

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

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

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

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

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

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



Gary P. Selke
Management Committee Member
Front Street Capital 2004



Normand G. Lamarache
Management Committee Member
Front Street Capital 2004

January 18, 2013
Toronto, Ontario

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Front Street Diversified Income Class (formerly Front Street Diversified
Income Fund)
(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, 2012 and 2011, the statements of operations and the statements of changes in net assets for the years then ended, the statement of investment portfolio as at October 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



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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, 2012 and 2011 and its operations and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Segal LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
January 18, 2013

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

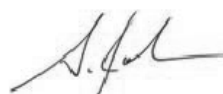
STATEMENTS OF NET ASSETS
AS AT OCTOBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Investments, at fair value (cost - \$235,976,906; 2011 - \$236,598,321)	\$ 222,881,976	\$ 224,236,234
Cash and cash equivalents	164,313,601	154,448,758
Amounts receivable relating to accrued income	3,945,952	2,375,427
Accounts receivable relating to shares issued	193,212	1,562,680
Accounts receivable relating to portfolio assets sold	25,462	4,972,359
Forward contracts, at fair value, note 11	<u>-</u>	<u>2,504,595</u>
	<u>\$ 391,360,203</u>	<u>\$ 390,100,053</u>
LIABILITIES		
Obligations from portfolio assets sold short, at fair value	\$ 36,544,597	\$ 16,691,555
Distributions payable	1,754,552	1,643,129
Accrued expenses, note 7	1,204,157	1,031,954
Forward contracts, at fair value, note 11	1,048,163	-
Accounts payable relating to shares redeemed	839,325	935,320
Liabilities for portfolio assets purchased	<u>-</u>	<u>9,795,452</u>
	<u>41,390,794</u>	<u>30,097,410</u>
Net assets representing shareholders' equity	<u>\$ 349,969,409</u>	<u>\$ 360,002,643</u>
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 203,444,116	\$ 192,685,798
Shares outstanding, Series A, note 3	26,453,872	23,774,438
Net assets per share, Series A	<u>\$ 7.69</u>	<u>\$ 8.10</u>
Net assets, Series B	\$ 119,514,525	\$ 132,661,492
Shares outstanding, Series B, note 3	15,413,214	16,250,074
Net assets per share, Series B	<u>\$ 7.75</u>	<u>\$ 8.16</u>
Net assets, Series F	\$ 24,304,364	\$ 29,815,649
Shares outstanding, Series F, note 3	3,067,836	3,614,686
Net assets per share, Series F	<u>\$ 7.92</u>	<u>\$ 8.25</u>
Net assets, Series X	\$ 2,706,404	\$ 4,839,704
Shares outstanding, Series X, note 3	349,562	595,025
Net assets per share, Series X	<u>\$ 7.74</u>	<u>\$ 8.13</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
(Formerly Front Street Diversified Income Fund)

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

	2012	2011
Investment income		
Interest	\$ 11,430,581	\$ 6,368,162
Dividends	2,125,706	2,806,280
Security lending revenue, note 8	1,949	-
Less: Foreign withholding taxes	<u>(101,764)</u>	<u>(124,967)</u>
	<u>13,456,472</u>	<u>9,049,475</u>
Expenses		
Management fees, notes 4 and 7	4,683,587	4,000,368
Servicing fees, notes 4 and 7	2,887,822	2,444,282
Administration fees	835,309	756,495
Compensatory dividends	536,008	310,033
Operating costs, notes 4 and 7	163,090	40,945
Legal fees	103,455	86,332
Audit fees	66,992	64,299
Securityholder reporting costs	66,991	67,302
Custodial fees	20,545	-
Independent review committee	<u>16,786</u>	<u>11,912</u>
	<u>9,380,585</u>	<u>7,781,968</u>
Net investment income for the year	<u>4,075,887</u>	<u>1,267,507</u>
Net realized and unrealized gains (losses) on investments		
Net realized gain on the sale of investments	4,898,462	2,925,889
Gain (loss) from derivatives	3,430,249	(1,479,400)
Transaction costs, notes 6 and 7	(565,503)	(532,790)
Change in the unrealized depreciation of the value of investments	<u>(5,546,228)</u>	<u>(12,411,380)</u>
Net gain (loss) on investments for the year	<u>2,216,980</u>	<u>(11,497,681)</u>
Net increase (decrease) in net assets from operations for the year	<u>\$ 6,292,867</u>	<u>\$ (10,230,174)</u>
Increase (decrease) in net assets from operations applicable to outstanding shares allocated as follows:		
Increase (decrease) in net assets from operations, Series A	\$ 3,196,616	\$ (5,525,049)
Increase (decrease) in net assets from operations per share, Series A	<u>\$ 0.12</u>	<u>\$ (0.30)</u>
Increase (decrease) in net assets from operations, Series B	\$ 2,216,889	\$ (3,859,656)
Increase (decrease) in net assets from operations per share, Series B	<u>\$ 0.14</u>	<u>\$ (0.28)</u>
Increase (decrease) in net assets from operations, Series F	\$ 810,214	\$ (733,310)
Increase (decrease) in net assets from operations per share, Series F	<u>\$ 0.24</u>	<u>\$ (0.25)</u>
Increase (decrease) in net assets from operations, Series X	\$ 69,148	\$ (112,159)
Increase (decrease) in net assets from operations per share, Series X	<u>\$ 0.18</u>	<u>\$ (0.31)</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

