

## **Restated Annual Management Report of Fund Performance As at October 31, 2013 Front Street Diversified Income Class**

**The Front Street Diversified Income Class (the "Fund") Annual Management Report of Fund Performance ("MRFP") dated as at October 31, 2013 is restated and being re-filed to include (i) an annual compound returns table of past performance for the 5-, 3-, and 1-year periods ended on the last day of the Fund's financial year and the Fund's past performance since the inception of the Fund, (ii) disclosure of the returns of an appropriate broad-based market index, and (iii) past performance in the annual returns table reflecting returns prior to the merger of the Fund on November 1, 2008, each of which was inadvertently omitted in the original MRFP filed on SEDAR. No other changes have been made to the MRFP.**

*This Restated Annual Management Report of Fund Performance contains financial highlights but does not contain the complete Annual financial statements for Front Street Diversified Income Class (the "Fund"), a class of shares of Front Street Mutual Funds Limited. The annual financials of the Fund are attached behind this report and you can also get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-800-513-2832, by writing to us at Front Street Capital 2004, 33 Yonge Street, Suite 600, Toronto, Ontario M5E 1G4 or by visiting our website at [www.frontstreetcapital.com](http://www.frontstreetcapital.com) or SEDAR at [www.sedar.com](http://www.sedar.com).*

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

### **Forward Looking Information**

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

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Annual 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 Annual Management Report of Fund Performance, and the Fund undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## Management Discussion of Fund Performance

### INVESTMENT OBJECTIVES AND STRATEGIES

The investment objective of the Fund is to provide shareholders with consistent long term capital growth and the opportunity for income through the selection, management and strategic trading of long and short positions in securities of income trusts, common shares, preferred shares, derivatives and corporate and government debt.

The Investment Advisor, Front Street Investment Management Inc., will also consider positioning the Fund's investment portfolio to reduce its correlation to Canadian equity and fixed-income indices.

From time to time the Fund may invest in other mutual funds and may purchase securities of, or enter into specified derivative transactions for which the underlying interest is based on the securities of other mutual funds. Such investments may be entered into in conjunction with other strategies and investments in a manner considered most appropriate to achieving the Fund's investment objectives stated above and enhancing returns as permitted by securities regulations.

### RISK

Most of the Fund's assets will be invested in securities that include yield components, whether interest, dividends or return of capital. It may also invest in dividend-paying common shares or preferred shares. The Fund will therefore be subject to "Stock Market Risk", "Interest Rate Risk" and "Credit Risk". Since the Fund may also invest in foreign securities, this may expose the Fund, to a limited extent, to the Risks of Investing 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 will also be subject to "Risks Associated with Securities of REITS", "Risks Associated with Investing in Income Trusts", "Series Risk" and "Securities Lending, Repurchase and Reverse Repurchase Risk". The Fund may also be exposed to the "Risks Associated with Short Sales", "Risks of Investing in Derivatives" and "Tax Risk".

Equity risk also affected Fund volatility. Equity returns have been volatile partly as a result of uneven global economic growth, fear of contagion arising from a possible sovereign debt default in Europe as well as concerns that corporate profit margins might have peaked.

Interest-rate risk was also a factor, as global central banks generally kept administered rates at very low levels. Should global growth resume or expectations for price inflation appear, even moderately, interest rates generally are likely to rise, negatively impacting bond values.

Credit risk will continue to be a factor for the fund. Although the possibility of an economic "double dip" is low, credit spreads could widen if economic growth should start to trend below consensus, while a "flight to quality" as the result of concerns over sovereign credit ratings was being cut or crisis of confidence in another major currency such as the Japanese Yen or the U.S. dollar.

Economic risk has also impacted the holdings of the Fund. As governments reduce fiscal stimulus or reduce spending to lower national indebtedness, economic growth could slow. The risk of rising taxes, currency manipulation and the possibility of international trade disputes could further erode confidence in the global economy.

The Fund has multiple risks associated with equity and corporate debt markets. Investors whose primary concern is preservation of capital should not be invested in this Fund. The Fund is suitable for investors seeking monthly income and 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 / RECENT DEVELOPMENTS

We continued to work to improve the overall liquidity profile of the fund by trimming our allocation from convertible debentures, in favour of bonds and equities. Despite significant volatility in the market in response to uncertainty about tapering of the Fed's stimulus program, we still favour a shorter duration bias in the fixed income portion of the portfolio for the longer term. In equities, we anticipate some degree of outperformance, as the market should begin to take into account the ever-improving economic data, and fears around the U.S. debt ceiling should be addressed. Volatility should remain elevated, as the market reacts to economic data related to employment and housing, as they are key metrics that determine the timing of Fed tapering. Although the market has been pre-occupied with the ongoing negotiations in Washington pertaining to the Debt Ceiling, we have maintained the belief that it will either be resolved or delayed, setting the market up for a nice rally into calendar year-end and as a result.

Previously, our targeted asset mix was 60% fixed-income and 40% equities. Due to the fact that we have a positive outlook for the global economy, we will look for an entry point to increase our equity exposure therefore changing our asset mix. Our new target will be 60% equities and 40% fixed-income. We will be concentrating on dividend-paying equities, who have payout ratios below 40-50%, relative to free cash flow.

During the year ended October 31, 2013, the Fund earned investment income of \$9.6 million from dividends, interest and security lending revenue (net of withholding taxes). There were net realized losses on the sale of investments of \$13.2 million, loss from derivatives of \$1.4 million and an unrealized depreciation on the value of investments of \$0.9 million.

Operating expenses, excluding management fees, servicing fees, and compensatory dividends, totalled \$1,214,215 during the year ended October 31, 2013.

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 and IFRS 9, Financial Instruments, require shareholders’ equity to be classified as liability unless certain criteria are met. The Fund’s shareholders’ equity meets the definition of a puttable instrument. The Manager has assessed the Fund’s shareholder structure and has determined the liability treatment is the most appropriate classification. IFRS 9 defines an investment entity and introduces an exception to the consolidation requirements.
- b) IFRS 7, Financial Instruments: Disclosures requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity’s financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
- c) 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 has assessed the guidance that will apply under IFRS and has determined that the use of closing market prices is appropriate in valuing investments. While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit or Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Fund’s financial statements.

The anticipated impact of IFRS on accounting policies and implementation decisions will predominantly be on the financial statement presentation and note disclosures in the Fund’s financial statements. The adoption of IFRS is not expected to have a significant impact on the calculation of NAV per share. In particular, the Fund will be required to present 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, 2013 and 2012, fees paid to the Manager were as follows:

	2013	2012
Management fees	<u>\$ 3,372,230</u>	<u>\$ 4,683,587</u>
Servicing fees	<u>\$ 2,123,495</u>	<u>\$ 2,887,822</u>
Operating costs	<u>\$ 141,326</u>	<u>\$ 163,090</u>

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

	2013	2012
Management fees payable	\$ 207,992	\$ 409,885
Servicing fees payable	125,898	251,688
Operating costs payable	<u>12,473</u>	<u>125,558</u>
	<u>\$ 346,363</u>	<u>\$ 787,131</u>

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

	2013	2012
Series B shares held by Partners of the Manager	458,883.44	797,044.03
Percentage of Series B shares held by Partners of the Manager	6.41%	5.17%
Series F shares held by Partners of the Manager	43,547.59	52,693.84
Percentage of Series F shares held by Partners of the Manager	4.16%	1.72%

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, 2013, Tuscarora Capital Inc., a company under common control to the Manager, received \$216,654 (2012 - \$Nil) in commissions on portfolio transactions for the Fund.

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

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five financial years. This information is derived from the Fund's audited annual financial statements.

### Series A

#### The Fund's Net Assets per Share <sup>(1)</sup>

	October 31 2013 \$	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$
<b>Net assets, beginning of the year</b>	7.69	8.10	8.81	8.36	8.13
<b>Increase (decrease) from operations:</b>					
Total revenue	0.26	0.29	0.25	0.31	0.43
Total expenses	(0.20)	(0.21)	(0.23)	(0.23)	(0.21)
Realized gains (losses) for the year	(0.41)	0.16	—	0.63	0.34
Unrealized gains (losses) for the year	(0.05)	(0.12)	(0.32)	0.23	0.23
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.40)</b>	<b>0.12</b>	<b>(0.30)</b>	<b>0.94</b>	<b>0.79</b>
<b>Distributions to Shareholders:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	(0.48)	(0.55)	(0.55)	(0.55)	(0.55)
<b>Total distributions to Shareholders <sup>(3)</sup></b>	<b>(0.48)</b>	<b>(0.55)</b>	<b>(0.55)</b>	<b>(0.55)</b>	<b>(0.55)</b>
<b>Net assets, end of the year</b>	<b>6.78</b>	<b>7.69</b>	<b>8.10</b>	<b>8.81</b>	<b>8.36</b>

- (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 per share 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) <sup>(1)</sup>	118,639	203,551	192,442	113,374	31,119
Number of shares outstanding (1)	17,478,337	26,453,872	23,774,438	12,854,695	3,713,765
Management expense ratio <sup>(2)</sup>	2.61%	2.55%	2.55%	2.58%	2.51%
Management expense ratio before waivers or absorptions	2.61%	2.55%	2.55%	2.58%	2.51%
Trading expense ratio <sup>(3)</sup>	0.34%	0.15%	0.17%	0.33%	0.55%
Portfolio turnover rate <sup>(4)</sup>	174.84%	97.45%	107.30%	143.93%	252.75%
Net asset value per share (\$)	6.79	7.69	8.09	8.82	8.38

- (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 necessarily a relationship between a high turnover rate and the performance of a fund.

