations applicable to outstanding shares allocated as follows:		
Decrease in net assets from operations, Series A	\$ (22,737,623)	\$ (18,913,653)
Decrease in net assets from operations per share, Series A	<u>\$ (1.79)</u>	<u>\$ (2.14)</u>
Decrease in net assets from operations, Series B	\$ (30,432,110)	\$ (29,315,724)
Decrease in net assets from operations per share, Series B	<u>\$ (1.81)</u>	<u>\$ (2.05)</u>
Decrease in net assets from operations, Series F	\$ (13,321,762)	\$ (9,036,787)
Decrease in net assets from operations per share, Series F	<u>\$ (1.81)</u>	<u>\$ (1.50)</u>
Decrease in net assets from operations, Series X	\$ (15,047,649)	\$ (8,485,995)
Decrease in net assets from operations per share, Series X	<u>\$ (1.81)</u>	<u>\$ (0.81)</u>
Decrease in net assets from operations, Series Y	\$ (27,467,188)	\$ (15,184,342)
Decrease in net assets from operations per share, Series Y	<u>\$ (1.81)</u>	<u>\$ (0.85)</u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian 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	\$ 98,444,113	\$ 45,439,740
Net decrease in net assets from operations	<u>(22,737,623)</u>	<u>(18,913,653)</u>
Shareholder transactions		
Proceeds from the issuance of shares	34,511,256	83,536,030
Aggregate amounts paid on the redemption of shares	<u>(12,138,364)</u>	<u>(11,618,004)</u>
	<u>22,372,892</u>	<u>71,918,026</u>
Net increase (decrease) in net assets for the year	<u>(364,731)</u>	<u>53,004,373</u>
Net assets, end of year	<u>\$ 98,079,382</u>	<u>\$ 98,444,113</u>
Series B		
Net assets, beginning of year	\$ 147,421,944	\$ 79,427,491
Net decrease in net assets from operations	<u>(30,432,110)</u>	<u>(29,315,724)</u>
Shareholder transactions		
Proceeds from the issuance of shares	42,296,582	141,430,600
Aggregate amounts paid on the redemption of shares	<u>(38,385,333)</u>	<u>(44,120,423)</u>
	<u>3,911,249</u>	<u>97,310,177</u>
Net increase (decrease) in net assets for the year	<u>(26,520,861)</u>	<u>67,994,453</u>
Net assets, end of year	<u>\$ 120,901,083</u>	<u>\$ 147,421,944</u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian 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	\$ 63,701,309	\$ 47,354,887
Net decrease in net assets from operations	<u>(13,321,762)</u>	<u>(9,036,787)</u>
Shareholder transactions		
Proceeds from the issuance of shares	19,154,535	38,717,838
Aggregate amounts paid on the redemption of shares	<u>(13,457,777)</u>	<u>(13,334,629)</u>
	<u>5,696,758</u>	<u>25,383,209</u>
Net increase (decrease) in net assets for the year	<u>(7,625,004)</u>	<u>16,346,422</u>
Net assets, end of year	<u>\$ 56,076,305</u>	<u>\$ 63,701,309</u>
Series X		
Net assets, beginning of year	\$ 81,959,537	\$ 115,222,848
Net decrease in net assets from operations	<u>(15,047,649)</u>	<u>(8,485,995)</u>
Shareholder transactions		
Proceeds from the issuance of shares	3,262,446	1,743,798
Aggregate amounts paid on the redemption of shares	<u>(16,884,397)</u>	<u>(26,521,114)</u>
	<u>(13,621,951)</u>	<u>(24,777,316)</u>
Net decrease in net assets for the year	<u>(28,669,600)</u>	<u>(33,263,311)</u>
Net assets, end of year	<u>\$ 53,289,937</u>	<u>\$ 81,959,537</u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