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

	2012	2011
Series A		
Net assets, beginning of year	\$ 192,685,798	\$ 113,263,558
Net increase (decrease) in net assets from operations	<u>3,196,616</u>	<u>(5,525,049)</u>
Distributions to shareholders		
Return of Capital	<u>(14,212,272)</u>	<u>(10,834,467)</u>
Shareholder transactions		
Proceeds from the issuance of shares	38,629,015	105,469,279
Aggregate amounts paid on the redemption of shares	(26,429,257)	(17,128,533)
Shares issued on reinvestment of distributions	<u>9,574,216</u>	<u>7,441,010</u>
	<u>21,773,974</u>	<u>95,781,756</u>
Net increase in net assets for the year	<u>10,758,318</u>	<u>79,422,240</u>
Net assets, end of year	<u>\$ 203,444,116</u>	<u>\$ 192,685,798</u>
Series B		
Net assets, beginning of year	\$ 132,661,492	\$ 93,425,906
Net increase (decrease) in net assets from operations	<u>2,216,889</u>	<u>(3,859,656)</u>
Distributions to shareholders		
Return of Capital	<u>(8,719,331)</u>	<u>(7,787,624)</u>
Shareholder transactions		
Proceeds from the issuance of shares	17,269,993	67,376,628
Aggregate amounts paid on the redemption of shares	(31,009,729)	(22,865,073)
Shares issued on reinvestment of distributions	<u>7,095,211</u>	<u>6,371,311</u>
	<u>(6,644,525)</u>	<u>50,882,866</u>
Net increase (decrease) in net assets for the year	<u>(13,146,967)</u>	<u>39,235,586</u>
Net assets, end of year	<u>\$ 119,514,525</u>	<u>\$ 132,661,492</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
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STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	2012	2011
Series F		
Net assets, beginning of year	\$ 29,815,649	\$ 16,990,709
Net increase (decrease) in net assets from operations	<u>810,214</u>	<u>(733,310)</u>
Distributions to shareholders		
Return of capital	<u>(1,829,456)</u>	<u>(1,675,128)</u>
Shareholder transactions		
Proceeds from the issuance of shares	5,520,119	23,230,318
Aggregate amounts paid on the redemption of shares	(11,004,546)	(8,931,899)
Shares issued on reinvestment of distributions	<u>992,384</u>	<u>934,959</u>
	<u>(4,492,043)</u>	<u>15,233,378</u>
Net increase (decrease) in net assets for the year	<u>(5,511,285)</u>	<u>12,824,940</u>
Net assets, end of year	<u>\$ 24,304,364</u>	<u>\$ 29,815,649</u>
Series X		
Net assets, beginning of year	\$ 4,839,704	\$ 2,405,202
Net increase (decrease) in net assets from operations	<u>69,148</u>	<u>(112,159)</u>
Distributions to shareholders		
Return of Capital	<u>(210,688)</u>	<u>(201,883)</u>
Shareholder transactions		
Proceeds from the issuance of shares	981,680	3,621,252
Aggregate amounts paid on the redemption of shares	(3,168,035)	(1,057,162)
Shares issued on reinvestment of distributions	<u>194,595</u>	<u>184,454</u>
	<u>(1,991,760)</u>	<u>2,748,544</u>
Net increase (decrease) in net assets for the year	<u>(2,133,300)</u>	<u>2,434,502</u>
Net assets, end of year	<u>\$ 2,706,404</u>	<u>\$ 4,839,704</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
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STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	2012	2011
Total		
Net assets, beginning of year	<u>\$ 360,002,643</u>	<u>\$ 226,085,375</u>
Net increase (decrease) in net assets from operations	<u>6,292,867</u>	<u>(10,230,174)</u>
Distributions to shareholders		
Return of Capital	<u>(24,971,747)</u>	<u>(20,499,102)</u>
Shareholder transactions		
Proceeds from the issuance of shares	62,400,807	199,697,477
Aggregate amounts paid on the redemption of shares	(71,611,567)	(49,982,667)
Shares issued on reinvestment of distributions	<u>17,856,406</u>	<u>14,931,734</u>
	<u>8,645,646</u>	<u>164,646,544</u>
Net increase (decrease) in net assets for the year	<u>(10,033,234)</u>	<u>133,917,268</u>
Net assets, end of year	<u>\$ 349,969,409</u>	<u>\$ 360,002,643</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
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STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Long Positions (63.6%)			
Energy (3.1%)			
Brasil Ecoetanol Limited Restricted	1,166,667	\$ 350,000	\$ 350,000
CanAm Coal Corporation Warrants	2,332,400	-	42,881
Crew Energy Inc.	200,000	2,842,690	1,538,000
Electrovaya Inc. Warrants	500,000	-	1
Nexen Inc.	202,900	5,066,170	4,837,135
Pembina Pipeline Corporation	11,312	313,920	315,718
PHX Energy Services Corporation	62,000	666,369	523,900
Progress Energy Resources Corporation	158,800	3,037,614	3,195,055
Synodon Inc.	595,238	125,000	77,381
Synodon Inc. Warrants	297,619	-	-
		<u>\$ 12,401,763</u>	<u>\$ 10,880,071</u>
Materials (1.5%)			
Aeromechanical Services Limited Warrants	1,250,000	\$ -	\$ 44,123
Agrium Inc.	11,675	990,707	1,227,276
Banro Corporation Warrants	100,800	180,619	145,851
Barrick Gold Corporation	20,000	680,200	807,600
Canam Group Inc.	381,600	2,730,481	2,121,696
Colossus Minerals Inc. Warrants	189,000	-	364,770
EcoSynthetix Inc.	126,000	1,134,000	372,960
		<u>\$ 5,716,007</u>	<u>\$ 5,084,276</u>
Consumer Discretionary (2.9%)			
Amaya Gaming Group Inc. Warrants	128,500	\$ -	\$ 160,625
Astral Media Inc. 'A'	48,406	1,870,275	1,978,837
Boston Pizza Royalties Income Fund	11,000	147,257	210,100
DHX Media Limited	285,400	348,195	499,450
Indigo Books & Music Inc.	292,484	3,821,099	2,793,222
Magna International Inc.	44,000	1,836,052	1,947,880
Martinrea International Inc.	95,431	765,357	685,195
REDF II Hospitality Fund Limited Partnership	2,000	2,000,000	2,000,000
TimePlay Inc. Warrants	4,310,000	-	4
		<u>\$ 10,788,235</u>	<u>\$ 10,275,313</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Financials (2.4%)			
Bank of Montreal	12,000	\$ 692,400	\$ 708,120
C2C Industrial Properties Inc.	232,960	990,080	962,125
Canadian Apartment Properties Real Estate Investment Trust	78,282	1,861,350	1,906,167
Huntingdon Capital Corporation Warrants	91,980	-	396,434
Manulife Financial Corporation	53,740	690,853	662,614
REDF V Limited Partnership 'B' Units	3,000	3,000,000	3,000,000
The Toronto-Dominion Bank	2,500	193,331	203,000
Urbana Corporation 'A'	765,400	<u>936,541</u>	<u>681,206</u>
		<u>\$ 8,364,555</u>	<u>\$ 8,519,666</u>
Health Care (0.3%)			
ISEE3D Inc.	1,950,000	\$ 845,000	\$ 58,500
ISEE3D Inc. Warrants December 19, 2013	475,000	-	-
ISEE3D Inc. Warrants January 25, 2014	1,523,982	-	2
ISEE3D Inc. Warrants September 16, 2014	1,466,663	-	1
Valeant Pharmaceuticals International Inc.	20,000	<u>676,538</u>	<u>1,114,800</u>
		<u>\$ 1,521,538</u>	<u>\$ 1,173,303</u>
Industrials (1.7%)			
CAE Inc.	534,500	<u>\$ 5,449,508</u>	<u>\$ 5,868,810</u>
Information Technology (2.4%)			
Epals Corporation	4,830,000	\$ 2,670,300	\$ 1,618,050
Hemisphere GPS Inc.	262,960	291,282	178,813
Mint Technology Corporation	9,941,500	1,354,717	596,490
Mint Technology Corporation Warrants May 31, 2013	6,000,000	-	28,596
Mint Technology Corporation Warrants May 11, 2015	6,000,000	-	120,000
Pure Technologies Limited	486,975	2,078,476	2,196,256
Redknee Solutions Inc.	300,476	338,528	435,690
Research in Motion Limited	10,000	719,035	78,700
TransGaming Inc.	585,500	397,020	131,738
TransGaming Inc. Warrants	375,000	-	-
VoodooVox Inc.	13,404,384	1,340,078	134,044
Wi-LAN Inc.	531,200	<u>3,218,015</u>	<u>2,825,984</u>
		<u>\$ 12,407,451</u>	<u>\$ 8,344,361</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Exchange Traded Fund (1.2%)			
ProShares Short 20+ Year Treasury ETF	139,600	<u>\$ 5,125,173</u>	<u>\$ 4,059,746</u>
Index Fund (0.6%)			
iPath S&P 500 VIX Short-Term Future ETN	58,850	<u>\$ 2,610,213</u>	<u>\$ 2,202,095</u>
Corporate Bonds (37.3%)			
Advantage Oil & Gas Limited			
5.00%, Convertible Debentures, January 30, 2015	2,085,000	\$ 2,015,770	\$ 2,085,000
Aecon Group Inc.			
7.00%, Convertible Debentures, September 30, 2014	211,000	213,189	221,128
6.25%, Convertible Debentures, October 31, 2015	1,217,000	1,271,461	1,277,850
Aeromechanical Services Limited			
8.00%, Convertible Debentures, December 22, 2014	1,000,000	1,000,000	1,000,000
AG Growth International Inc.			
7.00%, Convertible Debentures, December 31, 2014	2,173,000	2,229,774	2,270,785
Amaya Gaming Group Inc.			
10.50%, Convertible Debentures, April 30, 2014	2,570,000	2,570,000	3,341,000
Arcan Resources Limited			
6.25%, Convertible Debentures, February 28, 2016	3,055,000	2,969,319	2,291,250
Armtec Holdings Limited			
8.88%, Convertible Debentures, September 22, 2017	925,000	774,688	638,250
Armtec Infrastructure Inc.			
6.50%, June 30, 2017	411,000	316,819	300,030
Artis Real Estate Investment Trust			
5.00%, Convertible Debentures, November 30, 2014	1,500,000	1,388,265	1,388,265
Atlantic Power Corporation			
5.60%, Convertible Debentures, June 30, 2017	1,200,000	1,202,385	1,249,800
5.75%, Convertible Debentures, June 30, 2019	1,500,000	1,501,975	1,501,050
Bank of Montreal			
4.65%, March 14, 2013	1,500,000	1,549,725	1,518,240
Bank of Nova Scotia			
5.04%, April 8, 2013	4,000,000	4,159,378	4,062,840
Banro Corporation			
10.00%, March 1, 2017	3,300,000	3,003,863	2,911,377
Bell Aliant Inc.			
4.95%, February 26, 2014	2,000,000	2,099,200	2,072,000
Boralex Inc.			
6.75%, Convertible Debentures, June 30, 2017	2,773,460	2,799,802	2,944,028
BTB Real Estate Investment Trust			
8.00%, Convertible Debentures, January 31, 2016	1,000,000	1,000,000	1,035,000