**Series B**
**The Fund's Net Assets per Share <sup>(1)</sup>**

	October 31 2013 \$	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$
<b>Net assets, beginning of the year</b>	7.75	8.16	8.87	8.39	8.14
<b>Increase (decrease) from operations:</b>					
Total revenue	0.27	0.30	0.26	0.32	0.50
Total expenses	(0.20)	(0.21)	(0.23)	(0.22)	(0.22)
Realized gains (losses) for the year	(0.42)	0.17	0.03	0.66	0.20
Unrealized gains (losses) for the year	(0.02)	(0.12)	(0.34)	0.25	0.23
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.37)</b>	<b>0.14</b>	<b>(0.28)</b>	<b>1.01</b>	<b>0.71</b>
<b>Distributions to Shareholders:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	(0.48)	(0.55)	(0.55)	(0.55)	(0.55)
<b>Total distributions to Shareholders <sup>(3)</sup></b>	<b>(0.48)</b>	<b>(0.55)</b>	<b>(0.55)</b>	<b>(0.55)</b>	<b>(0.55)</b>
<b>Net assets, end of the year</b>	<b>6.85</b>	<b>7.75</b>	<b>8.16</b>	<b>8.87</b>	<b>8.39</b>

- (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 per share 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) <sup>(1)</sup>	49,028	119,577	132,494	93,517	48,255
Number of shares outstanding <sup>(1)</sup>	7,155,539	15,413,214	16,250,074	10,535,928	5,738,289
Management expense ratio <sup>(2)</sup>	2.55%	2.50%	2.50%	2.54%	2.67%
Management expense ratio before waivers or absorptions	2.55%	2.50%	2.50%	2.54%	2.67%
Trading expense ratio <sup>(5)</sup>	0.34%	0.15%	0.17%	0.33%	0.55%
Portfolio turnover rate <sup>(4)</sup>	174.84%	97.45%	107.30%	143.93%	252.75%
Net asset value per share (\$)	6.85	7.76	8.15	8.88	8.41

- (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 necessarily a relationship between a high turnover rate and the performance of a fund.

**Series F**
**The Fund's Net Assets per Share <sup>(1)</sup>**

	October 31 2013 \$	October 31 2012 \$	October 31 2011 \$	October 31 2010 \$	October 31 2009 \$
<b>Net assets, beginning of the year</b>	7.92	8.25	8.87	8.38	8.14
<b>Increase (decrease) from operations:</b>					
Total revenue	0.28	0.30	0.26	0.32	0.36
Total expenses	(0.12)	(0.13)	(0.14)	(0.14)	(0.12)
Realized gains (losses) for the year	(0.44)	0.19	(0.02)	0.64	0.48
Unrealized gains (losses) for the year	0.02	(0.12)	(0.35)	0.28	0.16
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.26)</b>	<b>0.24</b>	<b>(0.25)</b>	<b>1.10</b>	<b>0.88</b>
<b>Distributions to Shareholders:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	(0.48)	(0.55)	(0.55)	(0.55)	(0.55)
<b>Total distributions to Shareholders <sup>(3)</sup></b>	<b>(0.48)</b>	<b>(0.55)</b>	<b>(0.55)</b>	<b>(0.55)</b>	<b>(0.55)</b>
<b>Net assets, end of the year</b>	<b>7.08</b>	<b>7.92</b>	<b>8.25</b>	<b>8.87</b>	<b>8.38</b>

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- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the average number of shares outstanding over the financial year.
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**Ratios and Supplemental Data**

Total net asset value (000's) <sup>(1)</sup>	7,423	24,317	29,778	17,007	3,093
Number of shares outstanding <sup>(1)</sup>	1,047,658	3,067,836	3,614,686	1,915,979	368,349
Management expense ratio <sup>(2)</sup>	1.54%	1.49%	1.51%	1.63%	1.48%
Management expense ratio before waivers or absorptions	1.54%	1.49%	1.51%	1.63%	1.48%
Trading expense ratio <sup>(5)</sup>	0.34%	0.15%	0.17%	0.33%	0.55%
Portfolio turnover rate <sup>(4)</sup>	174.84%	97.45%	107.30%	143.93%	252.75%
Net asset value per share (\$)	7.09	7.93	8.24	8.88	8.40

- (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 necessarily a relationship between a high turnover rate and the performance of a fund.



**Series X**
**The Fund's Net Assets per Share <sup>(1)</sup>**

	October 31 2013 \$	October 31 2012 \$	October 31 2011 \$	For the period from commencement of operations on December 3, 2009 to to October 31, 2010 \$
<b>Net assets, beginning of the year</b>	7.74	8.13	8.82	8.48*
<b>Increase (decrease) from operations:</b>				
Total revenue	0.27	0.30	0.25	0.27
Total expenses	(0.18)	(0.19)	(0.21)	(0.18)
Realized gains (losses) for the year	(0.45)	0.19	(0.15)	0.50
Unrealized gains (losses) for the year	0.02	(0.12)	(0.20)	0.04
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(0.34)</b>	<b>0.18</b>	<b>(0.31)</b>	<b>0.63</b>
<b>Distributions to Shareholders:</b>				
From income (excluding dividends)	—	—	—	—
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	(0.48)	(0.55)	(0.55)	(0.55)
<b>Total distributions to Shareholders <sup>(3)</sup></b>	<b>(0.48)</b>	<b>(0.55)</b>	<b>(0.55)</b>	<b>(0.55)</b>
<b>Net assets, end of the year</b>	<b>6.85</b>	<b>7.74</b>	<b>8.13</b>	<b>8.82</b>

- (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 per share 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) <sup>(1)</sup>	1,092	2,708	4,834	2,408
Number of shares outstanding <sup>(1)</sup>	159,342	349,562	595,025	272,680
Management expense ratio <sup>(2)</sup>	2.34%	2.25%	2.36%	2.24%
Management expense ratio before waivers or absorptions	2.34%	2.25%	2.36%	2.24%
Trading expense ratio <sup>(5)</sup>	0.34%	0.15%	0.17%	0.33%
Portfolio turnover rate <sup>(4)</sup>	174.84%	97.45%	107.30%	143.93%
Net asset value per share (\$)	6.86	7.75	8.12	8.83

- (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 necessarily a relationship between a high turnover rate and the performance of a fund.

\* Initial price

## MANAGEMENT AND PERFORMANCE FEES

The Fund pays a monthly management fee equal to 1/12 of 1.25% of the net asset value of the Series A shares and Series X shares and 1/12 of 1% of the net asset value of the Series B and Series F shares calculated and paid at the end of each month in arrears.

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

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

The Fund pays a performance fee if the percentage gain in the net asset value of a series of the Fund (as adjusted for any prior return deficiencies) over the preceding fiscal quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the benchmark (the "Benchmark") over the same period. The Benchmark for the Fund is calculated as follows: 50% of the percentage gain or loss in the S&P/TSX Composite Index and 50% of the percentage gain or loss in the DEX Universe All Corporate Bond Index over the same year. The fee is equal to this excess return per share multiplied by the number of shares outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per share of the Fund (including distributions) is greater than all previous values at the end of each previous fiscal quarter. The starting reference point for the next fiscal quarter's calculation 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.

The Manager waived any applicable performance fees until further notice.

## DEALER COMPENSATION

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

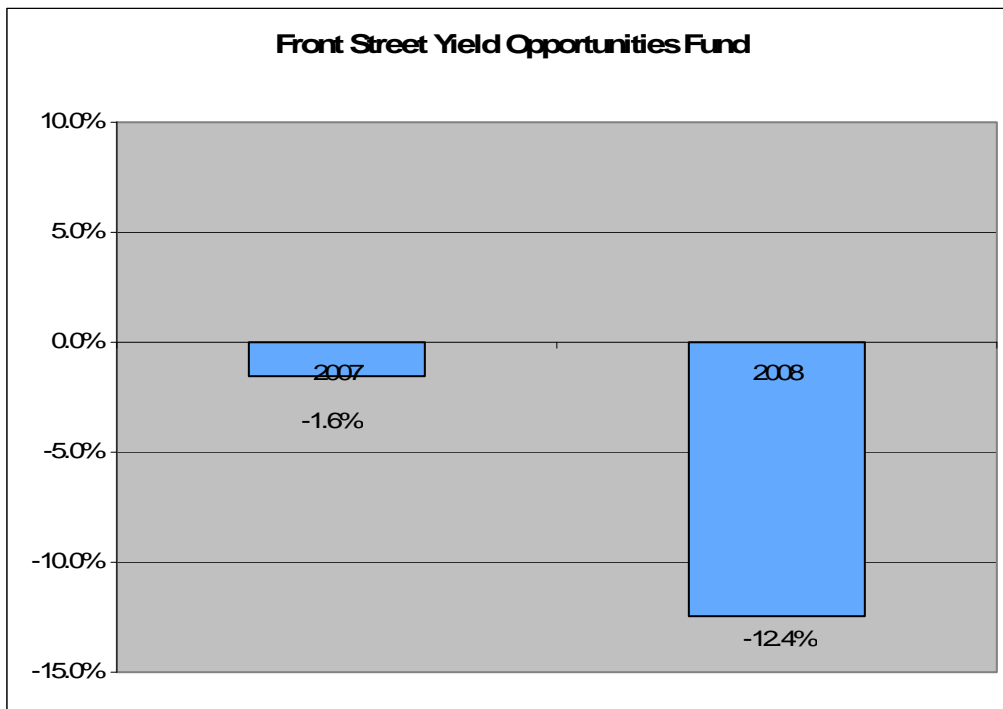
Series	Trailer Annual Rate	Annual Payment per \$1,000 of Fund securities held
A	0.75%	\$7.50
B	1.00%	\$10.00
F	0.00%	Nil
X	0.50%	\$5.00

