

Financial Statements

(Stated in United States Dollars)

**First Wave Inc.**

December 31, 2005

## Report of Independent Auditors

The Board of Directors  
First Wave Inc.

We have audited the accompanying statement of net assets of First Wave Inc. (the "Company"), including the statement of investment portfolio, as of December 31, 2005, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Wave Inc. as of December 31, 2005, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young*

March 20, 2006

**First Wave Inc.**

**STATEMENT OF NET ASSETS ATTRIBUTABLE TO  
HOLDERS OF PARTICIPATING SHARES**

[Stated in United States dollars]

As at December 31

	2005	2004
	\$	\$
<b>ASSETS</b>		
Investments owned, at fair value	50,498,404	54,937,016
Accrued interest and dividends receivable	38,010	32,831
Other	—	10,002
<b>Total assets</b>	<b>50,536,414</b>	<b>54,979,849</b>
<b>LIABILITIES</b>		
Investments sold short, at fair value	890,318	2,204,313
Due to broker <i>[note 5]</i>	7,379,073	12,549,846
Performance fee payable <i>[note 3[c]]</i>	1,901,880	1,661,774
Accrued liabilities	60,886	144,220
<b>Total liabilities</b>	<b>10,232,157</b>	<b>16,560,153</b>
<b>Net assets attributable to holders of participating shares</b>	<b>40,304,257</b>	<b>38,419,696</b>
<b>Net asset value per participating share <i>[note 4]</i></b>	<b>\$3,406.20</b>	<b>\$2,776.29</b>

*See accompanying notes*

Approved by:

(Signed)  
Director

(Signed)  
Director

**First Wave Inc.****STATEMENT OF OPERATIONS**

[Stated in United States dollars]

Year ended December 31

	2005	2004
	\$	\$
<b>REVENUE</b>		
Dividends	215,267	148,424
Interest	36,358	64,636
Other	3,569	5,425
Less: foreign withholding tax <i>[note 7]</i>	34,549	37,163
	<b>220,645</b>	<b>181,322</b>
<b>EXPENSES</b>		
Performance fee <i>[note 3[c]]</i>	1,901,880	1,661,774
Interest on margin account <i>[note 5]</i>	153,623	176,675
Management fees <i>[note 3[a]]</i>	724,460	488,612
Stock borrowing fees on short sales	37,483	22,701
Custodian fees	34,117	30,387
Administration fees <i>[note 3[a]]</i>	36,184	31,803
Professional fees	38,851	38,787
Dividends on short sales	31,193	25,606
Other	23,058	19,559
	<b>2,980,849</b>	<b>2,495,904</b>
<b>Net investment loss for the year</b>	<b>(2,760,204)</b>	<b>(2,314,582)</b>
<b>Net realized gain and unrealized appreciation from investment activities</b>	<b>10,288,566</b>	<b>8,953,929</b>
<b>Increase in net assets attributable to holders of participating shares</b>	<b>7,528,362</b>	<b>6,639,347</b>

*See accompanying notes*

**First Wave Inc.**

**STATEMENT OF CHANGES IN NET ASSETS  
ATTRIBUTABLE TO HOLDERS OF PARTICIPATING  
SHARES**

[Stated in United States dollars]

Year ended December 31

	2005	2004
	\$	\$
<b>INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF PARTICIPATING SHARES</b>		
<b>Operations</b>		
Net investment loss for the year	(2,760,204)	(2,314,582)
Net realized gain and unrealized appreciation from investment activities	10,288,566	8,953,929
<b>Increase in net assets attributable to holders of participating shares</b>	<b>7,528,362</b>	<b>6,639,347</b>
<b>Capital transactions</b>		
Proceeds from sale of participating shares	2,463,747	7,585,452
Redemption of shares	(8,107,548)	(708,178)
<b>(Decrease) increase in net assets attributable to holders of participating shares resulting from capital transactions</b>	<b>(5,643,801)</b>	<b>6,877,274</b>
<b>Net increase in net assets attributable to holders of participating shares during the year</b>	<b>1,884,561</b>	<b>13,516,621</b>
Net assets attributable to holders of participating shares, beginning of year	38,419,696	24,903,075
<b>Net assets attributable to holders of participating shares</b>	<b>40,304,257</b>	<b>38,419,696</b>

*See accompanying notes*

**First Wave Inc.****STATEMENT OF CASH FLOWS**

[Stated in United States dollars]

Year ended December 31

	2005	2004
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Increase in net assets attributable to holders of participating shares resulting from operations	7,528,362	6,639,347
Net decrease (increase) in investments	3,124,617	(15,805,127)
Changes in non-cash balances related to operations		
Accrued interest and dividends receivable	(5,179)	(18,564)
Other	10,002	10,000
Performance fee payable	240,106	(1,144,110)
Accrued liabilities	(83,334)	80,243
Due to broker	(5,170,773)	3,360,937
<b>Cash provided by (used in) operating activities</b>	<b>5,643,801</b>	<b>(6,877,274)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of participating shares	2,463,747	7,585,452
Payments for redemption of participating shares	(8,107,548)	(708,178)
<b>Cash (used in) provided by financing activities</b>	<b>(5,643,801)</b>	<b>6,877,274</b>
<b>Net change in cash during the year</b>	<b>—</b>	<b>—</b>
Cash, beginning of year	—	—
<b>Cash, end of year</b>	<b>—</b>	<b>—</b>
<b>Supplemental cash flow information</b>		
Interest received	32,058	54,148
Interest paid	178,529	126,602
Dividends received	183,198	151,424
Dividends paid on short sales	31,193	56,267