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Corporate Bonds (37.3%) (continued...)			
CanAm Coal Corporation 9.50%, Convertible Debentures, May 9, 2014	1,400,000	1,400,000	1,400,000
Canam Group Inc. 6.25%, Convertible Debentures, October 31, 2015	1,705,000	1,660,056	1,794,513
Canexus Corporation 5.75%, Convertible Debentures, December 31, 2015	564,000	563,295	616,508
Capital Power Limited Partnership 4.60%, December 1, 2015	1,000,000	999,680	1,033,040
Capstone Infrastructure 6.50%, Convertible Debentures, December 31, 2016	1,200,000	1,145,400	1,248,120
Chorus Aviation Inc. 9.50%, Convertible Debentures, December 31, 2014	1,000,000	1,000,000	1,029,900
Colossus Minerals Inc. 9.00%, December 31, 2016	3,612,000	3,536,089	3,242,131
Electrovaya Inc. Promissory Notes, 6.00%, December 31, 2013	5,000,000	5,000,000	5,000,000
Emera Inc. 4.10%, October 20, 2014	2,000,000	2,084,000	2,080,120
ePals Corporation 6.50%, Convertible Debentures, October 31, 2014	1,400,000	1,400,000	1,400,000
Extendicare Real Estate Investment Trust 5.70%, Convertible Debentures, June 30, 2014	1,495,000	1,231,899	1,521,163
Fairfax Financial Holdings Limited 7.38%, April 15, 2018	505,000	518,851	587,093
First Global Data Corporation 12.00%, Convertible Debentures, April 30, 2015	300,000	300,000	300,000
Ford Credit Canada Limited 4.20%, November 14, 2013	1,900,000	1,899,031	1,946,645
	4.88%, March 17, 2014	3,500,000	3,629,324
	7.50%, August 18, 2015	2,750,000	3,088,250
Fortress Paper Limited 6.50%, Convertible Debentures, December 31, 2016	1,400,000	1,400,000	1,324,260
	7.00%, Convertible Debentures, December 31, 2019	1,085,000	981,925
Fusion Trust Series 'D' Medium Term Notes, 5.47%, November 15, 2012	2,000,000	2,000,000	2,000,000
Glacier Credit Card Trust 5.03%, February 20, 2013	6,000,000	6,411,900	6,064,080