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

	2012	2011
Series Y		
Net assets, beginning of year	<u>\$ 148,198,401</u>	<u>\$ 192,378,579</u>
Net decrease in net assets from operations	<u>(27,467,188)</u>	<u>(15,184,342)</u>
Shareholder transactions		
Aggregate amounts paid on the redemption of shares	<u>(16,666,257)</u>	<u>(28,995,836)</u>
Net decrease in net assets for the year	<u>(44,133,445)</u>	<u>(44,180,178)</u>
Net assets, end of year	<u>\$ 104,064,956</u>	<u>\$ 148,198,401</u>
Total		
Net assets, beginning of year	<u>\$ 539,725,304</u>	<u>\$ 479,823,545</u>
Net decrease in net assets from operations	<u>(109,006,332)</u>	<u>(80,936,501)</u>
Shareholder transactions		
Proceeds from the issuance of shares	99,224,819	265,428,266
Aggregate amounts paid on the redemption of shares	<u>(97,532,128)</u>	<u>(124,590,006)</u>
	<u>1,692,691</u>	<u>140,838,260</u>
Net increase (decrease) in net assets for the year	<u>(107,313,641)</u>	<u>59,901,759</u>
Net assets, end of year	<u>\$ 432,411,663</u>	<u>\$ 539,725,304</u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Long Positions (95.4%)			
Energy (57.4%)			
Africa Hydrocarbons Inc.	2,777,800	\$ 458,337	\$ 333,336
Africa Hydrocarbons Inc. Warrants	1,388,900	41,667	1
Americas Petrogas Inc.	3,500,000	12,121,896	7,280,000
Athabasca Oil Corporation	478,975	5,444,690	5,790,808
Athabasca Oil Corporation Warrants	66,798	1,125	225,478
Bankers Petroleum Limited	7,601,000	16,268,810	21,510,831
C&C Energia Limited	2,086,308	16,247,520	12,121,449
C3 Resources Inc. Restricted	500,000	112,500	112,500
Canadian International Oil Corporation	2,127,219	3,190,829	5,849,852
Canadian International Oil Corporation Warrants	2,382,219	336,600	1,786,664
Celtic Exploration Limited	621,800	7,485,049	16,197,890
Colcan Energy Corporation Warrants November 8, 2013	2,499,999	-	3
Colcan Energy Corporation Warrants August 1, 2013	1,250,000	-	4,166
Crew Energy Inc.	2,789,128	38,964,911	21,448,394
Crocotta Energy Inc.	3,703,433	9,890,275	11,888,020
Crown Point Energy Inc.	1,880,426	2,881,660	686,355
Cub Energy Inc.	3,058,500	1,252,721	1,269,278
Delphi Energy Corporation	1,170,000	1,414,230	1,567,800
Essential Energy Services Trust	1,800,000	4,478,570	3,816,000
Griffiths Energy International Inc.	768,334	3,977,277	4,610,004
Hawk Exploration Limited 'A'	448,191	358,713	125,493
IROC Energy Services Corporation	4,180,900	9,795,301	10,201,396
Laricina Energy Limited	335,000	5,192,500	10,050,000
Madalena Ventures Inc.	26,123,817	7,133,521	7,314,669
New Zealand Energy Corporation	1,380,000	4,176,595	2,346,000
P1 Energy Corporation	9,786,422	25,859,904	6,361,174
Parex Resources Inc.	3,307,980	16,703,187	14,753,591
Petroamerica Oil Corporation Warrants October 8, 2014	9,200,000	9	644,000
Petroamerica Oil Corporation Warrants November 4, 2014	5,600,000	6	157,354
Primary Petroleum Corporation	1,133,500	816,120	238,035
RMP Energy Inc.	3,415,500	7,385,826	7,889,805
Second Wave Petroleum Inc.	2,330,800	4,774,007	1,818,024
Spartan Oil Corporation	6,303,569	19,000,119	28,681,239
Sure Energy Inc.	2,590,000	3,885,000	1,502,200
Trinidad Drilling Limited	504,958	2,863,814	3,332,723

