



FRONT STREET
Mutual Funds Limited

FRONT STREET MUTUAL FUNDS LIMITED

Management Report of Fund Performance

and

Interim Financial Statements

April 30, 2007

Diversified Income Fund

Interim Management Report of Fund Performance As at April 30, 2007 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 Interim 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 Fund will seek to provide shareholders with the opportunity to receive monthly distributions targeted to yield of 5.5% per year on the original issue price of the Units and generate capital appreciation on the portfolio with a reduced measure of risk.

The Fund's portfolio consists primarily of securities of income trusts, although the Fund also invests in preferred shares, corporate and government debt securities and common shares.

The Fund's ability to manage risk and volatility through the strategic use of long and short positions is a key element in achieving its investment objective.

The Fund will retain a net long bias to assist its investment strategy.

RISK

The Most of the Fund's assets will be invested in income producing securities, some 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, the risks of investing in derivatives, and the risk associated with investing in securities of junior industrial, technology and natural resource companies.

Currency risk proved to have a minimal effect on the Fund's returns, as the Canadian dollar strengthened, relative to the U.S. dollar, over the year. Currency risk impacted principally the Fund's investments that had revenue in U.S. dollars. Volatility in currency markets continues to be high, suggesting uncertainty going forward on this front.

Equity risk also affected Fund volatility. Specifically, the threat of oil-supply disruptions kept the price of oil high. While market volatility was high overall, the high price of oil and gas was a positive factor that contributed to Canadian equity market performance, particularly in the energy sector.

Interest-rate risk was also a factor, as global central banks and bond and equity markets closely monitored the U.S. Federal Reserve's monetary policy activities and public communications for indications as to when the current cycle of monetary policy tightening may be ending. As higher borrowing costs tend to slow the economy, rising interest rates tend to have a negative impact on the outlook for corporate-profit growth and therefore equity market performance.

Political risk was also in evidence this year as the government announced changes in tax policy on income trusts on October 31, 2006. This will increase volatility and risk.

The Fund has multiple risks associated with equity markets. Investors whose primary concern is preservation of capital should not be invested in this Fund. The Fund is suitable for investors seeking monthly income and long-term growth with a tolerance for risk and volatility and a long-term investment horizon.

The risks of investing in the Fund are further discussed in the Fund's Annual Information Form dated June 13, 2007.

RESULTS OF OPERATIONS

The Fund met its distribution objectives of 5.5% per annum and was able to maintain its net asset value per unit through the year.

Positive contributions from the portfolio came from REITS, oil and gas royalty trusts and business trusts. Marginal contributions came from the interest sensitive sector.

The outlook for 2007 is for tax policy clarification, moderate interest rate increases and weakness in the royalty sector coupled with natural production declines. Business trusts should perform in line with the economy as it continues to deliver strong results.

RECENT DEVELOPMENTS

The Fund anticipates that volatility will continue in the equity markets for the foreseeable future. The perception exists that inventory levels are tight in most commodity groups leading to an inability to cushion any shocks to the system. This reality, coupled with a benign interest rate environment, has led to steady economic growth.

ADOPTION OF NEW ACCOUNTING STANDARDS

On April 1, 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3855, “Financial Instruments – Recognition and Measurement” of the CICA Handbook – Accounting, which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 applies to fiscal years beginning on or after October 1, 2006. Additionally, Section 14.2 of National Instrument 81-106 (“NI 81-106”) issued by the Canadian Securities Administrators in 2005 requires the daily net asset value of an investment fund to be calculated in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The adoption of Section 3855 would result in the use of different valuation techniques for certain investments.

Canadian securities regulatory authorities granted relief to investment funds complying with Section 3855 for the purposes of calculating of net asset value used for the investor transactions (“Transactional NAV”) for a one year period ending September 30, 2007. The Canadian Securities Administrators are currently reviewing the suitability of applying Section 3855 for the purposes other than the preparation of financial statements. Depending on the outcome of such review, the method by which net asset value is calculated may change on October 1, 2007.

RELATED PARTY-TRANSACTIONS

The Fund may place a portion of its portfolio transactions with brokerage firms which are affiliates of Front Street Mutual Funds Limited, the manager of the Fund, and the Investment Advisor, 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. For the six months ended April 30, 2007, Tuscarora Capital Inc. received \$6,528 in commission on portfolio transactions for the Fund.

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 since inception. This information is derived from the Fund's audited annual financial statements and interim financial statements for the year-to-date.