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Corporate Bonds (37.3%) (continued...)			
Harvest Operations Corporation 7.25%, Convertible Debentures, September 30, 2013	373,000	245,992	376,767
Huntingdon Capital Corporation 7.50%, December 31, 2016	3,285,000	3,285,000	3,408,188
Hydro One Inc. 5.00%, November 12, 2013	2,000,000	2,096,200	2,070,300
3.13%, November 19, 2014	1,000,000	1,010,000	1,031,210
IBI Group Inc. 7.00%, Convertible Debentures, December 31, 2014	1,747,000	1,752,928	1,763,247
ISEE3D Inc. 6.00%, Promissory Notes, November 1, 2012	500,000	500,000	350,000
6.00%, Promissory Notes, January 25, 2014	850,000	850,000	595,000
6.00%, Promissory Notes, September 16, 2014	550,000	550,000	385,000
Just Energy Exchange Corporation 6.00%, Convertible Debentures, September 30, 2014	1,790,000	1,781,438	1,776,038
KEYreit 7.75%, Convertible Debentures, December 31, 2014	500,000	500,000	510,000
Landrill International Inc. 10.00% Convertible Debentures, January 31, 2013	1,250,000	1,250,000	625,000
10.00% Convertible Debentures, February 12, 2013	150,000	150,000	75,000
Manulife Financial Corporation 4.67%, March 28, 2013	3,000,000	3,089,400	3,034,890
MicroPlanet Technology Corporation 12.00%, Convertible Debentures, December 31, 2013	750,000	750,000	750,000
12.00%, Convertible Notes, June 15, 2014	500,000	500,000	500,000
New Flyer Industries Inc. 6.25%, Convertible Bond, June 30, 2017	1,984,000	2,018,362	1,988,363
Oak Point Energy Limited 15.00%, Convertible Debentures, September 30, 2013	690,000	690,000	690,000
OMERS Realty Corporation 4.09%, June 4, 2013	1,500,000	1,558,500	1,523,115
Omers Realty CTT Holdings 2 Inc. 4.05%, May 5, 2014	2,000,000	2,117,600	2,071,560
Pembina Pipeline Corporation 5.75%, Convertible Debentures, December 31, 2018	1,500,000	1,576,875	1,645,500
Pengrowth Energy Corporation 6.25%, March 31, 2017	2,160,000	2,160,360	2,237,760
Perpetual Energy Inc. 8.75%, March 15, 2018	2,490,000	2,453,250	2,397,223

