

FRONT STREET
Mutual Funds Limited

FRONT STREET MUTUAL FUNDS LIMITED

FRONT STREET DIVERSIFIED INCOME FUND

Management Report of Fund Performance

and

Interim Financial Statements

April 30, 2012

Interim Management Report of Fund Performance As at April 30, 2012 Front Street Diversified Income Fund

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

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

Forward Looking Information

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

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Interim 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 Interim 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 equities and in income producing securities, many of which will have equity characteristics. The Fund will therefore be subject to stock market risk. The Fund may also invest in foreign securities that may expose the Fund, to a limited extent, to the risk of investments in foreign securities and foreign currency risk. The Fund may invest in relatively illiquid securities that may expose the Fund to liquidity risk. The Fund may also be exposed to sector risk due to its investments being concentrated in a limited number of sectors. The Fund may also be exposed to the risks of selling securities short and the risks of investing in derivatives.

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 quarterly 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

The Fund's NAV declined slightly as equity markets began to retreat after a strong run early in the year. There were no standout trades over the period: Positions within all asset classes in the portfolio contributed or detracted from performance roughly in proportion.

During the year ended April 30, 2012, the Fund earned investment income of \$6.6 million from dividends and interest (net of withholding taxes). There were net realized gains on the sale of investments of \$6.7 million, gain from derivatives of \$2.7 million and an unrealized depreciation on the value of investments of \$0.3 million.

Operating expenses, excluding management fees and servicing fees, totalled \$797,413 during the period ended April 30, 2012.

RECENT DEVELOPMENTS

Macro concerns continued to dominate financial markets as a restructuring of Greece's debt in early 2012 did not alleviate the deep financial stress facing that country, while sovereign debt or banking problems looked to spread to other parts of Europe. By the end of April both Greece and France has elected political parties or individuals running on anti-austerity programs. These elections dealt a further blow to investors hoping for some stability in European asset markets. Equities indices began to weaken in April after a strong run from November / December. The aforementioned news out of Europe weighed on investor sentiment, as did concerns that valuations were running high given that profit margins were running near all-time highs when the foundations of the global economy were beginning to look shaky. Treasuries, which had been weak in the first quarter of 2012, began to strengthen in April as the safety trade began again. Volatility across many asset classes will continue as market participants struggle with fears of a possible slowdown in the US or Chinese economy, the probability of sovereign debt default or a banking crisis in Europe and whether the European Monetary Union is itself at risk.

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.

At October 31, 2011, the IASB has published an exposure draft for comment addressing specific issues relating to Investment Companies and Funds.

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

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

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

RELATED PARTY-TRANSACTIONS

Management fees of \$2,335,401 (April 30, 2011 - \$1,668,085) were paid to the Manager during the period. Servicing fees of \$1,424,858 (April 30, 2011 - \$1,043,619) were paid to the Manager during the period. Operating costs of \$62,655 (April 30, 2011 - \$36,681) were paid to the Manager during the period. Included in accrued expenses are \$405,879 (October 31, 2011 - \$385,699) of management fees payable to the Manager. Included in accrued expenses are \$240,790 (October 31, 2011 - \$236,762) of accrued servicing fees payable to the Manager. Included in accrued expenses are \$45,595 (October 31, 2011 - \$3,412) of accrued operating costs payable to the Manager.

766,913.547 (October 31, 2011 - 741,769.388) of series B shares outstanding at period end representing 4.66% (October 31, 2011 - 4.56%) of the total series B shares of the Fund are held by the Partners of the Manager.

38,977.654 (October 31, 2011 - 37,714.180) of series F shares outstanding at period end representing 1.14% (October 31, 2011 - 1.04%) of the total series F shares of the Fund are held by the Partners of the Manager.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non affiliated, qualified brokerage firms, on an execution only basis. During the period ended April 30, 2012, Tuscarora Capital Inc, a company under common control to the Manager, received \$Nil (April 30, 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.

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 and interim financial statements for the six months ended April 30, 2012.



FRONT STREET

Diversified Income Fund

Series A

The Fund's Net Assets per Share	April 30 2012	October 31 2011 ⁽¹⁾	October 31 2010 ⁽¹⁾	October 31 2009 ⁽¹⁾	October 31 2008 ⁽¹⁾	October 31 2007 ⁽¹⁾
Net assets, beginning of the period	\$ 8.10	\$ 8.81	\$ 8.36	\$ 8.13	\$ 9.47	\$ 9.92
Increase (decrease) from operations:						
Total revenue	0.15	0.25	0.31	0.43	0.48	0.44
Total expenses	(0.11)	(0.23)	(0.23)	(0.21)	(0.30)	(0.39)
Realized gains (losses) for the period	0.20	0.00	0.63	0.34	(0.17)	0.38
Unrealized gains (losses) for the period	—	(0.32)	0.23	0.23	(0.80)	(0.26)
Total increase (decrease) from operations ⁽²⁾	0.24	(0.30)	0.94	0.79	(0.79)	0.17
Distributions to Shareholders:						
From income (excluding dividends)	—	—	—	—	—	—
From dividends	—	—	—	—	—	—
From capital gains	—	—	—	—	—	—
Return of capital	(0.28)	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)
Total distributions to Shareholders ⁽³⁾	(0.28)	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)
Net assets, end of the period	\$ 8.07	\$ 8.10	\$ 8.81	\$ 8.36	\$ 8.13	\$ 9.47

(1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements differ from the net asset value calculated for fund pricing purposes. [An explanation of these differences can be found in the notes to the financial statements]

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

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

Ratios and Supplemental Data

Total net asset value (000's) ⁽¹⁾	211,159	192,441	113,374	31,119	12,309	13,878
Number of shares outstanding ⁽¹⁾	26,142,245	23,774,438	12,854,695	3,713,765	1,502,966	1,461,992
Management expense ratio ⁽²⁾	2.51%	2.55%	2.58%	2.51%	3.31%	3.98%
Management expense ratio before waivers or absorptions	2.51%	2.55%	2.58%	2.51%	3.31%	3.98%
Trading expense ratio ⁽⁵⁾	0.17%	0.17%	0.33%	0.55%	0.57%	0.45%
Portfolio turnover rate ⁽⁴⁾	52.38%	107.30%	143.93%	252.75%	255.67%	347.72
Net asset value per share	\$ 8.08	\$ 8.09	\$ 8.82	\$ 8.38	\$ 8.19	\$ 9.49

(1) This information is provided as at end of the period shown

(2) Management expense ratio is based on total expenses (excluding commissions and other transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

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



FRONT STREET

Diversified Income Fund

Series B The Fund's Net Assets per Share	April 30 2012	October 31 2011 ⁽¹⁾	October 31 2010 ⁽¹⁾	October 31 2009 ⁽¹⁾	October 31 2008 ⁽¹⁾	October 31 2007 ⁽¹⁾
Net assets, beginning of the period	\$ 8.16	\$ 8.87	\$ 8.39	\$ 8.14	\$ 9.47	\$ 9.91
Increase (decrease) from operations:						
Total revenue	0.15	0.26	0.32	0.5	0.48	0.43
Total expenses	(0.10)	(0.23)	(0.22)	(0.22)	(0.30)	(0.39)
Realized gains (losses) for the period	0.20	0.03	0.66	0.20	(0.18)	0.39
Unrealized gains (losses) for the period	(0.01)	(0.34)	0.25	0.23	(0.76)	(0.30)
Total increase (decrease) from operations ⁽²⁾	0.24	(0.28)	1.01	0.71	(0.76)	0.13
Distributions to Shareholders:						
From income (excluding dividends)	—	—	—	—	—	—
From dividends	—	—	—	—	—	—
From capital gains	—	—	—	—	—	—
Return of capital	(0.28)	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)
Total distributions to Shareholders ⁽³⁾	(0.28)	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)
Net assets, end of the period	\$ 8.13	\$ 8.16	\$ 8.87	\$ 8.39	\$ 8.14	\$ 9.47