FRONT STREET DIVERSIFIED INCOME FUND CLASS SERIES A

FOR THE PERIODS ENDED	April 30, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$
The Fund's Net Asset Value (NAV) per Share					
Net asset value, beginning of period⁽⁷⁾	9.92	10.00	-	-	-
Increase (decrease) from operations:					
Total revenue	0.22	0.15	-	-	-
Total expenses	(0.22)	(0.32)	-	-	-
Realized gains (losses)	0.05	0.04	-	-	-
Unrealized gains (losses)	0.21	0.69	-	-	-
Total increase (decrease) from operations⁽¹⁾	0.26	0.56	-	-	-
Distributions:					
From income (excluding dividends)	(0.28)	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	(0.15)	-	-	-
Total distributions⁽²⁾	(0.28)	(0.15)	-	-	-
Net asset value, end of period⁽⁷⁾	9.76	9.94	-	-	-
Ratios and Supplemental Data Series A					
Net assets (000's) ⁽³⁾	10,484	5,777	-	-	-
Number of shares outstanding	1,073,820	581,171	-	-	-
Management expense ratio ⁽⁴⁾	4.55%	9.23%	-	-	-
Management expense ratio before waivers or absorptions	4.55%	9.23%	-	-	-
Portfolio turnover rate ⁽⁵⁾	162.95%	38.23%	-	-	-
Trading expense ratio ⁽⁶⁾	0.21%	0.61%	-	-	-



FRONT STREET DIVERSIFIED INCOME FUND CLASS SERIES B

FOR THE PERIODS ENDED	April 30, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$
The Fund's Net Asset Value (NAV) per Share					
Net asset value, beginning of period ⁽⁷⁾	9.91	10.00	-	-	-
Increase (decrease) from operations:					
Total revenue	0.21	0.17	-	-	-
Total expenses	(0.21)	(0.38)	-	-	-
Realized gains (losses)	0.05	0.04	-	-	-
Unrealized gains (losses)	0.09	0.85	-	-	-
Total increase (decrease) from operations ⁽¹⁾	0.14	0.68	-	-	-
Distributions:					
From income (excluding dividends)	(0.28)	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	(0.15)	-	-	-
Total distributions ⁽²⁾	(0.28)	(0.15)	-	-	-
Net asset value, end of period ⁽⁷⁾	9.76	9.93	-	-	-
Ratios and Supplemental Data Class B					
Net assets (000's) ⁽³⁾	10,627	10,512	-	-	-
Number of shares outstanding	1,088,820	1,058,552	-	-	-
Management expense ratio ⁽⁴⁾	4.31%	10.54%	-	-	-
Management expense ratio before waivers or absorptions	4.31%	10.54%	-	-	-
Portfolio turnover rate ⁽⁵⁾	162.95%	38.23%	-	-	-
Trading expense ratio ⁽⁶⁾	0.21%	0.61%	-	-	-

FRONT STREET DIVERSIFIED INCOME FUND CLASS SERIES F

FOR THE PERIODS ENDED	April 30, 2007	October 31, 2006	October 31, 2005	October 31, 2004	October 31, 2003
	\$	\$	\$	\$	\$
The Fund's Net Asset Value (NAV) per Share					
Net asset value, beginning of period⁽⁷⁾	9.96	10.00	-	-	-
Increase (decrease) from operations:					
Total revenue	0.13	0.08	-	-	-
Total expenses	(0.16)	(0.17)	-	-	-
Realized gains (losses)	0.03	0.04	-	-	-
Unrealized gains (losses)	(0.36)	0.18	-	-	-
Total increase (decrease) from operations⁽¹⁾	(0.36)	0.13	-	-	-
Distributions:					
From income (excluding dividends)	(0.28)	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	(0.15)	-	-	-
Total distributions⁽²⁾	(0.28)	(0.15)	-	-	-
Net asset value, end of period⁽⁷⁾	9.78	9.98	-	-	-
Ratios and Supplemental Data Class F					
Net assets (000's) ⁽³⁾	255	260	-	-	-
Number of shares outstanding	26,106	26,080	-	-	-
Management expense ratio ⁽⁴⁾	5.21%	7.72%	-	-	-
Management expense ratio before waivers or absorptions	5.21%	7.72%	-	-	-
Portfolio turnover rate ⁽⁵⁾	162.95%	38.23%	-	-	-
Trading expense ratio ⁽⁶⁾	0.21%	0.61%	-	-	-

- (1) Net asset value and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.
- (2) Distributions were paid in cash and/or reinvested in additional shares of the Fund.
- (3) This information is provided as at period end of the year shown.
- (4) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. In the period a series is established, the management expense ratio is annualized from the date of inception to October 31. During the current period, additional fees were charged related to the start-up costs for the Fund, which affected the management expense ratios. The effects of the start-up costs on management expense ratios were increases of 2.42%, 2.21%, and 3.42% for Series A, Series B, and Series F, respectively.
- (5) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- (6) 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.
- (7) The relief granted by the Canadian securities regulatory authorities from complying with Section 3855 results in a difference between GAAP NAV and Transactional NAV due to the use of different valuation techniques for certain investments. We have adopted the provisions of Section 3855 retroactively without restatement or prior periods. Accordingly, the beginning of period net asset value for the current period is adjusted.