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Corporate Bonds (37.3%) (continued...)			
Premium Brands Holding Corporation			
7.00%, Convertible Debentures, December 31, 2014	1,000,000	1,000,000	1,231,500
Royal Bank of Canada			
5.06%, July 17, 2013	1,500,000	1,587,150	1,538,745
Royal Host Inc.			
6.00%, Convertible Debentures, October 31, 2015	369,000	314,964	324,757
Shaw Communications Inc.			
6.10%, November 16, 2012	1,910,000	1,971,598	1,912,598
7.50%, November 20, 2013	2,000,000	2,204,000	2,112,460
Sherritt International Corporation			
8.00%, November 15, 2018	1,900,000	1,900,000	2,020,669
Shoppers Drug Mart Corporation			
5.19%, January 20, 2014	2,000,000	2,134,000	2,079,840
Southern Pacific Resources Corporation			
6.00%, Convertible Debentures, June 30, 2016	2,000,000	1,946,250	2,060,000
Sprott Power Corporation			
6.75%, Convertible Bonds, December 31, 2017	1,550,000	1,550,000	1,605,800
Telus Corporation			
5.00%, June 3, 2013	1,500,000	1,560,150	1,530,555
4.95%, May 15, 2014	1,000,000	1,057,590	1,047,750
The Churchill Corporation			
6.00%, Convertible Debentures, June 30, 2015	1,809,000	1,821,340	1,841,562
Toronto-Dominion Bank			
5.14%, November 19, 2012	2,000,000	2,109,000	2,003,000
TimePlay Inc.			
6.00%, Debentures, May 17, 2013	2,500,000	2,500,000	2,500,000
Toronto Hydro Corporation			
6.11%, May 6, 2013	500,000	531,900	512,020
TransAlta Corporation			
6.45%, May 29, 2014	1,500,000	1,622,700	1,576,680
TransCanada Corporation			
5.05%, August 20, 2013	1,500,000	1,592,850	1,542,780
VoodooVox Inc.			
15.00%, Non-Convertible Debentures, March 12, 2013	231,000	231,000	231,000
Yellow Media Inc.			
6.50%, July 10, 2013	900,000	799,250	531,000
6.25%, Convertible Debentures, October 1, 2017	2,300,000	<u>2,007,626</u>	<u>77,050</u>
		<u>\$ 133,374,612</u>	<u>\$ 130,478,892</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Government of Canada Bonds (0.3%)			
Government of Canada 3.50%, June 1, 2013	1,000,000	\$ 1,033,600	\$ 1,014,190
Provincial Bonds (0.1%)			
Province of Quebec 3.30%, Real Return Bonds, December 1, 2013	416,000	\$ 492,538	\$ 522,983
Call Options (0.0%)			
Windtronics LLC 300 June 30, 2014	834	\$ -	\$ -
Global Equities (2.3%)			
British Virgin Islands (0.1%)			
Rio Verde Minerals Development Corporation	663,700	\$ 431,405	\$ 192,473
Rio Verde Minerals Development Corporation Warrants	1,077,300	-	184,451
		<u>\$ 431,405</u>	<u>\$ 376,924</u>
United States (2.2%)			
Annaly Capital Management Inc.	70,000	\$ 1,267,830	\$ 1,128,062
Celanese Corporation 'A'	10,000	396,443	379,786
Delavaco Properties Inc. Warrants	231,000	-	-
FMC Corporation	2,500	92,456	133,710
Immersion Corporation	72	501,505	503,849
JP Morgan Chase & Company	23,650	933,090	984,964
Monsanto Company	18,000	1,445,038	1,548,076
Oracle Corporation	10,000	261,100	310,407
The Dow Chemical Company	13,450	438,961	393,967
The Goldman Sachs Group Inc.	18,500	2,382,673	2,263,351
Windtronics LLC Warrants January 1, 2015	6,000	-	-
Windtronics LLC Warrants January 1, 2014	10,000	-	-
		<u>\$ 7,719,096</u>	<u>\$ 7,646,172</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Global Bonds (7.5%)			
United States (7.5%)			
Airgas Inc. 4.50%, September 15, 2014	500,000	\$ 536,476	\$ 533,275
Bunge Limited Finance Corporation 5.10%, July 15, 2015	500,000	511,590	538,219
Bunge N.A. Finance Limited Partnership 5.90%, April 1, 2017	1,000,000	1,050,652	1,144,497
Dean Foods Company 7.00%, June 1, 2016	2,000,000	1,914,128	2,159,352
Delavaco Properties Inc. 7.50%, Secured Senior Notes, June 30, 2016	1,500,000	1,538,919	1,499,550
Duke Funding Limited Floating Rate, August 7, 2033	2,000,000	705,709	69,979
Galp Class P Special Preferred Interest 14.00%, July 1, 2013	500,000	482,174	499,850
Galp Cypress Class P Special Preferred Interest 14.00%, July 1, 2013	500,000	482,174	499,850
Graoch Associates #161 Limited Partnership October 31, 2010	300,000	318,255	243,600
Graoch Associates #171 Limited Partnership April 30, 2010	2,000,000	2,121,701	1,589,194
Great-West Life Annuity, May 16, 2046	2,000,000	1,947,948	2,052,504
IXIS ABS CDO Limited 2005-A1 B2L 5.75%, October 12, 2040	2,000,000	602,268	249,925
Molycorp Inc. 6.00%, Convertible Bond, September 1, 2017	2,000,000	1,985,703	2,223,333
Valeant Pharmaceuticals International Inc. 6.75%, October 1, 2017	1,350,000	1,250,951	1,444,067
Wentwood Roundhill LP Class P Special Preferred Interest 14.00%, July 1, 2013	500,000	482,174	499,850
Wentwood Woodside Class P Special Preferred Interest 14.00%, July 1, 2013	500,000	482,174	499,850
Windtronics LLC 15.00%, Promissory Notes, September 8, 2012	4,000,000	4,000,000	4,000,000
10.00%, Promissory Notes, December 31, 2012	1,644,835	1,667,530	1,644,342
15.00%, Promissory Notes, December 31, 2012	900,000	893,054	899,730
World Food Processing Inc. 9.00%, Convertible Debentures, January 31, 2015	1,000,000	1,024,947	999,700
World Food Processing LLC 9.00%, Convertible Debenture, September 30, 2015	924,000	903,579	923,723
Xinergy Corporation 9.25%, May 15, 2019	3,850,000	3,639,106	2,220,784
		<u>\$ 28,541,212</u>	<u>\$ 26,435,174</u>
Total Long Positions (63.6%)		<u>\$ 235,976,906</u>	<u>\$ 222,881,976</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Short Positions (-10.4%)			
Consumer Discretionary (-0.1%)			
Amaya Gaming Group Inc.	(67,700)	\$ (257,164)	\$ (253,875)
Government of Canada Bonds (-1.0%)			
Government of Canada 8.00%, June 1, 2027	(2,060,000)	\$ (3,588,520)	\$ (3,578,076)
Materials (-0.2%)			
Banro Corporation	(40,000)	\$ (197,154)	\$ (185,600)
Colossus Minerals Inc.	(25,000)	(176,635)	(141,750)
Fortress Paper Limited	(17,800)	(542,919)	(234,070)
		\$ (916,708)	\$ (561,420)
Energy (-0.4%)			
Enbridge Inc.	(25,000)	\$ (982,265)	\$ (993,500)
Southern Pacific Resource Corporation	(250,000)	(419,000)	(347,500)
		\$ (1,401,265)	\$ (1,341,000)
Exchange Traded Funds (-2.8%)			
Financial Select Sector SPDR Fund	(102,700)	\$ (1,568,335)	\$ (1,628,333)
SPDR S&P ETF	(60,150)	(7,799,101)	(8,469,587)
		\$ (9,367,436)	\$ (10,097,920)
Financials (-0.7%)			
Boardwalk Real Estate Investment Trust	(28,740)	\$ (1,737,339)	\$ (1,849,419)
Royal Bank of Canada	(12,000)	(680,880)	(684,120)
		\$ (2,418,219)	\$ (2,533,539)
Industrials (-0.1%)			
AG Growth International Inc.	(13,000)	\$ (469,577)	\$ (417,300)