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

Ratios and Supplemental Data

Total net asset value (000's) ⁽¹⁾	134,087	132,494	93,517	48,255	4,349	7,949
Number of shares outstanding ⁽¹⁾	16,472,238	16,250,074	10,535,928	5,738,289	530,657	837,203
Management expense ratio ⁽²⁾	2.46%	2.50%	2.54%	2.67%	3.34%	3.99%
Management expense ratio before waivers or absorptions	2.46%	2.50%	2.54%	2.67%	3.34%	3.99%
Trading expense ratio ⁽⁵⁾	0.17%	0.17%	0.33%	0.55%	0.57%	0.45%
Portfolio turnover rate ⁽⁴⁾	52.38%	107.30%	143.93%	252.75%	255.67%	347.72%
Net asset value per share	\$ 8.14	\$ 8.15	\$ 8.88	\$ 8.41	\$ 8.20	\$ 9.50

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

Series F The Fund's Net Assets per Share	April 30 2012	October 31 2011 ⁽¹⁾	October 31 2010 ⁽¹⁾	October 31 2009 ⁽¹⁾	October 31 2008 ⁽¹⁾	October 31 2007 ⁽¹⁾
Net assets, beginning of the period	\$ 8.25	\$ 8.87	\$ 8.38	\$ 8.14	\$ 9.48	\$ 9.96
Increase (decrease) from operations:						
Total revenue	0.15	0.26	0.32	0.36	0.48	0.41
Total expenses	(0.06)	(0.14)	(0.14)	(0.12)	(0.30)	(0.37)
Realized gains (losses) for the period	0.21	(0.02)	0.64	0.48	(0.17)	0.35
Unrealized gains (losses) for the period	(0.01)	(0.35)	0.28	0.16	(0.73)	(0.78)
Total increase (decrease) from operations⁽²⁾	0.29	(0.25)	1.10	0.88	(0.72)	(0.39)
Distributions to Shareholders:						
From income (excluding dividends)	—	—	—	—	—	—
From dividends	—	—	—	—	—	—
From capital gains	—	—	—	—	—	—
Return of capital	(0.28)	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)
Total distributions to Shareholders⁽³⁾	(0.28)	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)
Net assets, end of the period	\$ 8.26	\$ 8.25	\$ 8.87	\$ 8.38	\$ 8.14	\$ 9.48

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

Ratios and Supplemental Data

Total net asset value (000's) ⁽¹⁾	28,380	29,778	17,007	3,093	374	452
Number of shares outstanding ⁽¹⁾	3,432,141	3,614,686	1,915,979	368,349	45,603	47,596
Management expense ratio ⁽²⁾	1.47%	1.51%	1.63%	1.48%	3.32%	4.02%
Management expense ratio before waivers or absorptions	1.47%	1.51%	1.63%	1.48%	3.32%	4.02%
Trading expense ratio ⁽⁵⁾	0.17%	0.17%	0.33%	0.55%	0.57%	0.45%
Portfolio turnover rate ⁽⁴⁾	52.38%	107.30%	143.93%	252.75%	255.67%	347.72%
Net asset value per share	\$ 8.27	\$ 8.24	\$ 8.88	\$ 8.40	\$ 8.20	\$ 9.50

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

Series X

The Fund's Net Assets per Share	April 30 2012	October 31 2011 ⁽¹⁾	For the year
			from commencement of operations on December 3, 2009 to October 31, 2010 ⁽¹⁾
Net assets, beginning of the period	\$ 8.13	\$ 8.82	\$ 8.48*
Increase (decrease) from operations:			
Total revenue	0.15	0.25	0.27
Total expenses	(0.10)	(0.21)	(0.18)
Realized gains (losses) for the period	0.22	(0.15)	0.50
Unrealized gains (losses) for the period	(0.01)	(0.20)	0.04
Total increase (decrease) from operations ⁽²⁾	0.26	(0.31)	0.63
Distributions to Shareholders:			
From income (excluding dividends)	—	—	—
From dividends	—	—	—
From capital gains	—	—	—
Return of capital	(0.28)	(0.55)	(0.55)
Total distributions to Shareholders ⁽³⁾	(0.28)	(0.55)	(0.55)
Net assets, end of the period	\$ 8.11	\$ 8.13	\$ 8.82

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

Ratios and Supplemental Data

Total net asset value (000's) ⁽¹⁾	3,230	4,834	2,408
Number of shares outstanding ⁽¹⁾	397,996	595,025	272,680
Management expense ratio ⁽²⁾	2.26%	2.36%	2.24%
Management expense ratio before waivers or absorptions	2.26%	2.36%	2.24%
Trading expense ratio ⁽⁵⁾	0.17%	0.17%	0.33%
Portfolio turnover rate ⁽⁴⁾	52.38%	107.30%	143.93%
Net asset value per share	\$ 8.12	\$ 8.12	\$ 8.83

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

* Initial price

MANAGEMENT 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 year. 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.

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.

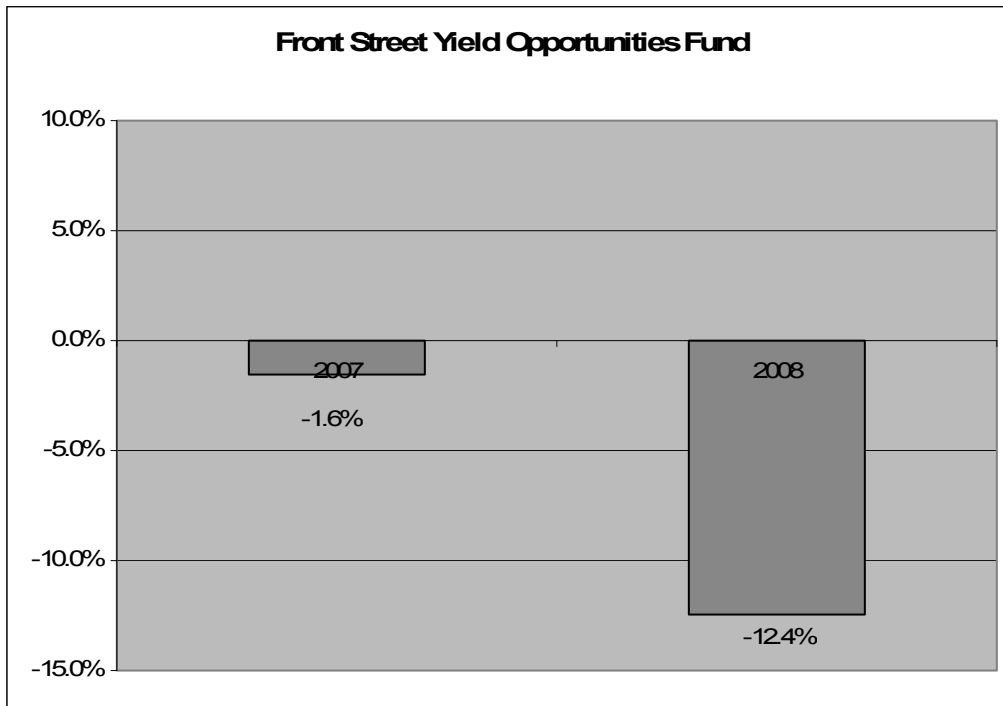
Series	Trailer Annual Rate	Annual Payment per \$1,000 of Fund securities held
A	0.75%	\$7.50
B	1.00%	\$10.00
F	0.00%	Nil
X	0.50%	\$5.00