MANAGEMENT AND PERFORMANCE FEES

The Fund pays Investment Advisor a monthly fee equal to one-twelfth of 2% of net asset value of the applicable series of the Fund, payable monthly in arrears, calculated without regard to any accrual of performance bonuses (as described below) and before payment of such fee.

The Investment Advisor may earn an annual performance bonus (a “Performance Bonus”) in each fiscal quarter 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 calendar quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the benchmark (the ‘Benchmark’) over the same period. The Benchmark for the Fund is calculated as follows:

50% of the percentage gain or loss in the S&P/TSX Income Trust Index

+ 50% of the percentage gain or loss in the ScotiaMcLeod Bond Index.

The fee will be equal to this excess return per security multiplied by the number of securities outstanding at the end of the quarter multiplied by 20%, provided that the net asset value per security of the Fund (including distributions) is greater than all previous values at the end of each previous calendar quarter. The starting reference point for the next calendar quarter’s calculation will be based on the higher of either the Benchmark performance adjusted net asset value per security or the adjusted actual net asset value per security, both with respect to the previous quarter in which a performance fee was payable.

DEALER COMPENSATION

Brokers, dealers and advisors may be paid a share of the management fee – called a “trailer commission”, for assets that their sales representatives place in the Series A and Series B Fund securities. The Fund may, at its discretion, negotiate, change the terms and conditions of, or discontinue the trailer commission with brokers, dealers and advisors.

The trailer commission is calculated as a percentage of assets each broker, dealer or advisor has placed in the Fund series. The trailer commission is calculated based on the closing balance of client accounts for each calendar month. The trailer commission will not be paid if the assets are removed from the Funds. Trailer commissions are paid quarterly at rates set within ranges according to the following table.

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

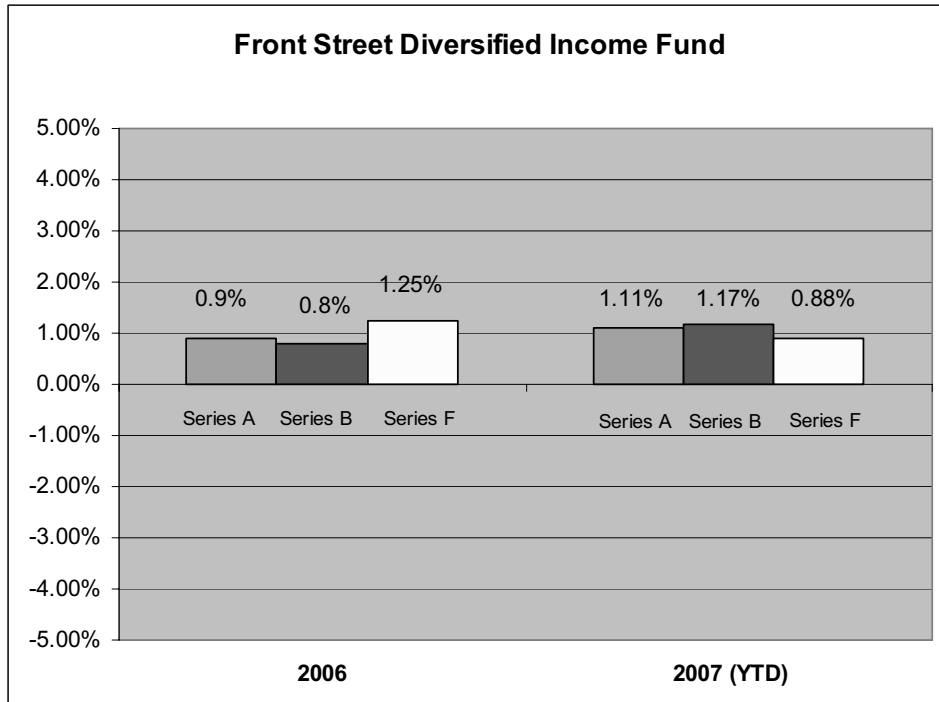
PAST PERFORMANCE

The past performance of the Fund is set out below and includes year-to-date 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 the future.



- (1) Based on the initial period from inception date (commencement of operations) to October 31, 2006 and six-month period ended April 30, 2007.

ANNUAL COMPOUND RETURNS

The following table shows the Fund's historical annual compound total return since inception as compared to the performance of the S&P/TSX Income Trust Index.