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Energy (57.4%) (Continued...)			
Twin Butte Energy Limited	5,996,600	14,275,543	17,689,970
United Hydrocarbon International Corporation	500,000	500,000	500,000
United Hydrocarbon International Corporation Restricted	4,750,000	4,750,000	4,750,000
Valeura Energy Inc. Warrants	3,077,500	-	55,044
Whitecap Resources Inc.	1,045,542	8,753,794	8,301,603
Whitecap Resources Inc. Warrants	115,248	-	60,267
Xtreme Drilling and Coil Services Corporation	3,703,281	<u>8,025,997</u>	<u>4,962,397</u>
		<u>\$ 268,818,623</u>	<u>\$ 248,233,813</u>
Industrials (0.2%)			
ENTREC Corporation	309,715	\$ 472,348	\$ 483,155
Trilliant Inc.	671,939	<u>403,163</u>	<u>403,163</u>
		<u>\$ 875,511</u>	<u>\$ 886,318</u>
Materials (31.9%)			
Augusta Resource Corporation	7,004,519	\$ 13,861,041	\$ 18,912,201
Calston Exploration Inc.	18,260,868	4,565,217	4,200,000
Calston Exploration Inc. Warrants	9,130,434	-	9
Dalradian Resources Inc.	8,300,000	9,976,651	12,865,000
Entree Gold Inc.	3,030,737	7,441,599	1,394,139
Golden Predator Corporation	4,425,000	3,247,202	1,482,375
Gran Colombia Gold Corporation	18,034,978	18,731,503	6,672,942
Lundin Mining Corporation	4,840,256	23,231,374	25,120,930
PMI Gold Corporation	1,713,800	2,224,564	1,422,454
Range Energy Resources Inc.	7,455,000	373,239	223,650
Riva Gold Corporation	319,981	330,120	57,597
Rubicon Minerals Corporation	5,418,252	21,390,421	19,180,612
Sintana Energy Inc.	33,708,971	6,868,683	8,258,698
Solfotara Mining Corporation	2,857,142	1,000,000	914,285
Solfotara Mining Corporation Warrants	1,428,571	1	1
Tolima Gold Inc.	7,500,000	3,625,000	2,137,500
Tolima Gold Inc. Warrants December 8, 2013	1,250,000	-	98,029
Tolima Gold Inc. Warrants December 9, 2013	2,500,000	-	250,933
Torex Gold Resources Inc.	8,834,455	12,875,597	18,198,977
Torex Gold Resources Inc. Warrant	625,000	100,000	134,375
Wildcat Silver Corporation	12,568,471	<u>10,223,843</u>	<u>16,339,012</u>
		<u>\$ 140,066,055</u>	<u>\$ 137,863,719</u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Global Equities			
United States (2.2%)			
Gran Tierra Energy Inc.	185,000	\$ 950,586	\$ 919,450
IronCo LLC Restricted	5,000	4,889,019	4,873,538
Mitra Energy Limited	780,000	2,278,465	1,949,415
Pacific Infrastructure Inc. Restricted	2,000,000	<u>2,041,108</u>	<u>1,799,460</u>
		<u>\$ 10,159,178</u>	<u>\$ 9,541,863</u>
Australia (5.0%)			
Perseus Mining Limited	8,190,540	<u>\$ 18,260,662</u>	<u>\$ 21,710,424</u>
Brazil (0.7%)			
HRT Participacoes em Petroleo SA	885,500	\$ 2,639,378	\$ 2,654,721
HRT Participacoes em Petroleo SA Warrants December 7, 2013	8,850	-	454,588
		<u>\$ 2,639,378</u>	<u>\$ 3,109,309</u>
Cayman Islands (1.8%)			
Greenfields Petroleum Corporation	1,413,900	<u>\$ 12,041,125</u>	<u>\$ 7,776,450</u>
Total Long Positions (95.4%)		<u>\$ 452,860,532</u>	<u>\$ 429,121,896</u>
Short Positions (-0.1%)			
Energy (-0.1%)			
iShares S&P/TSX Capped Energy Fund	(29,000)	<u>\$ (533,020)</u>	<u>\$ (471,250)</u>
Total Short Positions (-0.1%)		<u>\$ (533,020)</u>	<u>\$ (471,250)</u>
Transaction costs, note 2		<u>\$ (1,251,755)</u>	
Total Investments (99.1%)		<u>\$ 451,075,757</u>	428,650,646
Cash and cash equivalents (1.3%)			5,065,604
Other assets less other liabilities (-0.4%)			<u>(1,304,587)</u>
Net assets (100.0%)			<u>\$ 432,411,663</u>

See accompanying notes to the financial statements

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

1. THE FUND

Front Street Special Opportunities Canadian Class (formerly Front Street Special Opportunities Canadian 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 Special Opportunities Class on June 27, 2012. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure.

Pursuant to an amalgamation of Front Street Mutual Funds Limited and Front Street Special Opportunities Canadian Fund Ltd. on December 1, 2009, a new class of shares of Front Street Mutual Funds Limited was created, being 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 shares of the Front Street Special Opportunities Canadian Fund Ltd. received Series X, Series Y or Series F shares respectively of 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, 2012.