PAST PERFORMANCE

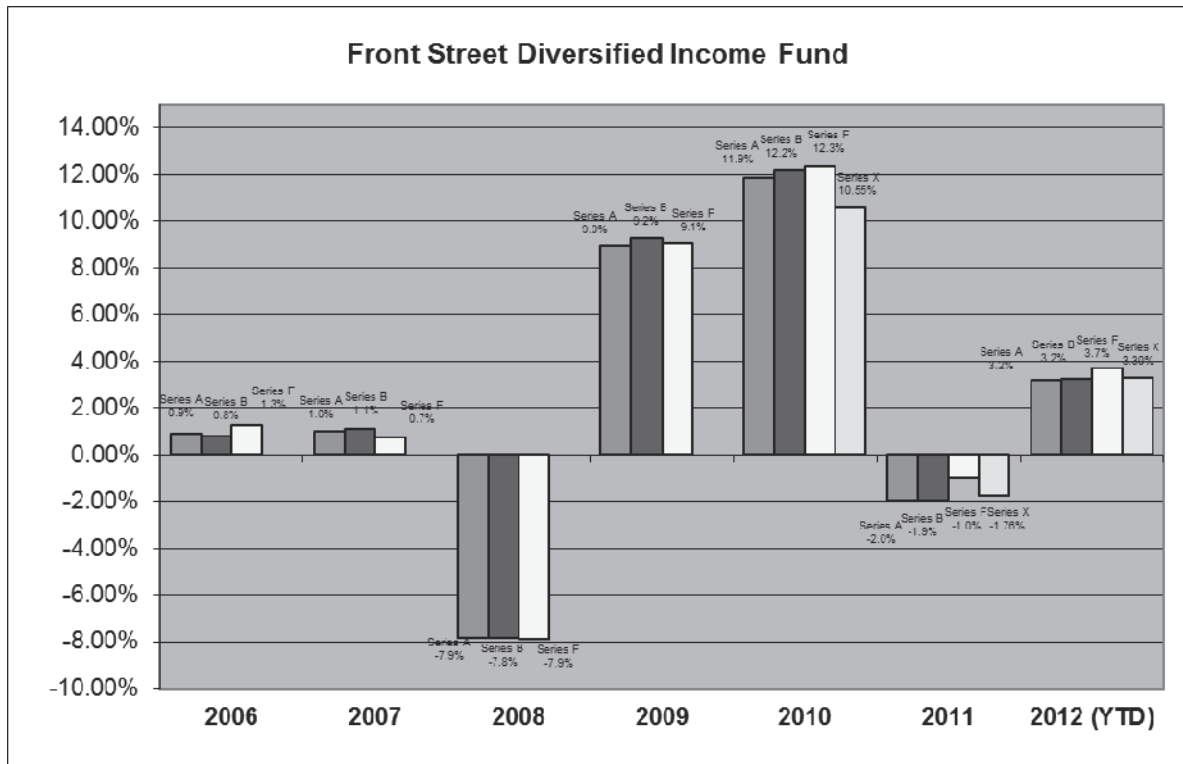
The past performance of the Fund is set out below and includes year-by-year returns.

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 the continuing Fund being Front Street Diversified Income Fund on November 1, 2008.



The above chart is the year-by-year returns for Front Street Diversified Income Fund, a class of Front Street Mutual Funds Ltd. The Fund was merged with the discontinuing Fund being 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 2008 period.

Summary of Investment Portfolio as at April 30, 2012

Portfolio by Category

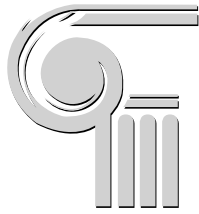
	Percentage of Transactional Net Asset Value
LONG POSITIONS	
Cash and Cash Equivalents	44.2%
Corporate Bonds	36.1%
United States	9.8%
Energy	3.8%
Financials	3.8%
Consumer Discretionary	3.5%
Information Technology	2.9%
Materials	1.1%
Industrials	0.5%
Health Care	0.4%
Government of Canada Bonds	0.3%
Bermuda	0.2%
Provincial Bonds	0.1%
Consumer Staples	0.1%
British Virgin Island	0.1%
Forward Contracts	0.1%
SHORT POSITIONS	
United States	-3.1%
Index Fund	-2.3%
Government of Canada Bonds	-0.9%
Health Care	-0.3%
Consumer Discretionary	-0.3%
Materials	-0.2%
Energy	-0.1%
Consumer Staples	-0.1%
Industrials	-0.1%
Written Option	-0.0%
Others	0.4%
	100.0%

Top 25 Holdings

	Percentage of Transactional Net Asset Value
LONG POSITIONS	
Ford Credit Canada*	2.0%
Glacier Credit Card Trust*	1.6%
Husky Energy Inc.	1.5%
Windtronics*	1.4%
Electrovaya Inc.*	1.3%
Manulife Financial Corporation	1.3%
Thomson Reuters Corporation	1.2%
Flint Energy Services Limited*	1.1%
Nal Energy Corporation	1.1%
Corning Inc.	1.1%
ProShares Short 20+ Year Treasury	1.1%
Perpetual Energy Inc.*	1.1%
Bank of Nova Scotia *	1.1%
Shaw Communications Inc.*	1.1%
OMERS Realty Corporation	1.0%
Huntingdon Capital Corporation *	0.9%
Amaya Gaming Group Inc.*	0.9%
Manulife Financial Corporation*	0.8%
Boralex Inc.*	0.8%
Wi-Lan Inc.	0.8%
REDF V Limited Partnership	0.8%
Best Buy Company Inc.	0.8%
SHORT POSITIONS	
SPDR S&P 500 ETF Trust	-2.7%
iShares S&P/TSX 60 Index Fund	-2.3%
Government of Canada *	-0.9%
	18.9%
TOTAL TRANSACTIONAL NET ASSET VALUE (000)	\$376,856

* Debt instrument

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



FRONT STREET
Diversified Income Fund

INTERIM FINANCIAL STATEMENTS

FRONT STREET DIVERSIFIED INCOME FUND

FOR THE SIX MONTHS ENDED APRIL 30, 2012

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund in accordance with standards established by the Canadian Institute of Chartered Accountants. The external auditors will be auditing the annual financial statements of the Fund in accordance with Canadian generally accepted auditing standards.

FRONT STREET DIVERSIFIED INCOME FUND

**STATEMENTS OF NET ASSETS
AS AT APRIL 30, 2012 (UNAUDITED) AND OCTOBER 31, 2011 (AUDITED)**

	2012 (Unaudited)	2011 (Audited)
ASSETS		
Investments, at fair value (cost - \$247,520,352; 2011 - \$236,598,321)	\$ 238,540,631	\$ 224,236,234
Cash and cash equivalents	166,408,900	154,448,758
Accounts receivable relating to accrued income	3,595,808	2,375,427
Accounts receivable relating to shares issued	1,307,606	1,562,680
Accounts receivable relating to portfolio assets sold	1,783,798	4,972,359
Forward contracts, at fair value, note 10	217,420	2,504,595
	<u>\$ 411,854,163</u>	<u>\$ 390,100,053</u>
LIABILITIES		
Obligations from portfolio assets sold short, at fair value	\$ 28,345,706	\$ 16,691,555
Liabilities for portfolio assets purchased	3,798,866	9,795,452
Distribution payable	1,811,685	1,643,129
Accrued expenses	1,052,503	1,031,954
Accounts payable relating to shares redeemed	426,388	935,320
	<u>35,435,148</u>	<u>30,097,410</u>
Net assets representing shareholders' equity	<u>\$ 376,419,015</u>	<u>\$ 360,002,643</u>
Net assets applicable to outstanding shares allocated as follows:		
Net assets, Series A	\$ 210,913,740	\$ 192,685,798
Shares outstanding, Series A, note 3	26,142,245	23,774,438
Net assets per share, Series A	<u>\$ 8.07</u>	<u>\$ 8.10</u>
Net assets, Series B	\$ 133,931,574	\$ 132,661,492
Shares outstanding, Series B, note 3	16,472,238	16,250,074
Net assets per share, Series B	<u>\$ 8.13</u>	<u>\$ 8.16</u>
Net assets, Series F	\$ 28,347,260	\$ 29,815,649
Shares outstanding, Series F, note 3	3,432,141	3,614,686
Net assets per share, Series F	<u>\$ 8.26</u>	<u>\$ 8.25</u>
Net assets, Series X	\$ 3,226,441	\$ 4,839,704
Shares outstanding, Series X, note 3	397,996	595,025
Net assets per share, Series X	<u>\$ 8.11</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

FRONT STREET DIVERSIFIED INCOME FUND

STATEMENTS OF OPERATIONS
FOR THE PERIODS ENDED APRIL 30, 2012 AND 2011
(UNAUDITED)