	Since Inception June 22, 2006
Front Street Diversified Income Fund Series A	2.00%
Front Street Diversified Income Fund Series B	1.97%
S&P/TSX Income Trust Index	-5.31%
	Since Inception August 11, 2006
Front Street Diversified Income Fund Series F	2.13%
S&P/TSX Income Trust Index	-13.25%

Summary of Investment Portfolio as at April 30, 2007

	% of Total
Cash and Short-Term Notes	49.8
LONG POSITIONS	
Financials	12.7
Energy	10.7
Government Bonds	5.1
Corporate Bonds	4.5
Consumer Discretionary	4.5
Consumer Staples	3.6
Industrials	3.2
Utilities	2.6
Materials	1.7
Health Care	1.0
Index Fund	0.8
Telecommunication Services	0.3
SHORT POSITIONS	
Energy	(0.1)
Index Fund	(0.9)
Financials	(1.8)
Total Investments Portfolio	47.9
Total Investments Portfolio Including Cash and Short-Term	97.7
Other Assets	2.3
Total Net assets	100.0

Top 25 Investments

LONG POSITIONS	
The Carlyle Group	2.3%
British Columbia Municipal Financial Authority 5.50% March 24, 2008	2.1%
Province of Manitoba 5.25% March 2, 2009	2.1%
UE Waterheater Income Fund	1.9%
Duke Funding Limited 2003-5A 4A Floating Rate August 7, 2033	1.9%
Royal Host Real Estate Investment Trust Debentures 6.00% October 31, 2015	1.7%
Cathedral Energy Services Income Trust	1.3%
MacQuarie Power & Infrastructure Income Fund	1.2%
Artis Real Estate Investment Trust	1.1%
Noranda Income Fund	1.0%
GMP Capital Trust	1.0%
Energy Savings Income Fund	1.0%
CI Financial Income Fund	1.0%
Baytex Energy Trust	1.0%
Taylor NGL Limited Partnership	1.0%
Allied Properties Real Estate Investment Trust	1.0%
Province of New Brunswick 4.25% December 2, 2008	1.0%
Rogers Communications Inc. 'B'	1.0%
Zargon Energy Trust	1.0%
Biovail Corporation	1.0%
Trilogy Energy Trust	1.0%
Rothmans Inc.	1.0%
ATCO Limited	1.0%
Dundee Real Estate Investment Trust	0.9%
SHORT POSITIONS	
Citigroup Inc.	-1.0%

The information contained in the foregoing list may change due to the ongoing portfolio transactions of the Fund. A quarterly update may be obtained by contacting the Investment Advisor.



FRONT STREET
Diversified Income Fund

INTERIM FINANCIAL STATEMENTS

FRONT STREET DIVERSIFIED INCOME FUND

FOR THE SIX-MONTH PERIOD ENDED APRIL 30, 2007

Front Street Diversified Income Fund Class
Statements of Net Assets (unaudited)
As at April 30, 2007 and October 31, 2006

	\$	\$
Assets		
Investments, at current value (cost - \$10,402,955 ; 2006 - \$7,321,350)	10,835,479	7,478,553
Cash and cash equivalents	10,643,574	8,004,825
Accounts receivable relating to shares issued	514,237	1,577,286
Accounts receivable relating to portfolio assets sold	377,824	170,222
Amounts receivable relating to accrued income	61,581	42,480
	<u>22,432,695</u>	<u>17,273,366</u>
Liabilities		
Accrued expenses [note 7]	238,957	84,591
Liabilities for portfolio assets purchased	219,667	378,785
Obligations from portfolio assets sold short, at current value	607,105	261,255
	<u>1,065,729</u>	<u>724,631</u>
Net assets representing shareholders' equity	<u>21,366,966</u>	<u>16,548,735</u>

**Net assets applicable to outstanding
shares allocated as follows:**

Net asset value, Series A	10,484,472	5,776,755
Shares Outstanding, Series A [note 3]	1,073,820	581,171
Net asset value per share, Series A	<u>9.76</u>	<u>9.94</u>
Net asset value, Series B	10,627,274	10,511,832
Shares Outstanding, Series B [note 3]	1,088,820	1,058,552
Net asset value per share, Series B	<u>9.76</u>	<u>9.93</u>
Net asset value, Series F	255,220	260,148
Shares Outstanding, Series F [note 3]	26,106	26,080
Net asset value per share, Series F	<u>9.78</u>	<u>9.98</u>

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



Gary P. Selke
Chief Executive Officer and Director



Murray Plasket
Chief Financial Officer

See accompanying notes to the financial statements

Front Street Diversified Income Fund Class
Statement of Operations (unaudited)
For the Period Ended April 30, 2007