**PAST PERFORMANCE**

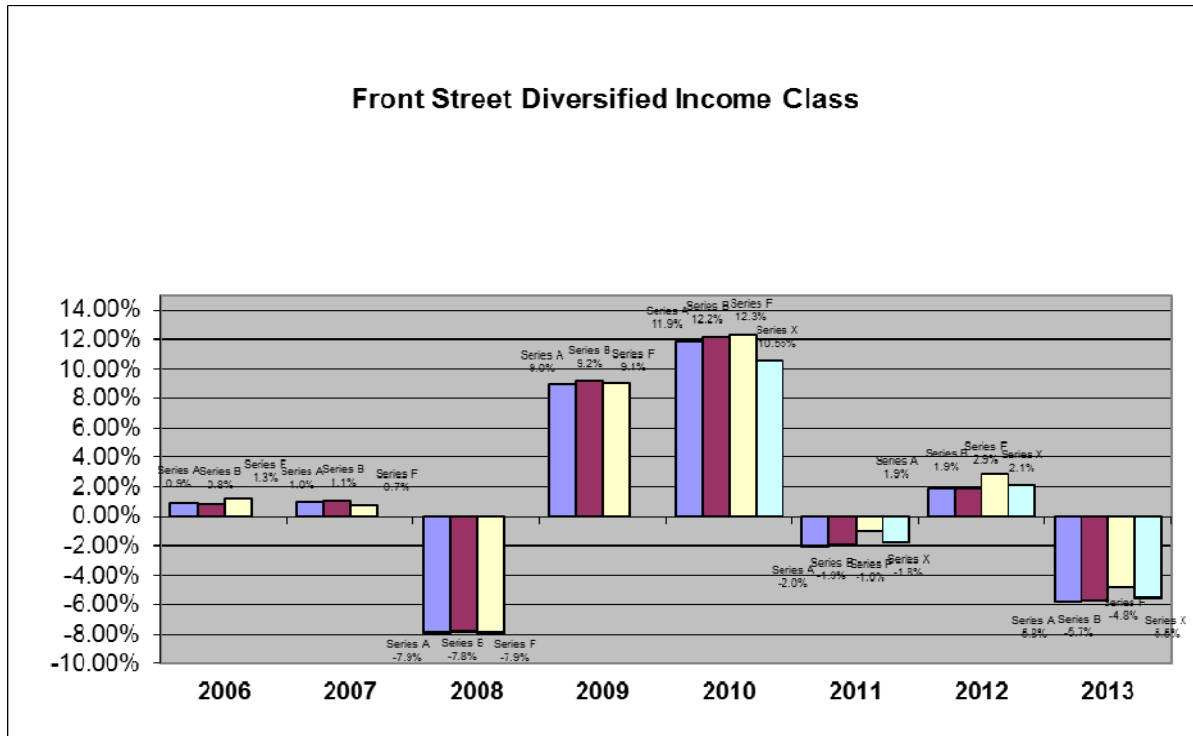
The past performance of the Fund is set out below and includes year-by-year returns.

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

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



The above chart is the year-by year returns for Front Street Yield Opportunities Fund, a class of Front Street Opportunity Funds Ltd. The Fund was merged with Front Street Diversified Income Class (formerly Front Street Diversified Income Fund) on November 1, 2008.



The above chart is the year-by-year returns for Front Street Diversified Class, a class of Front Street Mutual Funds Ltd. The Fund was merged with Front Street Yield Opportunities Fund on November 1, 2008 and fund performance for the discontinued fund has not been included in the chart above in the 2006 to 2008 periods.

## ANNUAL COMPOUND RETURNS

The following table shows the Fund's historical annual compound total return for the past five, three, one financial year periods and since inception, as at October 31, 2013 and as compared to the performance of S&P/TSX Composite Index and the performance of the blended benchmark index using 50% of S&P/TSX Composite Index and 50% of DEX Universe All Corporate Bond Index ("Blended Benchmark Index").

Front Street Diversified Income Class	Past 5 years	Past 3 years	Past 1 year	Since amalgamation November 1, 2008	Since Inception June 22, 2006
Series A	2.84%	-2.10%	-5.79%	2.84%	1.00%
Series B	2.97%	-2.06%	-5.73%	2.97%	1.10%
S&P/TSX Composite Index	6.48%	1.77%	7.55%	6.48%	1.75%
Blended Benchmark Index	7.52%	3.49%	4.78%	7.52%	4.64%

Front Street Diversified Income Class	Past 5 years	Past 3 years	Past 1 year	Since amalgamation November 1, 2008	Since Inception August 11, 2006
Series F	3.59%	-1.07%	-4.76%	3.59%	1.55%
S&P/TSX Composite Index	6.48%	1.77%	7.55%	6.48%	1.69%
Blended Benchmark Index	7.52%	3.49%	4.78%	7.52%	4.58%

Front Street Diversified Income Class	Past 3 years	Past 1 year	Since amalgamation December 2, 2009
Series X	-1.85%	-5.52%	1.17%
S&P/TSX Composite Index	1.77%	7.55%	4.03%
Blended Benchmark Index	3.49%	4.78%	4.98%

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

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.

## Summary of Investment Portfolio as at October 31, 2013

### *Portfolio by Category*

	Percentage of Transactional Net Asset Value
<b>LONG POSITIONS</b>	
Corporate Bonds	49.2%
Financials	19.6%
Energy	8.2%
Consumer Discretionary	6.6%
Materials	4.9%
Industrials	4.0%
Information Technology	3.8%
Telecommunication Services	1.0%
Consumer Staples	0.8%
Provincial Bonds	0.3%
Health Care	0.1%
Call Option	0.0%
<b>SHORT POSITIONS</b>	
Energy	0.0%
Written Put Option	-0.1%
Forward	-0.1%
Futures	-0.1%
Materials	-0.1%
Written Call Option	-0.2%
Consumer Staples	-0.6%
Bank overdraft	-0.4%
<b>Other assets less other liabilities</b>	<b>3.1%</b>
	<hr/> 100.0%

**Top 25 Holdings**

	Percentage of Transactional Net Asset Value
<b>LONG POSITIONS</b>	
Electrovaya Inc.*	2.8%
Sun Life Financial Inc.	2.2%
Bank of Montreal	2.1%
Royal Bank of Canada	2.0%
The Bank of Nova Scotia	2.0%
Great-West Lifeco Inc.	1.9%
Huntingdon Capital Corporation*	1.9%
Newalta Corporation*	1.8%
Northgroup Preferred Capital Corporation*	1.8%
Baytex Energy Corporation*	1.8%
The Toronto-Dominion Bank	1.7%
Ford Credit Canada Limited*	1.7%
Manulife Financial Corporation	1.6%
Quebecor Media Inc.*	1.5%
Bank of America Corporation	1.4%
Canadian Natural Resources Limited	1.4%
Suncor Energy Inc.	1.4%
Whitecap Resources Inc.	1.4%
Perpetual Energy Inc.*	1.3%
Kindred Healthcare, Inc.*	1.3%
Great-West Life Annuity*	1.2%
American International Group Inc.	1.2%
IBI Group Inc.*	1.2%
Delavaco Properties Inc.*	1.2%
World Food Processing*	1.2%
	41.0%
<b>TOTAL TRANSACTIONAL NET ASSET VALUE ('000s)</b>	<b>\$176,182</b>

\* Debt instruments

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

**FRONT STREET DIVERSIFIED INCOME CLASS**

**FINANCIAL STATEMENTS  
OCTOBER 31, 2013 AND 2012**

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## MANAGEMENT REPORT

### Management's Responsibility for Financial Reporting

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

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

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

Segal LLP are the external auditor of Front Street Diversified Income Class. They are appointed by the Manager of the Fund. The external auditor has 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. Lamarache  
Management Committee Member  
Front Street Capital 2004

January 24, 2014  
Toronto, Ontario



**SEGAL LLP**  
**Chartered Professional Accountants**  
An independent member of DFK International

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

416 391 4499 | 800 206 7307  
info@segallp.com

[segallp.com](http://segallp.com)

## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of  
Front Street Diversified Income Class (the "Fund") of Front Street Mutual Funds Limited**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Front Street Diversified Income Class which comprise the statements of net assets as at October 31, 2013 and 2012, 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, 2013, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

Independent Auditor's Report  
Page 2

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Front Street Diversified Income Class as at October 31, 2013 and 2012 and its operations and changes in net assets for the years then ended, and the investment portfolio as at October 31, 2013 in accordance with Canadian generally accepted accounting principles.