	November 1, 2011 to April 30, 2012 (Unaudited)	November 1, 2010 to April 30, 2011 (Unaudited)
Investment income		
Interest	\$ 5,481,119	\$ 2,402,266
Dividends	1,220,633	1,572,763
Less: Foreign withholding taxes	(70,236)	(65,126)
	<u>6,631,516</u>	<u>3,909,903</u>
Expenses		
Management fees, notes 4 and 7	2,335,401	1,668,085
Servicing fees, notes 4 and 7	1,424,858	1,043,619
Administration fees	440,103	213,683
Compensatory dividends	211,791	150,018
Operating costs, notes 4 and 7	62,655	36,681
Securityholder reporting costs	32,323	40,926
Audit fees	27,349	26,250
Legal fees	14,286	17,534
Independent review committee	8,906	5,555
Capital tax	—	41,042
	<u>4,557,672</u>	<u>3,243,393</u>
Net investment income for the period	<u>2,073,844</u>	<u>666,510</u>
Net realized and unrealized gains (losses) on investments		
Net realized gain on sale of investments	6,729,627	10,792,964
Gain from derivatives	2,704,200	2,217,500
Transaction costs, note 6	(307,256)	(255,899)
Change in the unrealized depreciation of the value of investments	(346,274)	(3,077,646)
Net gain on investments for the period	<u>8,780,297</u>	<u>9,676,919</u>
Net increase in net assets from operations for the period	<u>\$ 10,854,141</u>	<u>\$ 10,343,429</u>
Increase in net assets from operations applicable to outstanding shares allocated as follows:		
Increase in net assets from operations, Series A	\$ 5,859,038	\$ 5,278,168
Increase in net assets from operations per share, Series A	<u>\$ 0.24</u>	<u>\$ 0.34</u>
Increase in net assets from operations, Series B	\$ 3,867,178	\$ 4,054,393
Increase in net assets from operations per share, Series B	<u>\$ 0.24</u>	<u>\$ 0.35</u>
Increase in net assets from operations, Series F	\$ 1,022,976	\$ 916,024
Increase in net assets from operations per share, Series F	<u>\$ 0.29</u>	<u>\$ 0.40</u>
Increase in net assets from operations, Series X	\$ 104,949	\$ 94,844
Increase in net assets from operations per share, Series X	<u>\$ 0.26</u>	<u>\$ 0.36</u>

FRONT STREET DIVERSIFIED INCOME FUND

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE PERIODS ENDED APRIL 30, 2012 AND 2011
(UNAUDITED)**

	November 1, 2011 to April 30, 2012 (Unaudited)	November 1, 2010 to April 30, 2011 (Unaudited)
Series A		
Net assets, beginning of period	\$ 192,685,798	\$ 113,263,558
Net increase in net assets from operations	5,859,038	5,278,168
Distributions to Shareholders		
Return of Capital	(6,923,245)	(4,647,377)
Shareholder transactions		
Proceeds from the issuance of shares	23,777,786	56,184,649
Aggregate amounts paid on the redemption of shares	(9,175,504)	(5,098,828)
Shares issued on reinvestment of distributions	4,689,867	3,187,034
	19,292,149	54,272,855
Net increase in net assets for the period	18,227,942	54,903,646
Net assets, end of period	\$ 210,913,740	\$ 168,167,204
Series B		
Net assets, beginning of period	\$ 132,661,492	\$ 93,425,906
Net increase in net assets from operations	3,867,178	4,054,393
Distributions to shareholders		
Return of Capital	(4,421,147)	(3,431,091)
Shareholder transactions		
Proceeds from the issuance of shares	12,510,572	38,175,290
Aggregate amounts paid on the redemption of shares	(14,278,960)	(11,372,406)
Shares issued on reinvestment of distributions	3,592,439	2,798,159
	1,824,051	29,601,043
Net increase in net assets for the period	1,270,082	30,224,345
Net assets, end of period	\$ 133,931,574	\$ 123,650,251

FRONT STREET DIVERSIFIED INCOME FUND

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE PERIODS ENDED APRIL 30, 2012 AND 2011
(UNAUDITED)**

	November 1, 2011 to April 30, 2012 (Unaudited)	November 1, 2010 to April 30, 2011 (Unaudited)
Series F		
Net assets, beginning of period	\$ 29,815,649	\$ 16,990,709
Net increase in net assets from operations	1,022,976	916,024
Distributions to shareholders		
Return of Capital	(956,546)	(697,596)
Shareholder transactions		
Proceeds from the issuance of shares	4,132,908	12,202,770
Aggregate amounts paid on the redemption of shares	(6,174,984)	(4,137,231)
Shares issued on reinvestment of distributions	507,257	388,013
	(1,534,819)	8,453,552
Net increase (decrease) in net assets for the period	(1,468,389)	8,671,980
Net assets, end of period	\$ 28,347,260	\$ 25,662,689
Series X		
Net assets, beginning of period	\$ 4,839,704	\$ 2,405,202
Net increase in net assets from operations	104,949	94,844
Distributions to shareholders		
Return of Capital	(109,146)	(73,996)
Shareholder transactions		
Proceeds from the issuance of shares	458,077	460,276
Aggregate amounts paid on the redemption of shares	(2,165,569)	(430,431)
Shares issued on reinvestment of distributions	98,426	65,598
	(1,609,066)	95,443
Net increase (decrease) in net assets for the period	(1,613,263)	116,291
Net assets, end of period	\$ 3,226,441	\$ 2,521,493

FRONT STREET DIVERSIFIED INCOME FUND

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE PERIODS ENDED APRIL 30, 2012 AND 2011
(UNAUDITED)**

	November 1, 2011 to April 30, 2012 (Unaudited)	November 1, 2010 to April 30, 2011 (Unaudited)
Total		
Net assets, beginning of period	\$ 360,002,643	\$ 226,085,375
Net increase in net assets from operations	10,854,141	10,343,429
Distributions to shareholders		
Return of Capital	(12,410,084)	(8,850,060)
Shareholder transactions		
Proceeds from the issuance of shares	40,879,343	107,022,985
Aggregate amounts paid on the redemption of shares	(31,795,017)	(21,038,896)
Shares issued on reinvestment of distributions	8,887,989	6,438,804
	17,972,315	92,422,893
Net increase in net assets for the period	16,416,372	93,916,262
Net assets, end of period	\$ 376,419,015	\$ 320,001,637

FRONT STREET DIVERSIFIED INCOME FUND

STATEMENT OF INVESTMENT PORTFOLIO
AS AT APRIL 30, 2012 (UNAUDITED)