	\$
<hr/>	
Investment income	
Dividend revenue	50,680
Interest revenue	383,346
Less: foreign withholding taxes	(201)
	<hr/> 433,825
Expenses	
Management fees <i>[notes 4 and 7]</i>	206,316
Incentive or performance fees <i>[notes 4 and 7]</i>	101,721
Audit fees	13,142
Custodial fees	30,213
Legal fees	40,168
Securityholder reporting costs	20,907
Administration fees	20,834
Other expenses	2,921
	<hr/> 436,222
Net investment loss for the year	<hr/> (2,397)
Net realized and unrealized gain on investments	
Net realized gain on sale of investments	124,272
Transaction costs <i>(note 2)</i>	(41,847)
Change in unrealized appreciation of value of investments	304,785
Net gain on investments for the period	<hr/> 387,210
Increase in net assets from operations for the period	<hr/> 384,813
Net assets from operations applicable to outstanding shares allocated as follows:	
Increase in net assets from operations, Series A	\$ 231,403
Increase in net assets from operations per share, Series A	<hr/> 0.26
Increase in net assets from operations, Series B	\$ 161,962
Increase in net assets from operations per share, Series B	<hr/> 0.14
Decrease in net assets from operations, Series F	\$ (8,552)
Decrease in net assets from operations per share, Series F	<hr/> (0.36)

See accompanying notes to the financial statements

Front Street Diversified Income Fund Class
Statement of Changes in Net Assets (unaudited)
For the Period Ended April 30, 2007

Series A	\$
Net increase in net assets from operations	231,403
Distributions to shareholders	
From realized gains on portfolio assets sold	(270,544)
Shareholder Transactions	
Proceeds from the issuance of shares	4,786,611
Aggregate amounts paid on redemption of shares	(62,053)
Net transfer of shares to other funds	(139,505)
Shares issued on reinvestment of distributions	172,349
	<u>4,757,402</u>
Net increase in net assets for the period	4,718,261
Net assets, beginning of period (note 2)	5,766,211
Net assets, end of period	<u>10,484,472</u>

Series B	
Net increase in net assets from operations	161,962
Distributions to shareholders	
From realized gains on portfolio assets sold	(312,192)
Shareholder Transactions	
Proceeds from the issuance of shares	2,135,804
Aggregate amounts paid on redemption of shares	(2,271,287)
Net transfer of shares from other funds	169,992
Shares issued on reinvestment of distributions	250,341
	<u>284,850</u>
Net increase in net assets for the period	134,620
Net assets, beginning of period (note 2)	10,492,654
Net assets, end of period	<u>10,627,274</u>

See accompanying notes to the financial statements

Front Street Diversified Income Fund Class
Statement of Changes in Net Assets (unaudited) - Continued
For the Period Ended April 30, 2007

Series F	\$
Net increase in net assets from operations	(8,552)
Distributions to shareholders	
From realized gains on portfolio assets sold	(4,611)
Shareholder Transactions	
Proceeds from the issuance of shares	243,500
Net transfer of shares to other funds	(239,126)
Shares issued on reinvestment of distributions	4,338
	8,712
Net decrease in net assets for the period	(4,451)
Net assets, beginning of period (note 2)	259,671
Net assets, end of period	255,220
Total	
Net increase in net assets from operations	384,813
Distributions to shareholders	
From realized gains on portfolio assets sold	(587,347)
Shareholder Transactions	
Proceeds from the issuance of shares	7,165,915
Aggregate amounts paid on redemption of shares	(2,333,340)
Net transfer of shares to other funds	(208,639)
Shares issued on reinvestment of distributions	427,028
	5,050,964
Net increase in net assets for the period	4,848,430
Net assets, beginning of period (note 2)	16,518,536
Net assets, end of period	21,366,966

See accompanying notes to the financial statements

Front Street Diversified Income Fund Class
Statement Of Investment Portfolio
As At April 30, 2007