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Health Care (-1.1%)			
Catamaran Corporation	(81,700)	\$ (3,769,726)	\$ (3,864,410)
United States (-1.3%)			
Citigroup Inc.	(105,500)	\$ (3,797,216)	\$ (3,908,173)
Molycorp Inc.	(50,000)	(506,948)	(519,344)
		\$ (4,304,164)	\$ (4,427,517)
Index Fund (-2.6%)			
iShares S&P/TSX 60 Index Fund	(517,900)	\$ (8,975,206)	\$ (9,275,589)
Written Options (-0.1%)			
Agrium Inc. December/110 WCO	(130)	\$ (30,290)	\$ (21,970)
Agrium Inc. November/95 WPO	(100)	(13,532)	(3,499)
Apple Inc. November/550 WPO	(100)	(21,075)	(29,591)
Astral Media Inc. November/38 WPO	(100)	(4,900)	(3,000)
Bank of Montreal November/59 WCO	(120)	(8,640)	(6,960)
Barrick Gold Corporation November/43 WCO	(200)	(23,000)	(4,200)
Celanese Corporation November/35 WPO	(100)	(7,251)	(2,999)
Enbridge Inc. November/38 WPO	(250)	(15,375)	(3,750)
FMC Corporation November/60 WCO	(35)	(1,840)	(700)
Freeport-McMoRan Company December/37 WPO	(100)	(8,315)	(11,896)
JPMorgan Chase & Company December/40 WPO	(100)	(9,031)	(8,897)
JPMorgan Chase & Company December/43 WCO	(236)	(24,163)	(21,234)
Lululemon Athletica December/65 WPO	(100)	(35,090)	(29,691)
Manulife Financial November/13 WCO	(375)	(10,500)	(3,375)
Molycorp Inc. November/10 WPO	(100)	(7,424)	(5,698)
Monsanto Company November/93 WCO	(180)	(32,533)	(1,620)
Royal Bank of Canada December/54 WPO	(120)	(6,840)	(5,880)
The Dow Chemical Company November/28 WPO	(100)	(2,939)	(2,899)
W.W. Grainger Inc. December/185 WPO	(100)	(25,462)	(25,492)
Wi-LAN Inc. November/6 WCO	(150)	(1,350)	(600)
		\$ (289,550)	\$ (193,951)

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

STATEMENT OF INVESTMENT PORTFOLIO
AS AT OCTOBER 31, 2012

	Number of Shares / Units	Cost \$	Fair Value \$
Total Short Positions (-10.4%)		<u>\$ (35,757,535)</u>	<u>\$ (36,544,597)</u>
Unrealized loss on forward foreign currency contracts, note 11 (-0.3%)		<u>\$ -</u>	<u>\$ (1,048,163)</u>
Transaction costs, note 2		<u>\$ (357,013)</u>	
Total Investments (52.9%)		<u>\$ 199,862,358</u>	185,289,216
Cash and cash equivalents (47.0%)			164,313,601
Other assets less other liabilities (0.1%)			<u>366,592</u>
Net assets (100.0%)			<u>\$ 349,969,409</u>

See accompanying notes to the financial statements

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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, 2012.

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

The Fund's investment objective is to 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.

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial instruments

Investments, at fair value, obligations from portfolio assets sold short at fair value and forward contracts, at fair value are classified as held for trading. Amounts receivable relating to accrued income and accounts receivable relating to shares issued and accounts receivable relating to portfolio assets sold are classified as loans and receivables. Distributions payable, accrued expenses, accounts payable relating to shares redeemed liabilities for portfolio assets purchased are classified as other financial liabilities.