*Segal LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Ontario  
January 24, 2014

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENTS OF NET ASSETS AS AT OCTOBER 31, 2013 AND 2012

	2013	2012
<b>ASSETS</b>		
Investments, at fair value (cost - \$188,754,501; 2012 - \$235,976,906)	\$ 173,102,989	\$ 222,881,976
Accounts receivable relating to portfolio assets sold	8,348,250	25,462
Amounts receivable relating to accrued income	1,694,732	3,945,952
Accounts receivable relating to shares issued	50,342	193,212
Cash and cash equivalents	<u>-</u>	<u>164,313,601</u>
	<u>\$ 183,196,313</u>	<u>\$ 391,360,203</u>
<b>LIABILITIES</b>		
Liabilities for portfolio assets purchased	\$ 2,169,162	\$ -
Obligations from portfolio assets sold short, at fair value	1,832,731	36,544,597
Accounts payable relating to shares redeemed	1,458,978	839,325
Bank overdraft	651,552	-
Accrued expenses, note 7	621,411	1,204,157
Forward and future contracts, at fair value, note 11	241,877	1,048,163
Distributions payable	<u>166,677</u>	<u>1,754,552</u>
	<u>7,142,388</u>	<u>41,390,794</u>
<b>Net assets representing shareholders' equity</b>	<u>\$ 176,053,925</u>	<u>\$ 349,969,409</u>
<b>Net assets applicable to outstanding shares allocated as follows:</b>		
Net assets, Series A	\$ 118,552,116	\$ 203,444,116
Shares outstanding, Series A, note 3	17,478,337	26,453,872
Net assets per share, Series A	<u>\$ 6.78</u>	<u>\$ 7.69</u>
Net assets, Series B	\$ 48,992,832	\$ 119,514,525
Shares outstanding, Series B, note 3	7,155,539	15,413,214
Net assets per share, Series B	<u>\$ 6.85</u>	<u>\$ 7.75</u>
Net assets, Series F	\$ 7,417,276	\$ 24,304,364
Shares outstanding, Series F, note 3	1,047,658	3,067,836
Net assets per share, Series F	<u>\$ 7.08</u>	<u>\$ 7.92</u>
Net assets, Series X	\$ 1,091,701	\$ 2,706,404
Shares outstanding, Series X, note 3	159,342	349,562
Net assets per share, Series X	<u>\$ 6.85</u>	<u>\$ 7.74</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 DIVERSIFIED INCOME CLASS

### STATEMENTS OF OPERATIONS FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

	2013	2012
<b>Investment income</b>		
Interest	\$ 7,807,912	\$ 11,430,581
Dividends	1,837,715	2,125,706
Security lending revenue, note 8	38,122	1,949
Less: Foreign withholding taxes	<u>(45,503)</u>	<u>(101,764)</u>
	<u>9,638,246</u>	<u>13,456,472</u>
<b>Expenses</b>		
Management fees, notes 4 and 7	3,372,230	4,683,587
Servicing fees, notes 4 and 7	2,123,495	2,887,822
Administration fees	680,857	835,309
Compensatory dividends	354,567	536,008
Legal fees	255,527	103,455
Operating costs, notes 4 and 7	141,326	163,090
Audit fees	54,998	66,992
Securityholder reporting costs	34,891	66,991
Custodial fees	30,614	20,545
Independent review committee	<u>16,002</u>	<u>16,786</u>
	<u>7,064,507</u>	<u>9,380,585</u>
<b>Net investment income for the year</b>	<u>2,573,739</u>	<u>4,075,887</u>
<b>Net realized and unrealized gains (losses) on investments</b>		
Net realized gain (loss) on the sale of investments	(13,202,342)	4,898,462
Gain (loss) from derivatives	(1,441,753)	3,430,249
Transaction costs, notes 6 and 7	(936,632)	(565,503)
Change in the unrealized depreciation of the value of investments	<u>(921,908)</u>	<u>(5,546,228)</u>
<b>Net gain (loss) on investments for the year</b>	<u>(16,502,635)</u>	<u>2,216,980</u>
<b>Net increase (decrease) in net assets from operations for the year</b>	<u>\$ (13,928,896)</u>	<u>\$ 6,292,867</u>
Increase (decrease) in net assets from operations applicable to outstanding shares allocated as follows:		
Increase (decrease) in net assets from operations, Series A	\$ (9,132,617)	\$ 3,196,616
Increase (decrease) in net assets from operations per share, Series A	<u>\$ (0.40)</u>	<u>\$ 0.12</u>
Increase (decrease) in net assets from operations, Series B	\$ (4,200,818)	\$ 2,216,889
Increase (decrease) in net assets from operations per share, Series B	<u>\$ (0.37)</u>	<u>\$ 0.14</u>
Increase (decrease) in net assets from operations, Series F	\$ (508,853)	\$ 810,214
Increase (decrease) in net assets from operations per share, Series F	<u>\$ (0.26)</u>	<u>\$ 0.24</u>
Increase (decrease) in net assets from operations, Series X	\$ (86,608)	\$ 69,148
Increase (decrease) in net assets from operations per share, Series X	<u>\$ (0.34)</u>	<u>\$ 0.18</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

	2013	2012
<b>Series A</b>		
Net assets, beginning of year	<u>\$ 203,444,116</u>	<u>\$ 192,685,798</u>
Net increase (decrease) in net assets from operations	<u>(9,132,617)</u>	<u>3,196,616</u>
<b>Distributions to shareholders</b>		
Return of capital	<u>(10,819,084)</u>	<u>(14,212,272)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	8,398,963	38,629,015
Aggregate amounts paid on the redemption of shares	(80,494,341)	(26,429,257)
Shares issued on reinvestment of distributions	<u>7,155,079</u>	<u>9,574,216</u>
	<u>(64,940,299)</u>	<u>21,773,974</u>
Net increase (decrease) in net assets for the year	<u>(84,892,000)</u>	<u>10,758,318</u>
Net assets, end of year	<u>\$ 118,552,116</u>	<u>\$ 203,444,116</u>
<b>Series B</b>		
Net assets, beginning of year	<u>\$ 119,514,525</u>	<u>\$ 132,661,492</u>
Net increase (decrease) in net assets from operations	<u>(4,200,818)</u>	<u>2,216,889</u>
<b>Distributions to shareholders</b>		
Return of capital	<u>(5,238,906)</u>	<u>(8,719,331)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	5,139,063	17,269,993
Aggregate amounts paid on the redemption of shares	(70,625,800)	(31,009,729)
Shares issued on reinvestment of distributions	<u>4,404,768</u>	<u>7,095,211</u>
	<u>(61,081,969)</u>	<u>(6,644,525)</u>
Net decrease in net assets for the year	<u>(70,521,693)</u>	<u>(13,146,967)</u>
Net assets, end of year	<u>\$ 48,992,832</u>	<u>\$ 119,514,525</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

	2013	2012
<b>Series F</b>		
Net assets, beginning of year	\$ 24,304,364	\$ 29,815,649
Net increase (decrease) in net assets from operations	<u>(508,853)</u>	<u>810,214</u>
<b>Distributions to shareholders</b>		
Return of capital	<u>(885,922)</u>	<u>(1,829,456)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	1,335,963	5,520,119
Aggregate amounts paid on the redemption of shares	(17,387,046)	(11,004,546)
Shares issued on reinvestment of distributions	<u>558,770</u>	<u>992,384</u>
	<u>(15,492,313)</u>	<u>(4,492,043)</u>
<b>Net decrease in net assets for the year</b>	<u>(16,887,088)</u>	<u>(5,511,285)</u>
<b>Net assets, end of year</b>	<u>\$ 7,417,276</u>	<u>\$ 24,304,364</u>
<b>Series X</b>		
Net assets, beginning of year	\$ 2,706,404	\$ 4,839,704
Net increase (decrease) in net assets from operations	<u>(86,608)</u>	<u>69,148</u>
<b>Distributions to shareholders</b>		
Return of capital	<u>(118,875)</u>	<u>(210,688)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	39,778	981,680
Aggregate amounts paid on the redemption of shares	(1,559,433)	(3,168,035)
Shares issued on reinvestment of distributions	<u>110,435</u>	<u>194,595</u>
	<u>(1,409,220)</u>	<u>(1,991,760)</u>
<b>Net decrease in net assets for the year</b>	<u>(1,614,703)</u>	<u>(2,133,300)</u>
<b>Net assets, end of year</b>	<u>\$ 1,091,701</u>	<u>\$ 2,706,404</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

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	2013	2012
<b>Total</b>		
Net assets, beginning of year	<u>\$ 349,969,409</u>	<u>\$ 360,002,643</u>
Net increase (decrease) in net assets from operations	<u>(13,928,896)</u>	<u>6,292,867</u>
<b>Distributions to shareholders</b>		
Return of capital	<u>(17,062,787)</u>	<u>(24,971,747)</u>
<b>Shareholder transactions</b>		
Proceeds from the issuance of shares	14,913,767	62,400,807
Aggregate amounts paid on the redemption of shares	(170,066,620)	(71,611,567)
Shares issued on reinvestment of distributions	<u>12,229,052</u>	<u>17,856,406</u>
	<u>(142,923,801)</u>	<u>8,645,646</u>
Net decrease in net assets for the year	<u>(173,915,484)</u>	<u>(10,033,234)</u>
Net assets, end of year	<u>\$ 176,053,925</u>	<u>\$ 349,969,409</u>

See accompanying notes to the financial statements



## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Long Positions (98.3%)</b>			
<b>Consumer Discretionary (6.5%)</b>			
Amaya Gaming Group Inc.	44,569	\$ 240,409	\$ 372,597
Amaya Gaming Group Restricted	100,000	625,000	819,280
Bauer Performance Sports Limited	15,870	193,938	203,453
BRP Inc/CA Subordinate Voting Shares	18,500	496,820	513,560
Canadian Tire Corporation Limited 'A'	10,900	907,070	1,050,542
Linamar Corporation	20,000	573,553	697,000
Lions Gate Entertainment Corporation	2,000	72,544	72,175
Magna International Inc.	22,600	1,910,153	1,994,955
Martinrea International Inc.	165,600	1,987,896	1,821,600
REDF II Hospitality Fund Limited Partnership	2,000	2,000,000	2,000,000
REDF VII Limited Partnership Class B	2,000	2,000,000	2,000,000
TimePlay Inc. Warrants November 17, 2013	4,310,000	-	4
		<u>\$ 11,007,383</u>	<u>\$ 11,545,166</u>
<b>Consumer Staples (0.8%)</b>			
Alimentation Couche-Tard Inc. 'B'	3,500	\$ 231,067	\$ 246,750
Empire Company Limited Subscription Receipts	15,000	<u>1,140,000</u>	<u>1,149,000</u>
		<u>\$ 1,371,067</u>	<u>\$ 1,395,750</u>
<b>Energy (8.2%)</b>			
Bellatrix Exploration Limited	135,600	\$ 1,022,125	\$ 1,059,034
Bonterra Energy Corporation	32,900	1,653,395	1,909,845
Brasil Ecoetanol Limited	1,166,667	350,000	23,333
Canadian Natural Resources Limited	75,900	2,461,940	2,510,716
Crew Energy Inc.	127,500	731,817	770,100
Gran Tierra Energy Inc.	15,400	110,695	120,890
Lignol Energy Corporation Warrants December 17, 2014	2,700,000	-	52,588
Long Run Exploration Limited	7,500	41,945	42,750
Parex Resources Inc.	129,600	719,125	776,304
Raging River Exploration Inc.	128,300	703,279	724,895
RMP Energy Inc.	75,000	435,051	464,250