The Fund is managed by Front Street Capital 2004 (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 Investor Services Trust is the custodian. Citigroup Fund Services Canada, Inc. provides shareholder recordkeeping services and fund accounting services.

The Fund's investment objective is to provide Fund security holders capital appreciation through the investment in equity securities of companies whose product, service or management team the Investor Advisor believes can realize value and growth. The Investor Advisor may rely on "top down" fundamental research to identify equity securities of companies in a particular industry or sector, but portfolio diversification will be driven primarily from the Fund's investments, as opposed to targeting sector weights.

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian 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 have been classified as held for trading. Accounts receivable relating to shares issued, accounts receivable relating to portfolio assets sold and amounts receivable relating to accrued income have been classified as loans and receivables. Accrued expenses, accounts payable relating to shares redeemed, and liabilities for portfolio assets purchased have been classified as other financial liabilities.

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

b) Valuation of investments

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

- vii) The Fund invests in derivatives which represent financial instruments which may require little or no initial investment and which are settled in the future. These investments are commonly referred to as options, forwards or futures contracts. Futures contracts listed upon a principal exchange are valued at their last bid price (for long contracts) and last ask price (for short contracts) at the financial statement date. Contracts with no available bid and ask prices are valued at the fair value as determined by the Manager.

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

c) Financial instruments disclosure and presentation and fair value measurements

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

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

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

See note 11 for additional details.

d) Transaction costs

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

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 SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

g) Foreign currency translation

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

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

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

i) Net assets per share

The net assets per share 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, includes requirements to assess and disclose an entity's ability to continue as a going concern. The Manager of the Fund has made this assessment and concluded that there are currently no material uncertainties that cast doubt on the Fund's ability to continue as a going concern.

l) Estimates

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

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

m) Future accounting pronouncements

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

International financial reporting standards ("IFRS")

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

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

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

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

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

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

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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 between the first 18 months to 36 months following acquisition. No redemption fee applies to shares of this series sold after the third year following acquisition.

Series B shares

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

Series F shares

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

Series X shares

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

Series Y shares

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

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

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian 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	11,120,549	4,585,825
Series B	16,664,913	8,023,393
Series F	6,835,684	4,590,213
Series X	9,056,325	11,471,008
Series Y	16,299,465	19,100,381
Shares issued during the year:		
Series A	4,311,228	7,745,735
Series B	5,329,470	13,046,987
Series F	2,296,127	3,516,506
Series X	360,433	167,475
Series Y	-	-
Shares redeemed during the year:		
Series A	1,667,778	1,211,011
Series B	5,017,491	4,405,467
Series F	1,730,613	1,271,035
Series X	2,141,264	2,582,158
Series Y	2,175,549	2,800,916
Shares outstanding, end of the year:		
Series A	13,763,999	11,120,549
Series B	16,976,892	16,664,913
Series F	7,401,198	6,835,684
Series X	7,275,494	9,056,325
Series Y	14,123,916	16,299,465

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

4. MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee equal to 1/12 of 1.5% of the net asset value of the Fund calculated and paid at the end of each month payable monthly in arrears for series A, B, F and X of the Fund. The Fund pays a monthly management fee equal to 1/12 of 1% of the net asset value of Series Y calculated and paid at the end of each month payable monthly in arrears.

The Fund pays a monthly service fee of 1/12 of 1% of the net asset value of the Series A, Series B, and Series Y shares calculated and paid 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 and paid 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 quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the S&P/TSX Composite Index (the "Benchmark") over the same period. 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 quarter. The starting reference point for the next quarter's calculation is based on the higher of either the Benchmark performance adjusted net asset value per share or the adjusted actual net asset value per share, both with respect to the previous quarter in which a performance fee was payable.

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian 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 income tax at applicable corporate tax rates, after claiming allowable deductions for expenses and applicable credits for foreign taxes paid on foreign-source income. Income tax on capital gains is refundable to the Fund to the extent that such gains are distributed to shareholders as capital gains dividends or the Fund's share are redeemed. Gains and losses realized by the Fund in relation to certain derivative transactions and short sale transactions may be taxed on account of income as opposed to on account of capital. Other income is subject to tax at normal corporate rates and is not subject to refundable tax treatment.