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

b) Valuation of investments

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

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

b) Valuation of investments (continued...)

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

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

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

While the transaction is open, the Fund will also incur a liability for any paid dividends or interest which are due to the lender of the security.
- 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
(Formerly Front Street Diversified Income Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

c) Financial instruments disclosure and presentation and fair value measurements

The Fund adopted CICA Handbook Sections 3862, Financial Instruments - Disclosures and 3863, Financial Instruments Presentation. These standards place increased emphasis on disclosures with respect to the nature and extent of risks arising from financial instruments and how the Fund has managed those risks. See note 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. 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
(Formerly Front Street Diversified Income Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

g) Securities lending, repurchase and reverse repurchase transactions

The Fund is permitted to enter into securities lending, repurchase and reverse repurchase transactions as set out in the Simplified Prospectus. These transactions involve the temporary exchange of securities for collateral with 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
(Formerly Front Street Diversified Income Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

m) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting 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, requires shareholders' equity to be classified as liability unless certain criteria are met.
- (b) IFRS 13, Fair Value Measurements, that was released in May 2011 provides guidance on the fair value measurements and allows for the possible use of closing prices to value investments.

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

FRONT STREET DIVERSIFIED INCOME CLASS
(Formerly Front Street Diversified Income Fund)

NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

n) Future accounting pronouncements (Continued...)

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

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

3. **SHARES ISSUED AND OUTSTANDING**

The authorized capital of the Fund consists of an unlimited number of mutual fund shares, available in 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
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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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:

	2012	2011
Shares outstanding, beginning of the year:		
Series A	23,774,438	12,854,695
Series B	16,250,074	10,535,928
Series F	3,614,686	1,915,979
Series X	595,025	272,680
Shares issued during the year:		
Series A	4,787,927	12,035,683
Series B	2,113,456	7,593,952
Series F	666,764	2,610,527
Series X	121,201	422,812
Share distributions reinvested during the year:		
Series A	1,208,100	870,084
Series B	887,612	738,919
Series F	122,003	107,807
Series X	24,404	21,705
Shares redeemed during the year:		
Series A	3,316,593	1,986,024
Series B	3,837,928	2,618,725
Series F	1,335,617	1,019,627
Series X	391,068	122,172
Shares outstanding, end 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

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NOTES TO THE FINANCIAL STATEMENTS
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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.

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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 Fund may be subject to provincial capital taxes.

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

6. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to securities transactions for the year ended October 31, 2012 was \$565,503 (2011 - \$532,790).

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7. RELATED PARTY TRANSACTIONS

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

	2012	2011
Management fees, note 4	\$ 4,683,587	\$ 4,000,368
Servicing fees, note 4	2,887,822	2,444,282
Operating costs, note 4	<u>163,090</u>	<u>40,945</u>
	<u>\$ 7,734,499</u>	<u>\$ 6,485,595</u>

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

	2012	2011
Management fees payable	\$ 409,885	\$ 385,699
Servicing fees payable	251,688	236,762
Operating costs payable	<u>125,558</u>	<u>3,412</u>
	<u>\$ 787,131</u>	<u>\$ 625,873</u>

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

	2012	2011
Series B shares held by Partners of the Manager	797,044.03	741,769.39
Percentage of Series B shares held by Partners of the Manager	5.17%	4.56%
Series F shares held by Partners of the Manager	52,693.84	37,714.18
Percentage of Series F shares held by Partners of the Manager	1.72%	1.04%

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non-affiliated, qualified brokerage firms, on an execution only basis. During the year ended October 31, 2012, Tuscarora Capital Inc., a company under common control to the Manager, received \$Nil (2011 - \$1,661) 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.

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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, 2012 and 2011, the aggregate fair values of the Fund's securities loaned and the collateral received were as follows.

	2012	2011
Value of securities loaned	\$ 7,483,230	\$ -
Value of collateral received	\$ 7,659,107	\$ -

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.

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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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, 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
Total	\$ 350,152,469	\$ (183,060)	\$ 349,969,409		

As at October 31, 2011

	Transactional NAV	Section 3855 Adjustment	GAAP NA	Transactional NAV per Share	GAAP NA per Share
Series A	\$ 192,441,956	\$ 243,842	\$ 192,685,798	\$ 8.09	\$ 8.10
Series B	132,493,848	167,644	132,661,492	8.15	8.16
Series F	29,777,834	37,815	29,815,649	8.24	8.25
Series X	4,833,603	6,101	4,839,704	8.12	8.13
Total	\$ 359,547,241	\$ 455,402	\$ 360,002,643		

FRONT STREET DIVERSIFIED INCOME CLASS
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NOTES TO THE FINANCIAL STATEMENTS
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10. **FINANCIAL INSTRUMENTS**

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

As at October 31,

	2012	2011
Assets		
Held for trading	\$ 222,881,976	\$ 226,740,829
Cash and cash equivalents	164,313,601	154,448,758
Loans and receivables	<u>4,164,626</u>	<u>8,910,466</u>
Total Assets	<u>\$ 391,360,203</u>	<u>\$ 390,100,053</u>
Liabilities		
Held for trading	\$ 37,592,760	\$ 16,691,555
Other financial liabilities at amortized cost	<u>3,798,034</u>	<u>13,405,855</u>
Total liabilities	<u>\$ 41,390,794</u>	<u>\$ 30,097,410</u>
Net Assets	<u>\$ 349,969,409</u>	<u>\$ 360,002,643</u>

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

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.