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Energy (8.2%) (Continued...)</b>			
Suncor Energy Inc.	65,300	2,112,064	2,474,257
Trinidad Drilling Limited	110,000	987,186	1,111,000
Whitecap Resources Inc.	198,900	2,231,836	2,406,690
Windtronics LLC Warrants January 1, 2014	10,000	-	-
Windtronics LLC Warrants January 1, 2015	6,000	-	-
		<u>\$ 13,560,458</u>	<u>\$ 14,446,652</u>
<b>Financials (19.5%)</b>			
Altus Group Limited	33,453	\$ 448,706	\$ 466,669
American International Group Inc.	40,000	1,993,633	2,155,034
Bank of America Corporation	172,620	2,574,200	2,514,111
Bank of Montreal	52,100	3,602,414	3,782,460
Brookfield Office Properties Inc.	50,000	978,915	973,000
Canadian Imperial Bank of Commerce	17,900	1,470,965	1,587,730
Citigroup Inc.	24,300	1,267,328	1,236,930
Delavaco Properties Inc. Warrants June 3, 2017	231,000	-	-
First Capital Realty Inc.	721	11,813	13,036
Great-West Life Inc.	106,200	3,184,114	3,414,330
IGM Financial Inc.	10,000	471,298	501,300
JPMorgan Chase & Company	2,000	110,164	107,564
Manulife Financial Corporation	152,800	2,657,275	2,819,160
National Bank of Canada	1,500	133,380	135,330
Royal Bank of Canada	51,300	3,267,461	3,592,026
Sun Life Financial Inc.	111,700	3,667,037	3,922,904
The Bank of Nova Scotia	55,000	3,276,053	3,486,450
The Mint Tech Warrants May 1, 2015	6,000,000	-	6
The Toronto-Dominion Bank	32,000	2,803,527	3,059,840
Wells Fargo & Company	15,500	<u>677,425</u>	<u>690,506</u>
		<u>\$ 32,595,708</u>	<u>\$ 34,458,386</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Industrials (4.0%)</b>			
Air Canada 'A'	15,000	\$ 73,661	\$ 85,650
Air Canada 'B'	285,000	1,040,111	1,630,200
Bombardier Inc. 'B'	169,600	838,297	803,904
Boyd Group Income Fund	34,900	922,832	923,105
CAE Inc.	80,100	831,613	956,394
Electrovaya Inc. Warrants December 22, 2013	500,000	-	1
Flyht Aerospace Solutions Limited Warrants December 23, 2014	1,250,000	-	49,111
GENIVAR Inc.	45,320	1,236,144	1,350,083
Progressive Waste Solutions Limited	10,000	257,043	279,000
Vicwest Inc.	78,800	<u>982,010</u>	<u>988,940</u>
		<u>\$ 6,181,711</u>	<u>\$ 7,066,388</u>
<b>Health Care (0.1%)</b>			
IMRIS Inc.	75,200	\$ 160,979	\$ 116,560
ISEE3D Inc. Warrants September 16, 2014	1,466,663	-	-
ISEE3D Inc. Warrants December 19, 2013	475,000	-	-
ISEE3D Inc. Warrants January 25, 2014	1,523,982	<u>-</u>	<u>-</u>
		<u>\$ 160,979</u>	<u>\$ 116,560</u>
<b>Information Technology (3.8%)</b>			
Absolute Software Corporation	115,156	\$ 803,444	\$ 849,851
Avigilon Corporation	19,650	318,243	382,193
CGI Group Inc. 'A'	21,800	678,160	762,128
COM DEV International Limited	155,100	632,603	643,665
First Global Data Limited	500,680	190,560	60,082
First Global Data Limited Warrants November 21, 2014	535,246	-	47,146
Immersion Corporation	72	501,505	225,352
MacDonald, Dettwiler & Associates Limited	1,500	109,867	119,190
NetApp Inc.	10,000	424,941	404,904
Qualcomm Inc.	27,500	1,881,537	1,993,140
Redline Communications Group Inc.	2,800	12,426	9,380
Redline Communications Group Inc. Restricted	700,000	420,000	229,810
Redline Communications Group Inc. Warrants July 30, 2015	35,000	-	6,250
The Descartes Systems Group Inc.	66,700	778,447	851,092
Xenergy Technologies Preferred Units	625,000	<u>508,275</u>	<u>65,206</u>
		<u>\$ 7,260,008</u>	<u>\$ 6,649,389</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Materials (4.9%)</b>			
Banro Corporation Warrants March 2, 2017	100,800	\$ 180,619	\$ 14,506
Barrick Gold Corporation	6,000	128,718	121,377
Canfor Corporation	7,900	169,570	170,640
CCL Industries Inc. 'B'	6,500	443,781	461,500
Colossus Minerals Inc. Warrants November 8, 2016	21,500	-	1,183
Conifex Timber Inc.	26,400	211,545	211,200
E.I. du Pont de Nemours and Company	17,200	1,045,784	1,098,216
First Quantum Minerals Limited	40,000	744,560	790,000
International Forest Products Limited 'A'	17,400	190,182	205,320
Intertape Polymer Group Inc.	112,500	1,392,971	1,684,125
Lundin Mining Corporation	95,600	434,378	447,408
LyondellBasell Industries NV 'A'	22,200	1,604,028	1,727,825
Methanex Corporation	17,300	802,400	1,045,439
Rio Verde Minerals Development Corporation Warrants July 27, 2016	1,077,300	-	1
Teck Resources Limited 'B'	2,300	61,481	64,170
Western Forest Products Inc. Warrants July 31, 2014	200,200	26,026	25,025
Western Forest Products Inc.	385,000	508,200	569,800
World Food Processing Warrants	4,000,000	-	4
		<u>\$ 7,944,243</u>	<u>\$ 8,637,739</u>
<b>Telecommunication Services (1.0%)</b>			
BCE Inc.	200,000	\$ 909,924	\$ 907,200
Verizon Communications Inc.	14,600	<u>710,181</u>	<u>769,375</u>
		<u>\$ 1,620,105</u>	<u>\$ 1,676,575</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Corporate Bonds (49.2%)</b>			
Aeromechanical Services Limited 8.00%, Convertible Debentures, December 23, 2014	1,000,000	\$ 1,000,000	\$ 1,000,000
AG Growth International Inc. 7.00%, December 31, 2014	66,000	67,724	66,726
Alliance Grain Traders 9.00%, February 14, 2018	1,000,000	1,017,500	1,017,490
Artis Real Estate Investment Trust 5.00%, Convertible Debentures, November 30, 2014	150,000	1,388,265	1,388,265
Atlantic Power LP 5.95%, June 23, 2036	1,208,000	817,590	787,242
Baytex Energy Corporation 6.63%, July 19, 2022	3,000,000	3,117,500	3,105,720
Boart Longyear Management 7.00%, April 1, 2021	500,000	502,446	385,107
BTB Real Estate Investment Trust 8.00%, January 31, 2016	804,000	804,000	806,010
CanAm Coal Corporation 9.50%, Convertible Debentures, May 9, 2014	1,400,000	1,400,000	490,000
Capital Power Limited Partnership 4.60%, December 1, 2015	1,000,000	999,680	1,045,310
Capstone Infrastructure Corp. 6.50%, Convertible Debentures, December 31, 2016	1,051,000	1,003,179	1,064,138
CARA Operations Limited 9.13%, December 1, 2015	1,250,000	1,293,125	1,281,100
Chorus Aviation Inc. 9.50%, December 31, 2014	1,500,000	1,508,750	1,501,500
Colossus Minerals Inc. 9.00%, December 31, 2016	2,051,500	2,008,385	902,660
Chrysler Group LLC/CG Co-Issuer 8.25%, June 15, 2021	1,000,000	1,135,923	1,185,446
Delavaco Properties Inc. 9.00%, Convertible Debentures, December 20, 2014	480,000	472,967	500,782
7.50%, Secured Senior Note, June 30, 2016	1,500,000	1,538,919	1,564,945
Duke Funding Limited Floating Rate, August 7, 2033	2,000,000	705,709	-
Enbridge Energy Partners 8.05%, Variable Rate, October 1, 2037	1,000,000	1,187,592	1,173,448

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Corporate Bonds (49.2%) (Continued...)</b>			
Electrovaya Inc. Promissory Notes 6.00%, December 31, 2013	5,000,000	5,000,000	5,000,000
ePals Corporation 6.50%, Convertible Debentures, October 31, 2014	1,400,000	1,400,000	1,400,000
Fairfax Financial Holdings Limited 7.38%, April 15, 2018	505,000	518,851	603,740
Ford Credit Canada Limited 7.50%, August 18, 2015	2,750,000	2,846,525	2,991,450
Fortress Paper Limited 6.50%, Convertible Debentures, December 31, 2016	1,399,000	1,399,000	1,014,275
7.00%, Convertible Debentures, December 31, 2019	885,000	885,000	590,738
Galp Class P Special Preferred Interest 14.00%, July 1, 2013	500,000	482,174	386,020
Galp Cypress Class P Special Preferred Interest 14.00%, July 1, 2013	500,000	482,174	386,020
Garda World Security Corporation 9.75%, March 15, 2017	1,197,000	1,265,828	1,290,354
Golf Town Can/Golfsmith 10.50%, July 24, 2018	1,000,000	1,010,000	1,026,900
Graoch Associates # 161 Limited Partnership October 30, 2010	300,000	318,255	-
Graoch Associates # 171 Limited Partnership April 30, 2010	2,000,000	2,121,701	-
Great Basin Gold Limited 8.00%, Convertible Bond, November 30, 2014	3,500,000	175,000	17,500
Great-West Life Annuity 7.15%, Floating Rate, May 16, 2046	2,000,000	1,947,948	2,190,923
Huntingdon Capital Corporation 7.50%, December 31, 2016	3,285,000	3,285,000	3,358,913
IBI Group Inc. 7.00%, December 31, 2014	2,734,000	2,692,641	2,105,180
Ineos Finance PLC 8.38%, February 15, 2019	1,500,000	1,715,048	1,739,327
ISEE3D Inc. Promissory Notes 6.00%, November 1, 2012	500,000	500,000	-
6.00%, January 25, 2014	850,000	850,000	-
6.00%, September 16, 2014	550,000	550,000	-
Ivanhoe Energy Inc. 5.75%, June 30, 2016	380,000	294,975	247,304