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

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

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

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

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

The Fund may be subject to provincial capital taxes.

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

6. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to security transactions for the year ended October 31, 2012 was \$1,601,449 (2011 - \$1,421,634).

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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	\$ 7,129,641	\$ 9,240,133
Servicing fees, note 4	3,652,952	4,729,687
Operating costs, note 4	197,474	95,832
Performance fees, note 4	<u>-</u>	<u>8,280,992</u>
	<u>\$ 10,980,067</u>	<u>\$ 22,346,644</u>

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

	2012	2011
Management fees payable	\$ 597,651	\$ 655,940
Servicing fees payable	314,750	343,167
Operating costs payable	<u>109,627</u>	<u>7,986</u>
	<u>\$ 1,022,028</u>	<u>\$ 1,007,093</u>

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

	2012	2011
Series F shares held by Partners of the Manager	40,161.99	39,536.12
Percentage of Series F shares held by Partners of the Manager	0.54%	0.58%
Series F shares held by relatives of Partners of the Manager	19,473.18	27,991.81
Percentage of Series F shares held by relatives of Partners of the Manager	0.26%	0.41%
Series Y shares held by Partners of the Manager	1,765,622.31	1,826,888.31
Percentage of Series Y shares held by Partners of the Manager	12.50%	11.21%
Series Y shares held by relatives of Partners of the Manager	1,708,655.85	1,746,175.32
Percentage of Series Y shares held by relatives of Partners of the Manager	12.10%	10.71%

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 \$27,892 (2011 - \$35,885) in commissions on portfolio transactions for the Fund.

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

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the transactional net asset value ("NAV") and net assets calculated using Canadian generally accepted accounting principles ("GAAP NA") of an investment fund is required. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold) to be used in the fair valuation of investments, rather than the use of closing 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 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	\$ 98,700,620	\$ (621,238)	\$ 98,079,382	\$ 7.17	\$ 7.13
Series B	121,668,172	(767,089)	120,901,083	7.17	7.12
Series F	56,430,809	(354,504)	56,076,305	7.62	7.58
Series X	53,627,566	(337,629)	53,289,937	7.37	7.32
Series Y	104,724,127	(659,171)	104,064,956	7.41	7.37
Total	\$ 435,151,294	\$ (2,739,631)	\$ 432,411,663		

As at October 31, 2011

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per share	GAAP NA per share
Series A	\$ 99,060,906	\$ (616,793)	\$ 98,444,113	\$ 8.91	\$ 8.85
Series B	148,345,083	(923,139)	147,421,944	8.90	8.85
Series F	64,099,138	(397,829)	63,701,309	9.38	9.32
Series X	82,474,461	(514,924)	81,959,537	9.11	9.05
Series Y	149,127,505	(929,104)	148,198,401	9.15	9.09
Total	\$ 543,107,093	\$ (3,381,789)	\$ 539,725,304		

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

9. **FINANCIAL INSTRUMENTS**

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

As at October 31,	2012	2011
Assets		
Held for trading	\$ 429,121,896	\$ 514,757,769
Cash and cash equivalents	5,065,604	33,179,271
Loans and receivables	<u>1,111,638</u>	<u>6,665,430</u>
Total Assets	<u>\$ 435,299,138</u>	<u>\$ 554,602,470</u>
Liabilities		
Held for trading	\$ 471,250	\$ 1,412,800
Other financial liabilities at amortized cost	<u>2,416,225</u>	<u>13,464,366</u>
Total liabilities	<u>\$ 2,887,475</u>	<u>\$ 14,877,166</u>
Net Assets	<u>\$ 432,411,663</u>	<u>\$ 539,725,304</u>

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

Risk Management

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

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.