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Long Positions (63.4%)			
Energy (2.7%)			
Brasil Ecoetanol Limited Restricted	1,166,667	\$ 350,000	\$ 350,000
CanAm Coal Corporation Warrants May 9, 2013	2,332,400	-	56,337
Crew Energy Inc.	200,000	2,842,690	1,396,000
Electrovaya Inc. Warrants December 22, 2013	500,000	-	26,405
Husky Energy Inc.	215,500	5,538,436	5,525,420
PHX Energy Services Corporation	201,300	2,163,549	1,916,376
Suncor Energy Inc.	28,000	845,168	912,800
Synodon Inc.	595,238	125,000	89,286
		<u>\$ 11,864,843</u>	<u>\$ 10,272,624</u>
Materials (1.3%)			
Aeromechanical Services Limited Warrants December 23, 2014	1,250,000	\$ -	\$ 45,796
Agrium Inc.	17,500	1,528,091	1,519,700
Banro Corporation Warrants March 2, 2017	100,800	180,619	156,821
Canam Group Inc.	361,600	2,630,270	1,789,920
Colossus Minerals Inc.	189,000	-	311,850
EcoSynthetix Inc.	126,000	1,134,000	619,920
Rio Verde Minerals Development Corporation	977,300	635,245	278,531
Rio Verde Minerals Development Corporation Warrants July 28, 2016	1,077,300	-	165,611
Synodon Inc. Warrants November 9, 2012	297,619	-	-
		<u>\$ 6,108,225</u>	<u>\$ 4,888,149</u>
Consumer Discretionary (3.2%)			
Amaya Gaming Group Inc. Warrants April 30, 2015	128,500	\$ -	\$ 160,625
Boston Pizza Royalties Income Fund	11,000	147,257	200,860
ePals Corporation Restricted	1,830,000	750,300	665,022
Indigo Books & Music Inc.	292,484	3,821,099	2,661,604
Magna International Inc.	44,000	1,836,052	1,901,680
REDF II Hospitality Fund Limited Partnership Units	2,000	2,000,000	2,000,000
Thomson Reuters Corporation	155,700	4,596,232	4,571,352
TimePlay Inc. Warrants November 17, 2012	4,310,000	-	4
		<u>\$ 13,150,940</u>	<u>\$ 12,161,147</u>
Consumer Staples (0.1%)			
Saputo Inc.	7,000	\$ 277,066	\$ 322,350
Financials (3.8%)			
Bank of Montreal	15,000	\$ 881,342	\$ 879,750
C2C Industrial Properties Inc. Restricted	232,960	990,080	1,248,200
Huntingdon Capital Corporation Warrants December 31, 2016	91,980	-	280,539
Manulife Financial Corporation	365,840	4,703,049	4,935,182
Mint Technology Corporation	13,311,000	1,813,875	2,262,870
Mint Technology Corporation Warrants May 31, 2013	6,000,000	-	464,190
REDF V Limited Partnership 'B' Units	3,000	3,000,000	3,000,000
The Toronto-Dominion Bank	2,500	193,331	208,425
Urbana Corporation 'A'	1,050,400	1,285,267	1,081,912
Urbanfund Corporation	666,666	224,492	90,000
		<u>\$ 13,091,436</u>	<u>\$ 14,451,068</u>
Health Care (0.5%)			
ISEE3D Inc.	1,950,000	\$ 845,000	\$ 58,500
ISEE3D Inc. Promissory Note Warrants September 16, 2014	1,466,663	-	18,973
ISEE3D Inc. Warrants December 30, 2013	475,000	-	5,525
ISEE3D Inc. Warrants January 25, 2014	1,523,982	-	13,442
Valeant Pharmaceuticals International Inc.	30,000	1,116,538	1,649,795
		<u>\$ 1,961,538</u>	<u>\$ 1,746,235</u>
Industrials (0.5%)			
SNC-Lavalin Group Inc.	50,000	\$ 1,881,324	\$ 1,850,000
Whitemud Resources Inc. Warrants August 6, 2012	160,000	-	-
		<u>\$ 1,881,324</u>	<u>\$ 1,850,000</u>

FRONT STREET DIVERSIFIED INCOME FUND

STATEMENT OF INVESTMENT PORTFOLIO
AS AT APRIL 30, 2012 (UNAUDITED)

	Number of Shares/ Par Value/ Units		Cost \$		Fair Value \$
Information Technology (2.8%)					
Celestica Inc.	185,100	\$	1,452,546	\$	1,632,582
Epals Corporation	3,000,000		1,920,000		1,185,000
GuestLogix Inc.	300,000		235,500		162,000
Pure Technologies Limited	578,200		2,467,837		2,821,616
Radiant Communications Corporation	142,000		146,299		71,000
Redknee Solutions Inc.	300,476		338,528		384,609
Research In Motion Limited	10,000		719,035		141,000
TransGaming Inc.	1,096,500		743,523		323,468
TransGaming Inc. Warrants December 23, 2012	375,000		-		14,088
VoodooVox Inc.	13,404,384		1,340,078		804,263
Wi-LAN Inc.	531,200		3,218,015		2,990,656
		\$	<u>12,581,361</u>	\$	<u>10,530,282</u>
Telecommunication Services (0.3%)					
DHX Media Limited	1,210,400	\$	1,476,717	\$	1,065,152
Hemisphere GPS Inc.	262,960		291,282		207,738
		\$	<u>1,767,999</u>	\$	<u>1,272,890</u>
Corporate Bonds (41.7%)					
Advantage Oil & Gas Limited 5.000%, January 30, 2015	1,490,000	\$	1,437,323	\$	1,426,675
Aecon Group Inc. 7.000%, September 30, 2014	211,000		213,189		222,078
6.250%, October 31, 2015	1,217,000		1,271,461		1,283,935
Aeromechanical Services Limited 8.000%, Convertible Debentures, December 22, 2014	1,000,000		1,000,000		1,000,000
AG Growth International Inc. 7.000%, December 31, 2014	2,173,000		2,229,774		2,325,110
Airgas Inc. 4.500%, September 15, 2014	500,000		536,476		529,647
Amaya Gaming Group Inc. 10.500%, April 30, 2014	2,570,000		2,570,000		3,418,100
Arcan Resources Limited 6.250%, February 28, 2016	2,565,000		2,542,406		2,513,700
Armtec Holdings Limited 8.875%, September 22, 2017	925,000		774,688		573,500
Armtec Infrastructure Inc. 6.500%, June 30, 2017	711,000		548,073		416,006
Artis Real Estate Investment Trust 5.000%, Convertible Debentures, November 30, 2014	150,000		1,388,265		1,388,265
Atlantic Power Corporation 5.600%, June 30, 2017	1,200,000		1,202,385		1,230,000
Bank of Montreal 4.650%, March 14, 2013	1,500,000		1,549,725		1,538,670
Bank of Nova Scotia 5.040%, April 8, 2013	4,000,000		4,159,378		4,125,840
Banro Corporation 10.000%, March 1, 2017	2,100,000		1,917,179		1,847,605
Baytex Energy Corporation 9.150%, August 26, 2016	2,000,000		2,200,000		2,141,980
Bell Aliant Inc. 4.950%, February 26, 2014	2,000,000		2,099,200		2,079,580
Boralex Inc. 6.750%, June 30, 2017	2,958,460		2,986,559		3,062,006
BTB Real Estate Investment Trust 8.000%, January 31, 2016	1,000,000		1,000,000		1,020,000
Bunge Limited Finance Corporation 5.100%, July 15, 2015	500,000		511,590		532,029
Bunge NA Finance Limited Partnership 5.900%, April 1, 2017	1,000,000		1,050,652		1,112,527
CanAm Coal Corporation 9.500%, Debentures, May 9, 2014	1,400,000		1,400,000		1,400,000
Canam Group Inc. 6.250%, October 31, 2015	1,705,000		1,660,056		1,739,100

FRONT STREET DIVERSIFIED INCOME FUND

STATEMENT OF INVESTMENT PORTFOLIO
AS AT APRIL 30, 2012 (UNAUDITED)