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Corporate Bonds (49.2%) (Continued...)</b>			
IXIS ABS CDO Limited 2005-A1 B2L 5.75%, October 12, 2040	2,000,000	602,268	208,659
Kindred Healthcare Inc. 8.25%, June 1, 2019	2,000,000	2,210,995	2,245,696
Landrill International Inc. 10.00% Convertible Debentures, January 31, 2013	1,250,000	1,250,000	-
10.00% Convertible Debentures, February 12, 2013	150,000	150,000	-
Linn Energy LLC/Financial Corporation 7.75%, February 1, 2021	1,000,000	1,053,010	1,079,812
Meg Energy Corporation 6.50%, March 15, 2021	1,250,000	1,323,621	1,361,176
MicroPlanet Technology Corporation 12.00%, Convertible Debentures, December 31, 2013	750,000	750,000	232,500
12.00%, Convertible Notes, June 15, 2014	500,000	500,000	155,000
Newalta Corporation 7.75%, November 14, 2019	3,000,000	3,198,750	3,189,150
Noranda Operating Trust 6.88%, December 28, 2016	866,667	889,200	884,000
Northgroup Preferred Capital Corporation 6.38%, Floating Rate, October 15, 2017	3,100,000	3,301,009	3,258,477
Nova Chemicals Corporation 5.25%, August 1, 2023	1,000,000	1,036,715	1,066,771
NRG Energy Inc. 6.63%, March 15, 2023	1,000,000	1,065,852	1,079,812
Oak Point Energy Limited 15.00%, Convertible Debentures, March 31, 2014	690,000	690,000	690,000
Olin Corporation 5.50%, August 15, 2022	1,500,000	1,581,483	1,587,449
Perpetual Energy Inc. 8.75%, March 15, 2018	2,490,000	2,453,250	2,367,069
Plazacorp Retail Properties Limited 7.75%, December 31, 2014	500,000	500,000	505,000
Premium Brands Holding Corporation 7.00%, December 31, 2014	1,000,000	1,000,000	1,340,900
Quebecor Media Inc. 5.75%, January 15, 2023	1,000,000	983,324	1,014,606
6.63%, January 15, 2023	1,600,000	1,618,800	1,589,488

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Corporate Bonds (49.2%) (Continued...)</b>			
Renewable Energy Developers Inc. 6.75%, Convertible Debentures, December 31, 2017	1,550,000	1,550,000	1,567,050
RTL-Westcan LP 9.50%, April 7, 2017	1,500,000	1,567,500	1,556,250
Russel Metals Inc. 6.00%, April 19, 2022	2,000,000	2,032,500	1,990,700
Sobeys Inc. 4.70%, August 8, 2023	1,250,000	1,250,000	1,273,150
Serveral Columbus LLC 10.25%, February 15, 2018	500,000	549,094	553,599
The Churchill Corporation 6.00%, June 30, 2015	1,459,000	1,468,952	1,476,508
TimePlay Inc. 10.00%, Debentures, May 17, 2015	2,500,000	2,500,000	1,500,000
Univision Communications Inc. 6.75%, September 15, 2022	1,000,000	1,094,025	1,137,194
VoodooVox Inc. 15.00%, Non-Convertible Debentures, March 2, 2014	231,000	231,000	231,000
VPI Escrow Corporation 6.38%, October 15, 2020	1,500,000	1,583,792	1,666,667
Wajax Corporation 6.12%, October 23, 2020	1,450,000	1,458,750	1,450,682
Western Energy Services 7.88%, January 30, 2019	1,500,000	1,522,500	1,523,145
Wentwood Roundhill LP 'P' Special Preferred Interest 14.00%, July 1, 2013	500,000	482,174	386,020
Wentwood Woodside Class P Special Preferred Interest 14.0%, July 1, 2013	500,000	482,174	386,020
Windtronics LLC 15.00%, Promissory Notes, September 7, 2012	4,000,000	4,000,000	-
10.00%, Promissory Notes, December 31, 2012	1,644,835	1,667,531	-
15.00%, Promissory Notes, December 31, 2012	900,000	893,055	-
World Food Processing 8.00%, Convertible Debentures, November 27, 2015	4,000,000	3,980,354	2,044,862
YPG Financing Inc. 9.25%, November 30, 2018	379,249	379,249	391,650
		<u>\$ 106,560,301</u>	<u>\$ 86,604,595</u>

See accompanying notes to the financial statements



## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Provincial Bond (0.3%)</b>			
Province of Quebec 3.30%, Real Return Bonds, December 1, 2013	416,000	\$ 492,538	\$ 505,789
<b>Call Option (0.0%)</b>			
Windtronics LLC Jun/300 CO	834	\$ -	\$ -
<b>Total Long Positions (98.3%)</b>		<b>\$ 188,754,501</b>	<b>\$ 173,102,989</b>
<b>Short Positions (-1.0%)</b>			
<b>Consumer Staples (-0.6%)</b>			
Empire Company Limited 'A'	(14,500)	\$ (1,108,823)	\$ (1,118,241)
<b>Energy (-0.0%)</b>			
Athabasca Oil Corporation	(850)	\$ (5,950)	\$ (5,542)
<b>Materials (-0.1%)</b>			
Barrick Gold Corporation	(3,000)	\$ (63,336)	\$ (60,630)
Fortress Paper Limited	(17,800)	(542,919)	(103,240)
		<b>\$ (606,255)</b>	<b>\$ (163,870)</b>
<b>Written Options (-0.3%)</b>			
Alimentation Couche-Tard November/68 WPO	(60)	\$ (3,240)	\$ (1,500)
Alimentation Couche-Tard November/70 WPO	(60)	(7,380)	(6,300)
Apple Inc. November/500 WPO	(32)	(23,450)	(11,852)
Barrick Gold Corporation November/17 WPO	(70)	(6,186)	(511)
Barrick Gold Corporation November/19 WPO	(84)	(3,502)	(3,944)
Barrick Gold Corporation November/20 WPO	(140)	(8,911)	(14,752)
Canadian Imperial Bank of Commerce November/80 WPO	(140)	(10,220)	(1,400)
Canadian Imperial Bank of Commerce November/86 WPO	(56)	(3,528)	(1,120)
Canadian Natural Resources Limited November/32 WCO	(205)	(10,716)	(14,971)
Canadian Pacific Railway Limited November/140 WPO	(100)	(5,200)	(4,400)
Canadian Tire Corporation November/94 WCO	(100)	(17,800)	(38,000)
Canfor Corporation November/21 WPO	(140)	(6,860)	(2,800)
Canfor Corporation November/22 WPO	(168)	(6,552)	(11,760)

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Written Options (-0.3%) (Continued...)</b>			
Cenovus Energy Inc. November/30 WPO	(77)	(3,003)	(1,078)
Cenovus Energy Inc. November/31 WPO	(140)	(8,960)	(6,300)
CGI Group Inc. 'A' November/34 WPO	(70)	(3,290)	(3,500)
CGI Group Inc. 'A' November/35 WPO	(70)	(5,880)	(7,140)
CGI Group Inc. 'A' November/36 WPO	(70)	(7,210)	(11,200)
CGI Group Inc. 'A' November/40 WCO	(171)	(10,179)	(2,394)
Citigroup Inc. November/48 WPO	(93)	(16,823)	(4,269)
Citigroup Inc. November/52.5 WCO	(30)	(1,273)	(125)
Eldorado Gold Corporation November/7 WPO	(196)	(2,548)	(5,880)
Facebook Inc. 'A' November/50 WPO	(60)	(14,503)	(11,393)
Facebook Inc. 'A' November/55 WCO	(10)	(2,755)	(584)
First Quantum Minerals Limited November/19 WCO	(400)	(22,000)	(42,800)
Goldcorp Inc. November/26 WPO	(302)	(36,585)	(35,919)
JPMorgan Chase & Co. November/50 WPO	(140)	(4,467)	(4,674)
JPMorgan Chase & Co. November/52.5 WPO	(112)	(9,617)	(15,658)
LyondellBasell Industries NV December/80 WCO	(152)	(33,292)	(8,722)
Magna International November/92 WCO	(110)	(10,340)	(7,150)
Manulife Financial November/17 WPO	(500)	(27,500)	(3,000)
Methanex Corporation November/56 WCO	(150)	(22,950)	(73,500)
NetApp Inc. November/41 WCO	(170)	(16,099)	(13,125)
Qualcomm Inc. November/70 WCO	(199)	(13,156)	(28,443)
Royal Bank of Canada December/70 WCO	(196)	(19,404)	(27,244)
Sun Life Financial December/35 WCO	(185)	(11,840)	(14,060)
Suncor Energy Inc. November/37 WCO	(279)	(23,254)	(11,061)
Teck Resources Limited November/28 WPO	(500)	(26,906)	(82,420)
The Toronto-Dominion Bank November/93 WPO	(42)	(3,150)	(1,050)
Verizon Communication Inc. December/52.5 WCO	(127)	(9,685)	(6,095)
Verizon Communication Inc. November/49 WPO	(127)	(3,557)	(2,517)
Wells Fargo & Company November/39 WPO	(112)	(8,435)	(467)
		<u>\$ (492,206)</u>	<u>\$ (545,078)</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### STATEMENT OF INVESTMENT PORTFOLIO AS AT OCTOBER 31, 2013