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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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

i) Market price risk

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

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

ii) Currency risk

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

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>\$ 32,807,266</u>	<u>\$ 15,931,934</u>	<u>\$(44,738,101)</u>	<u>\$ 4,001,099</u>	<u>1.14%</u>

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NOTES TO THE FINANCIAL STATEMENTS
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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, 2012, there were 44.2% (2011 – 34.6%) of net assets which are held in bonds. There were investments in short term investments representing 10.6% (2011 – 10.8%) of the net asset value, all maturing in less than 90 days. The remaining portion of the Fund’s investments are substantially non-interest bearing equity investments.

Financial assets	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Held for trading	\$ 2,122,483	\$ 156,328,756	\$ 64,430,737	\$ 222,881,976
Other receivables	-	-	4,164,626	4,164,626
Cash and cash equivalents	<u>127,074,554</u>	<u>37,239,047</u>	-	<u>164,313,601</u>
Total	<u>\$ 129,197,037</u>	<u>\$ 193,567,803</u>	<u>\$ 68,595,363</u>	<u>\$ 391,360,203</u>
Financial liabilities				
Held for trading	\$ -	\$ 3,578,076	\$ 34,014,684	\$ 37,592,760
Other financial liabilities	-	-	<u>3,798,034</u>	<u>3,798,034</u>
Total	<u>\$ -</u>	<u>\$ 3,578,076</u>	<u>\$ 37,812,718</u>	<u>\$ 41,390,794</u>
GAAP NA				<u>\$ 349,969,409</u>

FRONT STREET DIVERSIFIED INCOME CLASS
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NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2012

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	\$ 44,083,566	\$ 62,355,502	\$ 37,802,690	\$ 15,332,451	\$ 63,307,767	\$ 222,881,976
Other receivables	4,164,626	-	-	-	-	4,164,626
Cash and cash equivalents	<u>164,313,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,313,601</u>
Total	<u>\$ 212,561,793</u>	<u>\$ 62,355,502</u>	<u>\$ 37,802,690</u>	<u>\$ 15,332,451</u>	<u>\$ 63,307,767</u>	<u>\$ 391,360,203</u>
Financial liabilities						
Held for trading	\$ 1,242,114	\$ -	\$ -	\$ 3,578,076	\$ 32,772,570	\$ 37,592,760
Other financial liabilities	<u>3,798,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,798,034</u>
Total	<u>\$ 5,040,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,578,076</u>	<u>\$ 32,772,570</u>	<u>\$ 41,390,794</u>
GAAP NA						<u>\$ 349,969,409</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at October 31, 2012, the fair value of such assets was 11.3% (2011 – 8.2%) of the total net assets.

v) Cash flow risk

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

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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 value 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, 2012, the Fund loaned securities with an aggregate fair value of \$7,483,230 and received collateral with an aggregate fair value of \$7,659,107.

As at October 31, 2012, the Fund had \$154,873,163 (2011 - \$124,759,812) in long term debt instruments with the following credit ratings obtained from Standard and Poor's, Moody's or DBRS:

Debt instruments by credit rating	NA	Percentage of GAAP
AAA		0.3%
AA		0.6%
AA-		2.2%
A+		1.5%
A		0.1%
A-		1.3%
BBB+		1.9%
BBB		1.5%
BBB-		4.7%
BB+		0.9%
BB		0.4%
BB-		1.5%
B+		0.6%
B		0.2%
B-		0.7%
CCC+		0.6%
CC		0.2%
Not available or not rated		25.6%

As at October 31, 2012, the Fund's investment portfolio included \$12,460,100 (2011 - \$1,832,795) (face value of \$13,581,000) 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.

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11. FORWARD FOREIGN CURRENCY 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, 2012, the Fund has contracted to sell U.S. dollar currency amounting to Cdn \$44,746,000 at a forward rate of 0.977 maturing on November 5, 2012.

The net unrealized loss from these contracts amounted to \$1,048,163 as at October 31, 2012.

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 2011.

The Fund does not have any externally imposed capital requirements.

FRONT STREET DIVERSIFIED INCOME CLASS
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13. **FAIR VALUE HIERARCHY**

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

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Assets at fair value as at October 31, 2012	Level 1	Level 2	Level 3	Total
Investments, at fair value	\$ 57,952,478	\$ 125,236,236	\$ 39,693,262	\$ 222,881,976
Short-term notes	<u>-</u>	<u>37,239,047</u>	<u>-</u>	<u>37,239,047</u>
	<u>\$ 57,952,478</u>	<u>\$ 162,475,283</u>	<u>\$ 39,693,262</u>	<u>\$ 260,121,023</u>
Liabilities at fair value as at October 31, 2012	Level 1	Level 2	Level 3	Total
Obligations from portfolio assets sold short, at fair value	\$ 32,966,521	\$ 3,578,076	\$ -	\$ 36,544,597
Forward contracts, at fair value	<u>-</u>	<u>1,048,163</u>	<u>-</u>	<u>1,048,163</u>
	<u>\$ 32,966,521</u>	<u>\$ 4,626,239</u>	<u>\$ -</u>	<u>\$ 37,592,760</u>

	Investments, at fair value Equities	Investments, at fair value Bonds
Beginning balance at November 1, 2011	\$ 3,836,620	\$ 25,593,031
Purchases	3,162,502	11,194,063
Sales	(1,475,260)	(2,918,501)
Transfers in	-	799,250
Gains (losses)		
Realized	355,081	3,860
Unrealized	<u>(25,089)</u>	<u>(832,295)</u>
Balance at October 31, 2012	<u>\$ 5,853,854</u>	<u>\$ 33,839,408</u>

The transfers in represents a bond that has moved from level two to level three as a result of no longer having observable market data.