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Canexus Corporation 5.750%, December 31, 2015	564,000	563,295	603,311
Capital Power Limited Partnership 4.600%, December 1, 2015	1,000,000	999,680	1,023,180
Capstone Infrastructure 6.500%, Convertible Debentures, December 31, 2016	1,200,000	1,145,400	1,201,320
Celtic Exploration Limited 5.000%, April 30, 2017	990,000	990,000	999,900
Chorus Aviation Inc. 9.500%, December 31, 2014	1,000,000	1,000,000	1,032,600
Colossus Minerals Inc. 9.000%, December 31, 2016	3,150,000	3,150,000	2,535,750
Cominar Real Estate Investment Trust 5.800%, September 30, 2014	985,000	1,005,931	1,020,460
Connacher Oil and Gas 4.750%, Convertible Debentures, June 30, 2012	1,000,000	998,750	997,700
Dean Foods Company 7.000%, June 1, 2016	2,000,000	1,914,128	2,047,530
Duke Funding Limited Floating Rate, August 7, 2033	2,000,000	705,709	148,283
Dundee International Real Estate 5.500%, July 31, 2018	1,300,000	1,236,625	1,318,070
Electrovaya Inc. Promissory Notes, 6.000% December 31, 2013	5,000,000	5,000,000	5,000,000
Extencicare Real Estate Investment Trust 5.700%, June 30, 2014	1,495,000	1,231,899	1,503,223
Fairfax Financial Holdings Limited 7.375%, April 15, 2018	505,000	518,851	559,924
Flint Energy Services Limited 7.500%, June 15, 2019	3,925,000	3,885,750	4,284,883
Ford Credit Canada Limited 4.200%, November 14, 2013	1,900,000	1,899,031	1,930,837
4.875%, March 17, 2014	3,500,000	3,500,000	3,568,425
7.500%, August 18, 2015	2,000,000	2,015,000	2,183,460
Fortress Paper Limited 6.500%, December 31, 2016	1,400,000	1,400,000	1,424,500
Fusion Trust Series 'D' Medium Term Notes, 5.450%, November 15, 2012	2,000,000	2,000,000	2,000,000
Galp Cypress 'P' Special Preferred Interest 14.000%, July 1, 2013	500,000	482,174	494,276
Galp 'P' Special Preferred Interest 14.000%, July 1, 2013	500,000	482,174	494,276
Glacier Credit Card Trust 5.027%, February 20, 2013	6,000,000	6,411,900	6,157,200
Great-West Life Annuity Floating Rate, 7.153%, May 16, 2046	2,000,000	1,947,948	1,977,105
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	1,589,195
Harvest Operations Corporation 7.250%, September 30, 2013	373,000	245,992	380,497
Huntingdon Capital Corporation 7.500%, December 31, 2016	3,285,000	3,285,000	3,416,729
Hydro One Inc. 5.770% November 15, 2012	1,500,000	1,546,383	1,534,665
3.130% November 19, 2014	1,000,000	1,010,000	1,026,960
IBI Group Inc. 7.000%, December 31, 2014	1,747,000	1,752,928	1,808,494
ISEE3D Inc. Promissory Notes, 6.000%, January 25, 2014	850,000	850,000	850,000
Promissory Notes, 6.000%, September 14, 2014	550,000	550,000	550,000
IXIS ABS CDO Limited 2005-A1 B2L October-12-40	2,000,000	602,268	494,276

FRONT STREET DIVERSIFIED INCOME FUND

STATEMENT OF INVESTMENT PORTFOLIO
AS AT APRIL 30, 2012 (UNAUDITED)

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Just Energy Exchange Corporation 6.000%, Convertible Debentures, September 30, 2014	1,500,000	1,496,875	1,515,000
Landrill International Inc. 10.000% Convertible Debentures January 31, 2013	1,250,000	1,250,000	1,250,000
10.000% Convertible Debentures February 12, 2013	150,000	150,000	150,000
Manulife Financial Corporation 4.670%, March 28, 2013	3,000,000	3,089,400	3,063,240
MicroPlanet Technology Corporation 12.000%, October 14, 2012	750,000	750,000	750,000
Nal Energy Corporation 6.250%, March 31, 2017	2,160,000	2,160,360	2,219,616
Nal Oil & Gas Trust 6.750%, Convertible Debentures, August 31, 2012	2,000,000	2,026,000	2,023,200
New Gold Inc. 10.000%, Unsecured Series 'D' Notes, June 28, 2017	1,000,000	1,055,500	1,050,100
OMERS Realty Corporation 4.090%, June 4, 2013	1,500,000	1,558,500	1,538,100
Omers Realty CTT Holdings 2 Inc. 4.050%, May 5, 2014	2,000,000	2,117,600	2,082,340
Pembina Pipeline Corporation 5.750%, Convertible Debentures, December 31, 2018	1,500,000	1,576,875	1,647,600
Perpetual Energy Inc. 6.500%, June 30 2012	2,096,000	2,083,147	2,096,000
8.750%, March 15, 2018	2,490,000	2,453,250	2,147,003
Premium Brands Holding Corporation 7.000%, December 31, 2014	1,000,000	1,000,000	1,185,700
Progress Energy Resources Corporation 5.250%, October 31, 2014	1,250,000	1,263,813	1,247,250
Royal Bank of Canada 4.530%, May 7, 2012	1,000,000	1,032,600	1,000,360
5.060%, July 17, 2013	1,500,000	1,587,150	1,561,020
Royal Host Inc. 6.000%, October 31, 2015	669,000	571,033	541,890
Scott's Real Estate Investment Trust 7.750%, December 31, 2014	500,000	500,000	500,250
Shaw Communications Inc. 6.100%, November 16, 2012	1,910,000	1,971,598	1,952,402
7.500%, November 20, 2013	2,000,000	2,204,000	2,154,700
Sherritt International Corporation 8.000%, November 15, 2018	1,900,000	1,900,000	2,038,814
Shoppers Drug Mart Corporation 5.190%, January 20, 2014	2,000,000	2,134,000	2,102,280
Southern Pacific Resources Corporation 6.000%, June 30, 2016	2,000,000	1,946,250	2,111,600
Superior Plus Income Fund 5.750%, Convertible Debentures, December 31, 2012	1,050,000	1,026,126	1,056,405
TELUS Corporation 5.000% June 3, 2013	1,500,000	1,560,150	1,547,685
4.950% May 15, 2014	1,000,000	1,057,590	1,053,370
The Churchill Corporation 6.000%, June 30, 2015	1,519,000	1,531,122	1,534,190
The Toronto-Dominion Bank 5.141%, November 19, 2012	2,000,000	2,109,000	2,040,760
TimePlay Inc. 6.000%, Debentures, May 17, 2013	2,500,000	2,500,000	2,500,000
Toronto Hydro Corporation 6.110%, May 6, 2013	500,000	531,900	521,015
TransAlta Corporation 6.450%, May 29, 2014	1,500,000	1,622,700	1,594,710
TransCanada Corporation 5.050%, August 20, 2013	1,500,000	1,592,850	1,562,370
Valeant Pharmaceuticals International Inc. 6.750%, October 1, 2017	1,350,000	1,250,951	1,374,582
VoodooVox Inc. 15.000%, Debentures, March 12, 2013	231,000	231,000	231,000
Wentwood Roundhill Limited Partnership 'P' Special Preferred Interest 14.000%, July 1, 2013	500,000	482,174	494,276
Wentwood Woodside 'P' Special Preferred Interest 14.000%, July 1, 2013	500,000	482,174	494,276

FRONT STREET DIVERSIFIED INCOME FUND

**STATEMENT OF INVESTMENT PORTFOLIO
AS AT APRIL 30, 2012 (UNAUDITED)**

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Windtronics LLC Promissory Notes			
10.000%, December 31, 2012	521,644	515,197	515,673
15.000%, December 31, 2012	600,000	591,180	593,132
Windtronics Promissory Notes			
15.000%, September 7, 2012	4,000,000	4,000,000	4,000,000
World Food Processing Inc.			
9.000%, Convertible Debentures, January 31, 2015	1,000,000	1,024,947	988,553
Xinergy Corporation			
9.250%, May 15, 2019	3,850,000	3,639,106	2,783,084
Yellow Media Inc.			
6.500% July 10, 2013	900,000	799,250	567,000
6.250% October 1, 2017	2,300,000	2,007,626	391,000
		<u>\$ 159,448,145</u>	<u>\$ 157,098,528</u>
Government of Canada Bonds (0.3%)			
Government of Canada			
3.500%, June 1, 2013	1,000,000	\$ 1,033,600	\$ 1,023,640
Provincial Bonds (0.1%)			
Province of Quebec			
3.300%, Real Return Bonds, December 1, 2013	416,000	\$ 492,538	\$ 530,712
Call Option (0.0%)			
Windtronics, LLC 300 June 30, 2012	834	\$ -	\$ -
Put Option (0.0%)			
Financial Select Sector SPDR Fund 15, May 22, 2012	100	\$ 5,113	\$ 1,285
Global Equities (6.0%)			
Bermuda (0.2%)			
Bunge Limited	9,000	\$ 517,771	\$ 573,855
United States (5.8%)			
Annaly Capital Management Inc.	70,000	\$ 1,267,829	\$ 1,127,938
Best Buy Company Inc.	132,900	3,558,918	2,898,213
Corning Inc.	296,600	4,302,427	4,204,555
FMC Corporation	5,000	369,823	545,384
Immersion USA INC.	72	501,505	498,230
JPMorgan Chase & Company	38,500	1,504,992	1,634,265
Microsoft Corporation	38,950	995,992	1,232,517
Monsanto Company	18,000	1,445,038	1,355,365
Oracle Corporation	40,000	1,044,401	1,162,142
ProShares Short 20+ Year Treasury ETF	133,600	5,149,410	4,172,111
Sanderson Farms Inc.	8,500	371,066	433,327
The Dow Chemical Company	13,400	444,379	448,662
The Goldman Sachs Group Inc.	18,500	2,382,673	2,105,157
Windtronics, LLC Warrants January 1, 2014	10,000	-	-
Windtronics, LLC Warrants January 1, 2015	4,000	-	-
		<u>\$ 23,338,453</u>	<u>\$ 21,817,866</u>
Total Long Positions (63.4%)		<u>\$ 247,520,352</u>	<u>\$ 238,540,631</u>
Short Positions			
Consumer Discretionary (-0.3%)			
Amaya Gaming Group Inc.	(37,700)	\$ (140,764)	\$ (150,423)
Tim Hortons Inc.	(16,000)	(779,611)	(912,800)
		<u>\$ (920,375)</u>	<u>\$ (1,063,223)</u>
Government of Canada Bonds (-0.9%)			
Government of Canada			
8.000%, June 1, 2027	(2,060,000)	\$ (3,588,520)	\$ (3,512,115)