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

i) Market price risk

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

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

ii) Currency risk

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

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

Currency	Investments, at fair value	Cash	Net exposure	Percentage of GAAP NA
Australian Dollar	\$ 21,710,424	\$ -	\$ 21,710,424	5.02%
Brazilian Real	3,109,309	-	3,109,309	0.72%
United States Dollar	<u>9,541,863</u>	<u>1,263,045</u>	<u>10,804,908</u>	<u>2.50%</u>
	<u>\$ 34,361,596</u>	<u>\$ 1,263,045</u>	<u>\$ 35,624,641</u>	<u>8.24%</u>

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

iii) Interest rate risk

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at October 31, 2012, there were Nil% (2011 - 0.6%) of the net assets owned which are held in bonds. There were short-term investments representing Nil% (2011 - 2.8%) of the net assets owned, all maturing in less than 30 days. The remaining portion of the Fund's investments are substantially in 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	\$ -	\$ -	\$ 429,121,896	\$ 429,121,896
Other receivables	-	-	1,111,638	1,111,638
Cash and cash equivalents	<u>5,065,604</u>	<u>-</u>	<u>-</u>	<u>5,065,604</u>
Total	<u>\$ 5,065,604</u>	<u>\$ -</u>	<u>\$ 430,233,534</u>	<u>\$ 435,299,138</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 471,250	\$ 471,250
Other financial liabilities	<u>-</u>	<u>-</u>	<u>2,416,225</u>	<u>2,416,225</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,887,475</u>	<u>\$ 2,887,475</u>
GAAP NA				<u>\$ 432,411,663</u>

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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.

Financial assets	0-12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Held for trading	\$ 364,030	\$ 1,604,903	\$ 55,044	\$ -	\$ 427,097,919	\$ 429,121,896
Other receivables	1,111,638	-	-	-	-	1,111,638
Cash and cash equivalents	<u>5,065,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,065,604</u>
Total	<u>\$ 6,541,272</u>	<u>\$ 1,604,903</u>	<u>\$ 55,044</u>	<u>\$ -</u>	<u>\$ 427,097,919</u>	<u>\$ 435,299,138</u>
Financial liabilities						
Held for trading	\$ -	\$ -	\$ -	\$ -	\$ 471,250	\$ 471,250
Other financial liabilities	<u>2,416,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,416,225</u>
Total	<u>\$ 2,416,225</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 471,250</u>	<u>\$ 2,887,475</u>
GAAP NA						<u>\$ 432,411,663</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 11.1% (2011 - 13.8%) 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 SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

vi) Credit risk

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

Financial assets which potentially expose the Fund to credit risk consist principally of investments in bonds, amounts due from brokers and derivatives. The Fund seeks to mitigate its exposure to credit risk by placing its cash, and transacting its securities activity with large financial institutions. The Fund may also invest in corporate bonds. Until the bonds are sold or mature, the Fund is exposed to credit risk relating to whether the bond issuer will meet its obligations 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, 2012, the Fund had Nil% (2011 - 0.6%) of holdings in long term debt instruments.

10. **CAPITAL MANAGEMENT**

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

The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, policies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet participating shareholder redemptions. The Fund's overall strategy for managing capital remains unchanged since October 31, 2011.

The Fund does not have any externally imposed capital requirements.

FRONT STREET SPECIAL OPPORTUNITIES CLASS
(Formerly Front Street Special Opportunities Canadian Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

11. 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):

Assets at fair value as at October 31, 2012	Quoted price in active market for identical assets	Significant other observable inputs	Significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
Investments, at fair value	<u>\$ 379,655,967</u>	<u>\$ 1,301,693</u>	<u>\$ 48,164,236</u>	<u>\$ 429,121,896</u>
Liabilities at fair value as at October 31, 2012	Level 1	Level 2	Level 3	Total
Obligations from portfolio used, at fair value	<u>\$ 471,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 471,250</u>

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

	Fair value measurement Equities - long	Investments, at fair value Bonds
Balance as at November 1, 2011	\$ 71,287,489	\$ 3,000,000
Purchases	2,136,483	-
Sales	(3,075,000)	(3,000,000)
Transfer in	-	-
Transfers out	(3,999,999)	-
Gain (losses)		
Realized	802,273	-
Unrealized	<u>(18,987,010)</u>	<u>-</u>
Balance at October 31, 2012	<u>\$ 48,164,236</u>	<u>\$ -</u>

The transfer out of equities represents equities reallocated to level one as a result of having quoted prices in active markets for identical assets now available with respect to these holdings.



FRONT STREET CAPITAL

33 Yonge Street, Suite 600
Toronto, ON M5E 1G4

Tel.: 1 (800) 513-2832

or (416) 364-1990

Fax: (416) 364-8893

www.FrontStreetCapital.com