	Number of Shares/ Units	Cost \$	Market Value \$
Financials (10.8%)			
Long Positions			
Allied Properties Real Estate Investment Trust	9,460	184,849	210,958
Artis Real Estate Investment Trust	12,550	184,070	216,864
Bank of Nova Scotia	1,330	71,607	70,836
Boardwalk Real Estate Investment Trust	3,425	158,134	154,639
Chesswood Income Fund	14,920	114,379	111,303
CI Financial Income Fund	7,547	203,932	215,090
Dundee Real Estate Investment Trust	5,000	167,023	200,500
GMP Capital Trust	9,571	186,499	218,506
InnVest Real Estate Investment	10,250	134,841	145,960
InStorage Real Estate Investment Trust	122,200	184,614	173,524
InterRent Real Estate Investment Trust	29,250	160,875	152,100
Manulife Financial Corporation	3,720	151,747	148,800
Primaris Retail Real Estate Investment Trust	9,105	163,309	185,378
* The Carlyle Group	22,500	523,932	498,079
Short Position			
* Citigroup Inc.	(3,426)	(196,375)	(203,481)
Toronto-Dominion Bank	(2,767)	(187,691)	(187,658)
		<u>2,205,745</u>	<u>2,311,398</u>
Energy (10.6%)			
Long Position			
AltaGas Income Trust	7,440	189,898	197,904
Baytex Energy Trust	10,240	204,505	215,040
Cathedral Energy Services Income Trust	24,420	218,092	270,328
CCL Industries Inc. 'B'	3,320	114,441	127,322
Enerplus Resources Fund	3,320	160,189	160,124
Imperial Oil Limited	1,824	76,750	76,809
Phoenix Technology Income Fund	19,795	140,027	179,145
Progress Energy Trust	10,306	124,336	143,460
Rider Resources Limited	10,720	87,690	89,083
Taylor NGL Limited Partnership	23,250	220,550	211,110
Trilogy Energy Trust	18,277	188,404	208,358
Vermilion Energy Trust	5,842	198,810	196,350
Zargon Energy Trust	7,525	227,249	208,593
Short Position			
Emera Inc.	(1,330)	(28,936)	(28,675)
		<u>2,122,005</u>	<u>2,254,951</u>
Consumer Discretionary (4.5%)			
Alimentation Couche-Tard 'B'	7,579	193,492	179,243
Canadian Tire Corporation 'A'	2,270	157,494	171,816
New Flyer Industries Inc. Income Trust	6,000	49,960	64,440
Quebecor Inc.	4,075	157,777	162,796
Rogers Communications Inc. 'B'	4,920	166,928	208,608
Shaw Communications Inc. 'B'	4,025	169,101	172,673
		<u>894,752</u>	<u>959,576</u>
Consumer Staples (3.6%)			
Metro Inc. 'A'	1,660	62,268	64,292
Rothmans Inc.	9,635	202,338	205,900
Saputo Inc.	2,168	88,744	94,807
UE Waterheater Income Fund	17,785	304,350	402,119
		<u>657,700</u>	<u>767,118</u>
Industrials (3.2%)			
BFI Canada Income Fund	6,113	155,424	162,606
MacQuarie Power & Infrastructure Income Fund	24,400	236,338	251,319
Mullen Group Income Fund	4,880	104,678	97,942
SuiteWorks Inc. 'A'	5,143	180,005	180,005
		<u>676,445</u>	<u>691,872</u>

See accompanying notes to the financial statements

Front Street Diversified Income Fund Class
Statement Of Investment Portfolio
As At April 30, 2007

	Number of Shares/ Units	Cost \$	Market Value \$
Utilities (2.6%)			
ATCO Limited	4,195	197,232	205,891
Energy Savings Income Fund	15,330	195,048	216,153
Primary Energy Recycling Corporation	19,670	198,090	138,083
		<u>590,370</u>	<u>560,127</u>
Materials (1.7%)			
Noranda Income Fund	22,365	246,505	218,730
Sherritt International Corporation	9,465	119,181	140,082
		<u>365,686</u>	<u>358,812</u>
Health Care (1.0%)			
Biovail Corporation	7,685	187,149	208,417
		<u>187,149</u>	<u>208,417</u>
Telecommunication Services (0.3%)			
BCE Inc.	1,595	48,854	59,733
		<u>48,854</u>	<u>59,733</u>
Index Fund (0.0%)			
Long Position			
Horizons BetaPro S&P/TSX 60 Bear Plus Fund	3,885	96,480	87,879
* UltraShort QQQ ProShares	1,683	110,943	91,073
Short Position			
* iShares Dow Jones U.S. Real Estate Index Fund	(1,977)	(195,810)	(187,291)
		<u>11,613</u>	<u>(8,339)</u>
Government Bonds (5.1%)			
British Columbia Municipal Financial Authority 5.50% March 24, 2008	442,000	448,413	446,526
Province of Manitoba 5.25% March 2, 2009	433,000	442,695	440,274
Province of New Brunswick 4.25% December 2, 2008	210,000	210,214	209,813
		<u>1,101,322</u>	<u>1,096,613</u>
Corporate Bonds (4.5%)			
Artis Real Estate Investment Trust Convertible Debentures 7.50% November 21, 2010	14,000	13,885	16,941
* Duke Funding Limited 2003-5A 4A Floating Rate August 7, 2033	400,000	417,935	397,170
Holloway Lodging Real Estate Investment Trust 8.00% August 1, 2011	180,000	180,100	180,000
Huntingdon Real Estate Investment Trust 8.00% June 30, 2010	14,000	14,025	14,000
Royal Host Real Estate Investment Trust Debentures 6.00% October 31, 2015	334,000	329,229	359,985
		<u>955,174</u>	<u>968,096</u>
Transaction costs (note 2)			
		<u>(22,672)</u>	-
TOTAL INVESTMENT PORTFOLIO (47.9%)		<u>\$ 9,794,143</u>	10,228,374
Cash and Short Term Notes (49.8%)			10,643,574
Other Assets less Other Liabilities (2.3%)			495,018
NET ASSETS (100.0%)			<u>\$ 21,366,966</u>

* Non Canadian Holdings

See accompanying notes to the financial statements

Front Street Diversified Income Fund Class

NOTES TO FINANCIAL STATEMENTS

April 30, 2007 (Unaudited)

1. ABOUT THE FUND

Front Street Diversified Income Fund Class (the “Fund”) is a class of shares of Front Street Mutual Funds Limited (the “Corporation”), a mutual fund corporation incorporated under *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.