FRONT STREET DIVERSIFIED INCOME FUND

STATEMENT OF INVESTMENT PORTFOLIO
AS AT APRIL 30, 2012 (UNAUDITED)

	Number of Shares/ Par Value/ Units	Cost \$	Fair Value \$
Materials (-0.2%)			
Banro Corporation	(20,000)	(105,554)	(84,200)
Colossus Minerals Inc.	(25,000)	(176,635)	(116,000)
Fortress Paper Limited	(19,800)	(703,459)	(497,772)
		<u>\$ (985,648)</u>	<u>\$ (697,972)</u>
Energy (-0.1%)			
Progress Energy Resources Corporation	(9,500)	(100,320)	(103,360)
Southern Pacific Resource Corporation	(250,000)	(419,000)	(395,000)
		<u>\$ (519,320)</u>	<u>\$ (498,360)</u>
Consumer Staples (-0.1%)			
Alimentation Couche-Tard Inc. 'B'	(12,500)	\$ (481,000)	\$ (535,625)
Industrials (-0.1%)			
AG Growth International Inc.	(13,000)	\$ (469,577)	\$ (529,880)
Health Care (-0.3%)			
Valeant Pharmaceuticals International Inc.	(20,000)	\$ (880,000)	\$ (1,101,000)
United States (-3.1%)			
Financial Select Sector SPDR Fund	(102,700)	\$ (1,565,403)	\$ (1,567,535)
SPDR S&P 500 ETF Trust	(73,460)	(9,200,257)	(10,162,313)
		<u>\$ (10,765,660)</u>	<u>\$ (11,729,848)</u>
Index Fund (-2.4%)			
iShares S&P/TSX 60 Index Fund	(488,900)	\$ (8,539,956)	\$ (8,594,862)
Written Option (-0.0%)			
Agrium Inc. 93 WCO May/2012	(80)	\$ (12,528)	\$ (4,745)
Alimentation Couche-Tard Inc. 'B' 38 WPO May/2012	(125)	(9,875)	(1,875)
CF Industries Holdings Inc. 175 WPO May/2012	(70)	(30,962)	(9,688)
Financial Select Sector SPDR Fund 14 WPO May/2012	(100)	(1,905)	(395)
JPMorgan Chase & Company 44 WCO May/2012	(200)	(34,272)	(8,304)
Magna International Inc. 48 WCO May/2012	(220)	(35,860)	(3,300)
Manulife Financial Corporation 14 WCO May/2012	(380)	(19,760)	(6,460)
Monsanto Company 85 WCO May/2012	(90)	(14,184)	(356)
Suncor Energy Inc. 35 WCO May/2012	(200)	(15,483)	(5,338)
The Dow Chemical Company 35 WCO May/2012	(75)	(5,554)	(2,521)
The Goldman Sachs Group Inc. 115 WCO May/2012	(155)	(87,047)	(39,839)
		<u>\$ (267,430)</u>	<u>\$ (82,821)</u>
Total Short Positions (-7.5%)		<u>\$ (27,417,486)</u>	<u>\$ (28,345,706)</u>
Unrealized Gain on Forward Foreign Currency Contract, note 10 (0.1%)		<u>\$ -</u>	<u>\$ 217,420</u>
Transaction costs, note 2		<u>\$ (317,335)</u>	
Total Investments (55.9%)		<u>\$ 219,785,531</u>	210,412,345
Cash and cash equivalents (44.2%)			166,408,900
Other assets less other liabilities (-0.1%)			<u>(402,230)</u>
Net assets (100.0%)			<u>\$ 376,419,015</u>

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

1. THE FUND

Front Street Diversified Income Fund (the "Fund") is a class of shares of Front Street Mutual Funds Limited (the "Corporation"), a mutual fund corporation incorporated under the Canada Business Corporations Act on April 11, 2006, and is authorized to issue an unlimited number of classes of shares in multiple series. Reference is made to the Fund's Simplified Prospectus for additional information on the Fund's structure. Series A commenced operations on 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 April 30, 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 FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

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. 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, distributions payable, accrued expenses and accounts payable relating to shares redeemed 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 8) as well as description of the differences between the valuation principles and practices used by the Manager to calculate the net asset value and those prescribed by Canadian GAAP.

b) Valuation of investments

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

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

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 FUND

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

c) Financial instruments disclosure and presentation and fair value measurements

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

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

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

See note 12 for additional details.

d) Transaction costs

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

e) Cash and cash equivalents

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

f) Investment transactions and income recognition

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

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

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

g) Foreign currency translation

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

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

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

i) 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 period.

j) Capital disclosures

The Fund has adopted CICA Handbook Section 1535, Capital Disclosures, which requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. See note 11 for additional details.

k) General standards on financial statement presentation

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

l) Estimates

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

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued...)

m) Future accounting pronouncements

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

International financial reporting standards ("IFRS")

Effective for its fiscal year commencing November 1, 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.

At October 31, 2011, the IASB has published an exposure draft for comment addressing specific issues relating to Investment Companies and Funds.

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

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

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

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

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.

Series X shares

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

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

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

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

The following share transactions took place during the period:

	November 1, 2011 to April 30, 2012	November 1, 2010 to April 30, 2011
Shares outstanding, beginning of the period:		
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 period:		
Series A	2,914,545	6,283,328
Series B	1,518,598	4,239,763
Series F	496,864	1,355,495
Series X	55,763	51,243
Share distributions reinvested during the period:		
Series A	578,186	358,710
Series B	439,503	312,832
Series F	61,165	43,214
Series X	12,079	7,367
Shares redeemed during the period:		
Series A	1,124,924	570,643
Series B	1,735,937	1,266,090
Series F	740,574	460,309
Series X	264,871	48,175
Shares outstanding, end of the period:		
Series A	26,142,245	18,926,090
Series B	16,472,238	13,822,433
Series F	3,432,141	2,854,379
Series X	397,996	283,115

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

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 year. 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.

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

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.

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

6. TRANSACTION COSTS

The total brokerage commissions paid by the Fund with respect to securities transactions for the period ended April 30, 2012 was \$307,256 (April 30, 2011 - \$255,899).

7. RELATED PARTY TRANSACTIONS

Management fees of \$2,335,401 (April 30, 2011 - \$1,668,085) were paid to the Manager during the period (see note 4). Servicing fees of \$1,424,858 (April 30, 2011 - \$1,043,619) were paid to the Manager during the period (see note 4). Operating costs of \$62,655 (April 30, 2011 - \$36,681) were paid to the Manager during the period (see note 4). Included in accrued expenses are \$405,879 (October 31, 2011 - \$385,699) of management fees payable to the Manager. Included in accrued expenses are \$240,790 (October 31, 2011 - \$236,762) of accrued servicing fees payable to the Manager. Included in accrued expenses are \$45,595 (October 31, 2011 - \$3,412) of accrued operating costs payable to the Manager.