	Number of Shares / Units	Cost \$	Fair Value \$
<b>Total Short Positions (-1.0%)</b>		<u>\$ (2,213,234)</u>	<u>\$ (1,832,731)</u>
<b>Forward and future contracts, at fair value, note 11, (-0.1%)</b>			
US 10 Year Note December 2013 at USD\$			
Contract value \$	(50)	\$ -	\$ (88,843)
Unrealized loss on forward foreign currency contracts	-	-	(153,034)
		<u>\$ -</u>	<u>\$ (241,877)</u>
<b>Transaction costs, note 2</b>		<u>\$ (259,714)</u>	
<b>Total Investments (97.2%)</b>		<u>\$ 186,281,553</u>	171,028,381
<b>Other assets less other liabilities (2.8%)</b>			<u>5,025,544</u>
<b>Net assets (100.0%)</b>			<u>\$ 176,053,925</u>

See accompanying notes to the financial statements

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 1. THE FUND

Front Street Diversified Income Class (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 Diversified Income Class on June 27, 2012. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure. Series A commenced operations on June 22, 2006. Series B commenced operations on June 22, 2006. Series F commenced operations on August 11, 2006. Series X commenced operations on December 3, 2009.

The foregoing financial statements and accompanying notes to the financial statements presented herein are for the Fund. Separate financial statements of each of the other classes of shares of the Corporation have also been prepared as at October 31, 2013.

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

The Fund's investment objective is to provide shareholders with consistent long term capital growth and the opportunity for income through the selection, management and strategic trading of long and short positions in securities of income trusts, common shares, preferred shares, derivatives and corporate and government debt.

The Investment Advisor will also consider positioning the Fund's investment portfolio to reduce its correlation to Canadian equity and fixed-income indices.

The fundamental investment objective of the Fund cannot be changed without the approval of its Shareholders.

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 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, obligations from portfolio assets sold short at fair value and forward and future contracts, at fair value are classified as held for trading. Accounts receivable relating to portfolio assets sold, amounts receivable relating to accrued income and accounts receivable relating to shares issued are classified as loans and receivables. Liabilities for portfolio assets purchased, accounts payable relating to shares redeemed, bank overdraft, accrued expenses and distributions payable are classified as other financial liabilities.

The Canadian Securities Administrators adopted changes to National Instrument 81-106 on Investment Fund Continuous Disclosure. These changes are essentially aimed at modifying the requirements pertaining to the calculation of the unit value due to the inclusion of Section 3855, Financial Instruments Recognition and Measurement of the CICA Handbook. These changes allow the Fund to report two distinct net asset values: one for the financial statements, which is calculated in accordance with Canadian GAAP (called "net assets") and another for all other purposes, such as unit pricing (called "net asset value"). A reconciliation between the net assets per unit and the net asset value per unit is required (see note 9) as well as description of the differences between the valuation principles and practices used by the Manager to calculate the net asset value and those prescribed by Canadian GAAP.

b) Valuation of investments

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

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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

##### b) Valuation of investments (continued...)

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

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

- iii) Trust units are valued at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The cost of the trust units is reduced on an annual basis by distributions from the trust and increased by the annual income allocated to the units by the trust.

- iv) Investments in mutual funds or pooled funds are valued based on the net asset value per unit at the close of trading on the financial statement date.

- v) The Fund values its investments in limited partnerships at the last bid price reported by the principal securities exchange on which the issue is traded on the financial statement date. The Fund calculates the cost value of its investment in limited partnerships using the equity method. Under this method, the limited partnership investments are recorded at cost plus the Fund's pro rata share in undistributed earnings since acquisition.

- vi) The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the fair value of the security. Securities which are sold short are valued at the last ask price reported by the principal securities exchange on which the issue is traded on the financial statement date. To enter a short sale, the Fund may need to borrow the security for delivery to the buyer.

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

- 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 DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 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 10 for additional details.

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

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

See note 13 for additional details.

##### d) Transaction costs

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

##### e) Cash and cash equivalents

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

##### f) Investment transactions and income recognition

Investment transactions are accounted for on a trade date basis. Realized and unrealized 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 DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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

g) Securities lending, repurchase and reverse repurchase transactions

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

h) Foreign currency translation

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

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

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

j) Net assets per share

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

k) Capital disclosures

The Fund has adopted CICA Handbook Section 1535, Capital Disclosures, which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. See note 12 for additional details.

l) General standards on financial statement presentation

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



## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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

##### m) Estimates

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

##### n) Future accounting pronouncements

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

##### International financial reporting standards ("IFRS")

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

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

- (a) IAS 32, Financial Instruments: Disclosure and Presentation and IFRS 9, Financial Instruments, require shareholders' equity to be classified as liability unless certain criteria are met. The Fund's shareholders' equity meets the definition of a puttable instrument. The Manager has assessed the Fund's shareholder structure and has determined the liability treatment is the most appropriate classification. IFRS 9 defines an investment entity and introduces exceptions to the consolidation requirements.
- (b) IFRS 7, Financial Instruments: Disclosures requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
- (c) 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 has assessed the guidance that will apply under IFRS and has determined that the use of closing market prices is appropriate in valuing investments.

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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

##### n) Future accounting pronouncements (Continued...)

##### (c) IFRS 13, Fair Value Measurements (Continued...)

While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit or Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest to be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Fund's financial statements.

The anticipated impact of IFRS on accounting policies and implementation decisions will predominantly be on the financial statement presentation and note disclosures in the Fund's financial statements. The adoption of IFRS is not expected to have a significant impact on the calculation of NAV per share. In particular, the Fund will be required to present a statement of cash flows, and will be required to include certain additional and enhanced disclosures.

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

#### 3. SHARES ISSUED AND OUTSTANDING

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

##### **Series A shares**

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

##### **Series B shares**

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

##### **Series F shares**

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

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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

##### Series X shares

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

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

The following share transactions took place during the years:

	2013	2012
Shares outstanding, beginning of the year:		
Series A	26,453,872	23,774,438
Series B	15,413,214	16,250,074
Series F	3,067,836	3,614,686
Series X	349,562	595,025
Shares issued during the year:		
Series A	1,116,954	4,787,927
Series B	674,722	2,113,456
Series F	174,116	666,764
Series X	5,219	121,201
Share distributions reinvested during the year:		
Series A	981,078	1,208,100
Series B	596,091	887,612
Series F	73,554	122,003
Series X	14,959	24,404
Shares redeemed during the year:		
Series A	11,073,567	3,316,593
Series B	9,528,488	3,837,928
Series F	2,267,848	1,335,617
Series X	210,398	391,068
Shares outstanding, end of the year:		
Series A	17,478,337	26,453,872
Series B	7,155,539	15,413,214
Series F	1,047,658	3,067,836
Series X	159,342	349,562

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 4. FEES AND EXPENSES

The Fund pays a monthly management fee equal to 1/12 of 1.25% of the net asset value of the Series A shares and Series X shares and 1/12 of 1% of the net asset value of the Series B and Series F shares calculated and paid at the end of each month in arrears.

The Fund pays a monthly service fee of 1/12 of 0.75% of the net asset value of the Series A shares and 1/12 of 1% of the net asset value of Series B shares and 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 fiscal quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the benchmark (the "Benchmark") over the same period. The Benchmark for the Fund is calculated as follows: 50% of the percentage gain or loss in the S&P/TSX Composite Index and 50% of the percentage gain or loss in the DEX Universe All Corporate Bond Index over the same year. The fee is equal to this excess return per share multiplied by the number of shares outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per share of the Fund (including distributions) is greater than all previous values at the end of each previous fiscal quarter. The starting reference point for the next fiscal quarter's calculation 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.

The Manager waived any applicable performance fees until further notice.

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 5. INCOME TAX AND DISTRIBUTION

The Fund qualifies as a mutual fund corporation under the Income Tax Act (Canada). The Corporation will earn three types of income, Canadian dividends, taxable capital gains and other net taxable income. The income of the Fund, including taxable capital gains, will be subject to 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 corporation's shares are qualified investments for registered plans.

#### 6. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to securities transactions for the year ended October 31, 2013 was \$936,632 (2012 - \$565,503).

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 7. RELATED PARTY TRANSACTIONS

During the years ended October 31, 2013 and 2012, fees paid to the Manager were as follows:

	2013	2012
Management fees, note 4	<u>\$ 3,372,230</u>	<u>\$ 4,683,587</u>
Servicing fees, note 4	<u>\$ 2,123,495</u>	<u>\$ 2,887,822</u>
Operating costs, note 4	<u>\$ 141,326</u>	<u>\$ 163,090</u>

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

	2013	2012
Management fees payable	\$ 207,992	\$ 409,885
Servicing fees payable	125,898	251,688
Operating costs payable	<u>12,473</u>	<u>125,558</u>
	<u>\$ 346,363</u>	<u>\$ 787,131</u>

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

	2013	2012
Series B shares held by Partners of the Manager	458,883.44	797,044.03
Percentage of Series B shares held by Partners of the Manager	6.41%	5.17%
Series F shares held by Partners of the Manager	43,547.59	52,693.84
Percentage of Series F shares held by Partners of the Manager	4.16%	1.72%

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, 2013, Tuscarora Capital Inc., a company under common control to the Manager, received \$216,654 (2012 - \$Nil) in commissions on portfolio transactions for the Fund.