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, 2007.

Management of Front Street Mutual Funds Limited 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 and Felcom Data Services Inc. provides fund accounting and shareholder recordkeeping services.

The Fund’s investment objective is primarily to achieve capital appreciation through investment in a diversified portfolio of income trusts, preferred shares and corporate and government debt. The Fund’s portfolio (the “Portfolio”) will include securities which the Fund’s Investment Advisor believes are undervalued and may include short positions in securities which the Investment Advisor believes are overvalued.

The Investment Advisor will manage the relative weightings of the Fund’s long and short positions to achieve the Fund’s investment objective. The Fund will also engage in pairs trading, special warrant arbitrage, merger arbitrage, convertible arbitrage and trading in securities of issuers that may be involved in restructurings or business unit dispositions. The Portfolio will consist primarily of investments, which generate capital gains, but will also include investments, which generate income.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies followed by the Fund:

a) Adoption of new accounting standards

On April 1, 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3855, “Financial Instruments – Recognition and Measurement” of the CICA Handbook – Accounting, which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 applies to fiscal years beginning on or after October 1, 2006. Additionally, Section 14.2 of National Instrument 81-106 (“NI 81-106”), issued by the Canadian Securities Administrators in 2005, requires the daily net asset value of an investment fund to be calculated in accordance with Canadian generally accepted accounting principles (“GAAP”). The adoption of Section 3855 would result in the use of different valuation techniques for certain investments.

Front Street Diversified Income Fund Class

NOTES TO FINANCIAL STATEMENTS

April 30, 2007 (Unaudited)

Canadian securities regulatory authorities granted relief to investment funds complying with Section 3855, for the purposes of calculating of net asset value used for the investor transactions (“Transactional NAV”) for a one year period ending September 30, 2007. The Canadian securities administrators is currently reviewing the suitability of applying Section 3855 for the purposes other than the preparation of financial statements. Depending on the outcome of such review, the method by which net asset value is calculated may change on October 1, 2007.

We adopted the provisions of Section 3855 retroactively without restatement of prior periods. Accordingly, the opening net asset value in the Statement of Changes in Net Assets for the period ended April 30, 2007 has been adjusted. Refer to note 8 for the amount adjusted for each series.

b) Valuation of investments

- (i) Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation date. Securities with no available bid prices are valued at their closing sale prices.
- (ii) Any investment for which a market quotation is not readily available (“private companies”) shall be valued at cost, in the absence of any subsequent financing, or shall be valued at its fair value as determined by the Fund Manager.
- (iii) Investments which are restricted as to transferability are valued at the fair value of the unrestricted investment as provided in paragraphs (i) and (ii) 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 valuation may differ from values that would have been used had a ready market existed for the investments.

- (iv) Short-term investments are valued at amortized cost, which approximates market value.
- (v) Trust units are recorded at the closing bid price reported by the principal securities exchange in which the issue is traded or lacking any sales at the bid price 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 annual income allocated to the units by the trust.
- (vi) The Fund may make short sales whereby a security that it does not own is sold in anticipation of a decline in the market value of the security. Securities which are sold short are valued at their asking prices on the valuation date. Securities with no available asking prices are valued at their closing price reported by the principal securities exchange on which the issue is traded or, lacking any purchase, at the closing offer price 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 is due to the lender of the security.

Front Street Diversified Income Fund Class

NOTES TO FINANCIAL STATEMENTS

April 30, 2007 (Unaudited)

c) **Transaction Costs**

In accordance with Section 3855, 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 commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges. Prior to the adoption of Section 3855, Transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments. There is no impact on the net asset value of the investment fund in using either of these methods.

d) **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.

e) **Investment transactions and income recognition**

Investment transactions are accounted for on a trade date basis and gains and losses from such transactions are calculated based on average cost. Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date.

f) **Foreign exchange 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.

g) **Earnings (loss) per share**

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

h) **Net asset value per share**

The net asset value per share is calculated by dividing the net asset value of a series of shares by the total number of shares of the series outstanding at the end of the period.

3. SHARES AUTHORIZED AND OUTSTANDING

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

Series A shares

Front Street Diversified Income Fund Class

NOTES TO FINANCIAL STATEMENTS

April 30, 2007 (Unaudited)

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

Series B shares

Commission fees paid 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.

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 period.

	Number of shares
<hr/>	
Shares outstanding, beginning of the period:	
Series A	581,171
Series B	1,058,552
Series F	26,080
Shares issued during the period:	
Series A	495,561
Series B	250,913
Series F	24,956
Shares reinvested during the period:	
Series A	17,799
Series B	25,934
Series F	448
Shares redeemed during the period:	
Series A	(20,711)
Series B	(246,579)
Series F	(25,378)
Shares outstanding end of period:	
Series A	1,073,820
Series B	1,088,820
Series F	26,106

Front Street Diversified Income Fund Class

NOTES TO FINANCIAL STATEMENTS

April 30, 2007 (Unaudited)

4. MANAGEMENT AND PERFORMANCE FEES

The Fund pays the Investment Advisor a monthly management fee equal to 1/12 of 2 % of the net asset value of the Fund calculated and paid at the end of each month in arrears from each Fund series.