766,913.547 (October 31, 2011 - 741,769.388) of series B shares outstanding at period end representing 4.66% (October 31, 2011 - 4.56%) of the total series B shares of the Fund are held by the Partners of the Manager.

38,977.654 (October 31, 2011 - 37,714.180) of series F shares outstanding at period end representing 1.14% (October 31, 2011 - 1.04%) of the total series F shares of the Fund are held by the Partners of the Manager.

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of the Manager provided it determines that these affiliates' trade execution abilities and costs are comparable to those non affiliated, qualified brokerage firms, on an execution only basis. During the period ended April 30, 2012, Tuscarora Capital Inc, a company under common control to the Manager, received \$Nil (April 30, 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.

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

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

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

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

As at April 30, 2012

	Transactional NAV	<u>Net Asset Value</u>		<u>Net Assets per Share</u>	
		Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA
Series A	\$ 211,158,741	\$ (245,001)	\$ 210,913,740	\$ 8.08	\$ 8.07
Series B	134,086,909	(155,335)	133,931,574	8.14	8.13
Series F	28,380,282	(33,022)	28,347,260	8.27	8.26
Series X	3,230,175	(3,734)	3,226,441	8.12	8.11
Total Net Asset Value	\$ 376,856,107	\$ (437,092)	\$ 376,419,015		

As at October 31, 2011

	Transactional NAV	<u>Net Asset Value</u>		<u>Net Assets per Share</u>	
		Section 3855 Adjustment	GAAP NA	Transactional NAV	GAAP NA
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 Net Asset Value	\$ 359,547,241	\$ 455,402	\$ 360,002,643		

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

9. FINANCIAL INSTRUMENTS

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

	As at April 30, 2012	As at October 31, 2011
Assets		
Held for trading	\$ 238,758,051	\$226,740,829
Cash and cash equivalents	166,408,900	154,448,758
Loans and receivables	<u>6,687,212</u>	<u>8,910,466</u>
Total Assets	<u>411,854,163</u>	<u>390,100,053</u>
Liabilities		
Held for trading	28,345,706	16,691,555
Other financial liabilities at amortized cost	<u>7,089,442</u>	<u>13,405,855</u>
Total liabilities	<u>35,435,148</u>	<u>30,097,410</u>
Net Assets	<u>\$ 376,419,015</u>	<u>\$ 360,002,643</u>

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

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

9. 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 April 30, 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	Investments, at fair value	Cash	Forward Contracts, at fair value	Total	Percentage of GAAP NA
United States Dollar	<u>\$ 29,879,644</u>	<u>\$ 32,378,283</u>	<u>\$(53,876,115)</u>	<u>\$ 8,381,812</u>	<u>2.23%</u>

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

9. FINANCIAL INSTRUMENTS (Continued...)

iii) Interest rate risk

The Fund may invest in fixed and floating rate securities. The income of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future. Interest payable on bank overdraft or broker margin account positions will be affected by fluctuations in interest rates. As at April 30, 2012, there were 40.7% (October 31, 2011 – 34.6%) of net assets which are held in bonds. There were investments in short term investments representing 9.0% (October 31, 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 and its exposure to interest rate changes is minimal.

Financial assets	Floating Rate Financial Assets	Fixed Rate Financial Assets	Non-interest bearing	Total
Held for trading	\$ 642,559	\$ 158,010,321	\$ 81,937,966	\$ 238,758,051
Other receivables	-	-	6,687,212	6,687,212
Cash and cash equivalents	<u>132,368,863</u>	<u>34,040,037</u>	<u>-</u>	<u>166,408,900</u>
Total	<u>\$ 133,011,422</u>	<u>\$ 192,050,358</u>	<u>\$ 86,792,383</u>	<u>\$ 411,854,163</u>
Financial liabilities				
Held for trading	\$ -	\$ 3,512,115	\$ 24,833,591	\$ 28,345,706
Other financial liabilities	<u>-</u>	<u>-</u>	<u>7,089,442</u>	<u>7,089,442</u>
Total	<u>\$ -</u>	<u>\$ 3,512,115</u>	<u>\$ 31,923,033</u>	<u>\$ 35,435,148</u>
GAAP NA				<u>\$ 376,419,015</u>

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

9. FINANCIAL INSTRUMENTS (Continued...)

iv) Liquidity risk

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

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

Financial assets	0-12 months	1 - 3 years	3 - 5 years	Beyond 5 years	Indefinite maturity	Total
Held for trading	22,393,091	74,314,473	30,269,431	31,675,885	80,105,171	238,758,051
Other receivables	6,687,212	-	-	-	-	6,687,212
Cash and cash equivalents	166,408,900	-	-	-	-	166,408,900
Total	<u>\$ 195,489,203</u>	<u>\$ 74,314,473</u>	<u>\$ 30,269,431</u>	<u>\$ 31,675,885</u>	<u>\$ 80,105,171</u>	<u>\$ 411,854,163</u>
Financial liabilities						
Held for trading	-	-	-	3,512,115	24,833,951	28,345,706
Other financial liabilities	7,089,442	-	-	-	-	7,089,442
Total	<u>\$ 7,089,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,512,115</u>	<u>\$ 24,833,951</u>	<u>\$ 35,435,148</u>
GAAP NA						<u>\$ 376,419,015</u>

Certain of the Fund's investments are in private securities which are thinly traded. As at April 30, 2012, the fair value of such assets was 8.9% (October 31, 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.

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

9. FINANCIAL INSTRUMENTS (Continued...)

vi) Credit risk

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

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

As at April 30, 2012, the Fund had \$136,259,789 (October 31, 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	Percentage of GAAP
AAA	1.23%
AA-	2.32%
AA	0.41%
A+	1.35%
A-	1.37%
BBB+	2.67%
BBB	2.10%
BBB-	0.59%
BB+	2.36%
BB	1.48%
BB-	0.89%
B+	0.54%
B	1.39%
Not available or not rated	23.21%

As at April 30, 2012, the Fund's investment portfolio included \$1,832,795 (face value of \$2,300,000) 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.

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

(UNAUDITED)

10. 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 April 30, 2012, the Fund has contracted to sell U.S. dollar currency in aggregate amounting to Cdn \$53,876,115 at a forward rate of 0.99270 maturing on May 08, 2012.

The net unrealized gain from the contracts amounted to \$217,420 as at April 30, 2012.

11. CAPITAL MANAGEMENT

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

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

The Fund does not have any externally imposed capital requirements.

FRONT STREET DIVERSIFIED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011 (UNAUDITED)

12. FAIR VALUE HIERARCHY

The following is a summary of the inputs used as of April 30, 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 April 30, 2012	Level 1	Level 2	Level 3	Total
Investments, at fair value	\$ 70,998,483	\$ 134,074,832	\$ 33,467,316	\$ 238,540,631
Short-term notes	-	34,040,037	-	34,040,037
Forward contracts at fair value	-	217,420	-	217,420
	<u>\$ 70,998,483</u>	<u>\$ 168,332,289</u>	<u>\$ 33,467,316</u>	<u>\$ 272,798,088</u>
Liabilities at fair value as at April 30, 2012	Level 1	Level 2	Level 3	Total
Obligations from portfolio assets sold short, at fair value	<u>\$ 24,833,591</u>	<u>\$ 3,512,115</u>	<u>\$ -</u>	<u>\$ 28,345,706</u>
	<u>\$ 24,833,591</u>	<u>\$ 3,512,115</u>	<u>\$ -</u>	<u>\$ 28,345,706</u>

	Investments, at fair value Equities	Investments, at fair value Bonds
Beginning balance at November 1, 2011	\$ 3,836,620	\$ 25,593,031
Purchases	3,162,500	4,457,358
Sales	(1,475,259)	(1,635,706)
Transfers in	-	-
Gains (losses)		
Realized	355,081	3,860
Unrealized	<u>(30,707)</u>	<u>(799,462)</u>
Balance at April 30, 2012	<u>\$ 5,848,235</u>	<u>\$ 27,619,081</u>



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