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

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 8. SECURITIES LENDING

The Fund lends portfolio securities from time to time in order to earn additional income. The Fund has entered into a securities lending program with its custodian, NBCN Inc. The aggregate fair value of all securities loaned will not exceed 50% of the net assets of the Fund. The Fund receives collateral (in the form of obligations of, or guaranteed by, the Government of Canada, or a province thereof, or by the United States government or its agencies and/or cash) against the loaned securities. Collateral is maintained in an amount representing at least 102% of the fair value of the loaned securities during the period the loan is outstanding. The fair value of the loaned securities is determined daily at the close of business of the Fund and any additional collateral required is delivered to the Fund on the next business day. As at October 31, 2013 and 2012, the aggregate fair values of the Fund's securities loaned and the collateral received were as follows.

	2013	2012
Value of securities loaned	<u>\$ 1,273,242</u>	<u>\$ 7,483,230</u>
Value of collateral received	<u>\$ 1,356,063</u>	<u>\$ 7,659,107</u>

#### 9. RECONCILIATION OF NET ASSET VALUE TO NET ASSETS FOR FINANCIAL STATEMENTS

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

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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

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

As at October 31, 2013

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per Share	GAAP NA per Share
Series A	\$ 118,638,558	\$ (86,442)	\$ 118,552,116	\$ 6.79	\$ 6.78
Series B	49,028,462	(35,630)	48,992,832	6.85	6.85
Series F	7,422,660	(5,384)	7,417,276	7.09	7.08
Series X	1,092,492	(791)	1,091,701	6.86	6.85
<b>Total</b>	<b>\$ 176,182,172</b>	<b>\$ (128,247)</b>	<b>\$ 176,053,925</b>		

As at October 31, 2012

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per Share	GAAP NA per Share
Series A	\$ 203,550,611	\$ (106,495)	\$ 203,444,116	\$ 7.69	\$ 7.69
Series B	119,576,936	(62,411)	119,514,525	7.76	7.75
Series F	24,317,110	(12,746)	24,304,364	7.93	7.92
Series X	2,707,812	(1,408)	2,706,404	7.75	7.74
<b>Total</b>	<b>\$ 350,152,469</b>	<b>\$ (183,060)</b>	<b>\$ 349,969,409</b>		



## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 10. FINANCIAL INSTRUMENTS

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

As at October 31,

	2013	2012
<b>Assets</b>		
Held for trading	\$ 173,102,989	\$ 222,881,976
Cash and cash equivalents	-	164,313,601
Loans and receivables	<u>10,093,324</u>	<u>4,164,626</u>
Total Assets	<u>\$ 183,196,313</u>	<u>\$ 391,360,203</u>
<b>Liabilities</b>		
Held for trading	\$ 2,074,608	\$ 37,592,760
Bank overdraft	651,552	-
Other financial liabilities at amortized cost	<u>4,416,228</u>	<u>3,798,034</u>
Total liabilities	<u>\$ 7,142,388</u>	<u>\$ 41,390,794</u>
Net Assets	<u>\$ 176,053,925</u>	<u>\$ 349,969,409</u>

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

#### Risk Management

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

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### Risk Management (continued...)

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The Statement of Investment Portfolio presents the securities held by the Fund as at October 31, 2013, and groups the securities by asset type, sector and/or market segment. Significant risks that are relevant to the Fund are discussed below.

##### i) Market price risk

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

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

##### ii) Currency risk

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

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

Currency	Marketable securities, at fair value	Cash	Forward currency contracts (note 11)	Net exposure	Percentage of GAAP NA
United States Dollar	<u>\$ 42,743,142</u>	<u>\$ 426,659</u>	<u>\$(10,485,133)</u>	<u>\$ 32,684,668</u>	<u>18.57%</u>

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013 AND 2012

#### 10. 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, 2013, there were 49.5% (October 31, 2012 – 44.2%) of net assets which were held in bonds. There were no investments in short term investments representing (October 31, 2012 – 10.6%) of the net assets, all maturing in less than 90 days. The remaining portion of the Fund's investments is substantially non-interest bearing equity investments.

Financial assets	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Held for trading	\$ 6,622,848	\$ 80,487,536	\$ 85,992,605	\$ 173,102,989
Other receivables	-	-	10,093,324	10,093,324
Cash and cash equivalents	-	-	-	-
Total	<u>\$ 6,622,848</u>	<u>\$ 80,487,536</u>	<u>\$ 96,085,929</u>	<u>\$ 183,196,313</u>
Financial liabilities				
Held for trading	\$ -	\$ -	\$ 2,074,608	\$ 2,074,608
Other financial liabilities	-	-	5,067,780	5,067,780
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,142,388</u>	<u>\$ 7,142,388</u>
GAAP NA				<u>\$ 176,053,925</u>

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013

#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### iv) Liquidity risk

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

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

Financial assets	0 - 12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Held for trading	\$ 10,273,399	\$ 21,538,444	\$ 20,480,604	\$ 35,013,758	\$ 85,796,784	\$ 173,102,989
Other receivables	<u>10,093,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,093,324</u>
Total	<u>\$ 20,366,723</u>	<u>\$ 21,538,444</u>	<u>\$ 20,480,604</u>	<u>\$ 35,013,758</u>	<u>\$ 85,796,784</u>	<u>\$ 183,196,313</u>
Financial liabilities						
Held for trading	\$ 786,955	\$ -	\$ -	\$ -	\$ 1,287,653	\$ 2,074,608
Other financial liabilities	<u>5,067,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,067,780</u>
Total	<u>\$ 5,854,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,287,653</u>	<u>\$ 7,142,388</u>
GAAP NA						<u>\$ 176,053,925</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at October 31, 2013 the fair value of such assets was 12.7% (2012 – 11.3%) 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 DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013

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#### 10. FINANCIAL INSTRUMENTS (Continued...)

##### vi) Credit risk

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

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

To partially mitigate credit risk with respect to its securities lending activities the Fund receives collateral against the securities loaned (note 8). As at October 31, 2013, the Fund loaned securities with an aggregate fair value of \$1,273,242 (2012 - \$7,483,230) and received collateral with an aggregate fair value of \$1,356,063 (2012 - \$7,659,107).

As at October 31, 2013, the Fund had 49.5% (2012 - 44.3%) of its net assets in debt instruments with the following credit ratings obtained from Standard and Poor's, Moody's or DBRS:

Debt instruments by credit rating	Percentage of GAAP
	NA
A+	0.3%
A-	3.1%
BBB-	3.4%
BB+	2.2%
BB	5.2%
BB-	2.3%
B+	2.9%
B	4.2%
B-	1.7%
CCC+	1.3%
Not available or not rated	22.9%

As at October 31, 2013, the Fund's investment portfolio included \$5,088,941 (2012 - \$12,460,100) (face value of \$20,644,835) in investments in debt obligations where repayments of interest or principal were contractually in arrears. The fair values have been discounted to reflect the extended period to ultimate collection.

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013

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#### 11. FORWARD AND FUTURE CONTRACTS

The Fund has entered into forward foreign currency contracts to protect against fluctuations in the U.S. dollar exchange rates. As at October 31, 2013 the Fund has contracted to sell U.S. dollar currency amounting to Cdn \$10,485,133 (2012 - \$44,746,000) at a forward rate of 1.0293 (2012 - 0.977) maturing on November 25, 2013 (2012 - November 5, 2012) and Cdn \$1,043,297 at a forward rate of 1.0384 maturing on November 25, 2013.

The net unrealized loss from forward contracts amounted to \$153,034 (2012 - \$1,048,163) as at October 31, 2013.

The Fund has also entered into a US 10 Year Note futures contract. As at October 31, 2013, the Fund has committed to sell 50 contracts in aggregate, amounting to US\$5,000,000, maturing on December 19, 2013.

The net unrealized loss from these future contracts amounted to \$88,843 as at October 31, 2013.

#### 12. CAPITAL MANAGEMENT

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

The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, policies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet participating shareholder redemptions. The Fund's overall strategy for managing capital remains unchanged from 2012.

The Fund does not have any externally imposed capital requirements.

## FRONT STREET DIVERSIFIED INCOME CLASS

### NOTES TO THE FINANCIAL STATEMENTS OCTOBER 31, 2013

#### 13. FAIR VALUE HIERARCHY

The following is a summary of the inputs used as of October 31, 2013 in valuing the Fund's investments and derivatives at fair value as discussed in note 2:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Assets at fair value as at October 31, 2013	Level 1	Level 2	Level 3	Total
Investments, at fair value	<u>\$ 80,460,008</u>	<u>\$ 70,361,487</u>	<u>\$ 22,281,494</u>	<u>\$ 173,102,989</u>
Liabilities at fair value as at October 31, 2013	Level 1	Level 2	Level 3	Total
Obligations from portfolio assets sold short, at fair value	\$ 1,832,731	\$ -	\$ -	\$ 1,832,731
Forward and future contracts, at fair value	<u>88,843</u>	<u>153,034</u>	<u>-</u>	<u>241,877</u>
	<u>\$ 1,921,574</u>	<u>\$ 153,034</u>	<u>\$ -</u>	<u>\$ 2,074,608</u>

During the year ended October 31, 2013, reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	Investments, at fair value Equities	Investments, at fair value Bonds
Beginning balance at November 1, 2012	\$ 5,853,854	\$ 33,839,408
Purchases	2,508,275	4,628,321
Sales	(3,000,000)	(10,789,362)
Gains (losses)		
Realized	-	(71,207)
Unrealized	<u>(1,048,229)</u>	<u>(9,639,566)</u>
Balance at October 31, 2013	<u>\$ 4,313,900</u>	<u>\$ 17,967,594</u>