The Fund is responsible for payment of all operating and administrative expenses of the Fund. The main components of these expenses are professional fees, printing expenses, filing fees, custodial fees, and expenses of making distributions to shareholders.

The Fund pays the Investment Advisor 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 calendar quarter or quarters since a performance fee was last payable exceeds the percentage gain or loss of the benchmark (the "Benchmark") over the same period. The Benchmark for the Fund is calculated as follows: 50% the percentage gain or loss in the S&P/TSX Income Trust Index and 50% the percentage gain or loss in the ScotiaMcLeod Bond Index over the same period. The fee will be 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 calendar quarter. The starting reference point for the next calendar quarter's calculation will be based on the higher of either the Benchmark performance adjusted net asset value per share or the adjusted actual net asset value per share, both with respect to the previous quarter in which a performance fee was payable.

5. INCOME TAX AND DISTRIBUTION

The Corporation will qualify as a mutual fund corporation under the Income Tax Act (Canada). The Corporation will have three types of income being Canadian dividends, taxable capital gains and other net taxable income. Income of the Corporation, including taxable capital gains, will be subject to tax at applicable corporate tax rates, subject to allowable deductions for expenses and to applicable credits for foreign taxes paid on foreign-source income. The Corporation is also subject to a 33 1/3% refundable tax on certain taxable dividends it receives in respect of shares of taxable Canadian corporations. This refundable tax is refunded when the Corporation pays taxable dividends to its shareholders at a rate of \$1 of refund for every \$3 of taxable dividends paid by the Corporation to its shareholders. Tax on capital gains is refundable to the Corporation to the extent that such gains are distributed to shareholders as capital gains dividends or its Fund securities are redeemed. Gains and losses realized by the Corporation 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 Corporation 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 Corporation's capital gains dividend account. The capital gains dividend account will be represented by the amount by which capital gains realized by the Corporation while it was a mutual fund corporation exceed the aggregate of:

- a) capital losses realized by the Corporation while it was a mutual fund corporation;
- b) certain capital gains dividends previously paid by it; and

Front Street Diversified Income Fund Class

NOTES TO FINANCIAL STATEMENTS

April 30, 2007 (Unaudited)

- c) amounts in respect of which the Corporation received capital gains tax refunds.

The Corporation anticipates that gains and losses realized on the disposition of investments will normally give rise to capital gains not ordinary income. The Corporation 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 Corporation from recognizing capital losses on the disposition of securities in certain circumstances, which may increase the amount of capital gains dividends that the Corporation 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 Corporation will allocate taxes payable and recoverable of the Corporation to each of the classes. The Corporation 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 Corporation intends to pay out such dividends so as to maximize tax refunds and minimize taxes payable at the corporate level.

The Corporation may be subject to provincial capital taxes. The Corporation may also be subject to large corporations' capital tax under Part 1.3 of the Income Tax Act (Canada) although it is proposed that such tax be reduced and then eliminated by 2008.

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

6. BROKERAGE COMMISSIONS

The commissions paid in connection with portfolio transactions for the period ended April 30, 2007 totaled to \$41,847.

7. RELATED PARTY TRANSACTIONS

Management fees of \$206,316 were paid to the Fund Manager during the period [see note 4]. Performance fees of \$101,721 were also paid to the Fund Manager during the period [see note 4]. Included in accrued expenses is \$11,995 of management fees payable to the Fund 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, 2007, Tuscarora Capital Inc. received \$6,528 in commission on portfolio transactions for the Fund.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Front Street Diversified Income Fund Class

NOTES TO FINANCIAL STATEMENTS

April 30, 2007 (Unaudited)

8. RECONCILIATION OF NET ASSET VALUE

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Transactional NAV and the GAAP NAV of an investment fund is required for financial reporting periods (see note 2). For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining Transactional NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry. These changes account for the difference between transactional NAV and GAAP NAV.

The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

	Net Asset Value			Net Asset Value per Share		Opening NAV
	Transactional NAV	Section 3855 Adjustment	GAAP NAV	Transactional NAV	GAAP NAV	Section 3855 Adjustment
Series A	10,496,871	(12,399)	10,484,472	9.78	9.76	(10,544)
Series B	10,639,847	(12,573)	10,627,274	9.77	9.76	(19,178)
Series F	255,522	(302)	255,220	9.79	9.78	(477)
Total Net Asset Value	21,392,240	(25,274)	21,366,966			(30,199)