*See accompanying notes*

**First Wave Inc.**

**STATEMENT OF INVESTMENT PORTFOLIO**

[Stated in United States dollars]

As at December 31

**SUMMARY BY TYPE OF SECURITY**

	<b>2005</b>		
	<b>Canadian fair value \$</b>	<b>Non-Canadian fair value \$</b>	<b>Total fair value \$</b>
<b>Investments owned</b>			
Bonds	1,212,076	100,000	1,312,076
Preferred shares	—	—	—
Common shares	46,816,310	1,673,701	48,490,011
Warrants	649,188	—	649,188
Derivatives	47,129	—	47,129
	<b>48,724,703</b>	<b>1,773,701</b>	<b>50,498,404</b>
	<b>2005</b>		
	<b>Canadian fair value \$</b>	<b>Non-Canadian fair value \$</b>	<b>Total fair value \$</b>
<b>Investments sold short</b>			
Common shares	890,318	—	890,318
	<b>890,318</b>	<b>—</b>	<b>890,318</b>

*See accompanying notes*

**First Wave Inc.**

**STATEMENT OF INVESTMENT PORTFOLIO cont'd**

[Stated in United States dollars]

As at December 31

**SUMMARY BY TYPE OF SECURITY**

	<b>2004</b>		
	<b>Canadian fair value \$</b>	<b>Non-Canadian fair value \$</b>	<b>Total fair value \$</b>
<b>Investments owned</b>			
Bonds	1,248,032	489,000	1,737,032
Preferred shares	—	—	—
Common shares	49,663,619	2,677,342	52,340,961
Warrants	1,259,023	—	1,259,023
Valuation Reserve	(400,000)	—	(400,000)
	<b>51,770,674</b>	<b>3,166,342</b>	<b>54,937,016</b>
	<b>2004</b>		
	<b>Canadian fair value \$</b>	<b>Non-Canadian fair value \$</b>	<b>Total fair value \$</b>
<b>Investments sold short</b>			
Common shares	(2,204,313)	—	(2,204,313)
	<b>(2,204,313)</b>	<b>—</b>	<b>(2,204,313)</b>

*See accompanying notes*

**First Wave Inc.**

**STATEMENT OF INVESTMENT PORTFOLIO cont'd**

[Stated in United States dollars]

As at December 31 2005

**SUMMARY BY INDUSTRY**

	<b>Fair value</b>	
	\$	%
Canadian Equities		
<hr/>		
<b>Investments owned</b>		
Corporate	1,140,542	2.26
Energy	15,248,611	30.20
Materials	16,479,387	32.63
Industrials	2,571,166	5.09
Consumer Discretionary	1,987,367	3.94
Health Care	3,569,498	7.07
Financial Services	1,579,924	3.13
Information Technology	5,983,829	11.85
Telecommunication Services	127,784	0.25
Utilities	399,585	0.79
Other	1,410,711	2.79
	<hr/> <b>50,498,404</b>	<hr/> <b>100.00</b>
<hr/>		
<b>Investments sold short</b>		
Energy	471,430	52.95
Materials	59,165	6.65
Health Care	68,235	7.66
Information Technology	291,488	32.74
	<hr/> <b>890,318</b>	<hr/> <b>100.00</b>
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*See accompanying notes*

**First Wave Inc.**

**STATEMENT OF INVESTMENT PORTFOLIO cont'd**

[Stated in United States dollars]

As at December 31, 2004

**SUMMARY BY INDUSTRY**

	<b>Fair value</b>	
Canadian Equities	\$	%
<b>Investments owned</b>		
Communications and Media	5,903,424	10.67
Consumer Products	2,722,208	4.92
Financial Services	2,462,267	4.45
Industrial Products	2,943,306	5.32
Metals and Minerals	13,698,255	24.75
Oil and Gas	12,171,845	22.00
Technology	5,478,429	9.90
Transportation and Environmental Services	1,910,981	3.45
Other	8,046,301	14.54
	55,337,016	100.00
Valuation reserve	(400,000)	
	54,937,016	
<b>Investments sold short</b>		
Communications and Media	2,858	0.13
Consumer Products	95,288	4.32
Financial Services	101,950	4.62
Metals and Minerals	1,679,859	76.21
Oil and Gas	83,064	3.77
Technology	241,294	10.95
	<b>2,204,313</b>	<b>100.00</b>

*See accompanying notes*

**First Wave Inc.**

**NOTES TO FINANCIAL STATEMENTS**

[Stated in United States dollars]

December 31, 2005

**1. THE COMPANY**

First Wave Inc. [the "Company"] was incorporated under the laws of the Cayman Islands on December 29, 1999 as an open-ended investment company. The Company is registered under the Cayman Islands Mutual Funds Law. The Company commenced operations on February 29, 2000.

The registered office of the Company is at the offices of Maples and Calder, Ugland House, P.O. Box 309GT, Grand Cayman, Cayman Islands.

The Company's investment objective is to provide consistent positive absolute returns. The Company invests a substantial portion of its net assets in two primary categories, the first of which focuses on the generation of capital gains and the second of which focuses on the generation of income.

These financial statements were authorized for issue by the Directors effective March 20, 2006.

The Company has no employees.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**[a] Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

**[b] Basis of preparation**

The financial statements have been prepared on a historical cost basis, except for financial instruments which are recorded at fair value. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilised in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

**First Wave Inc.**

**NOTES TO FINANCIAL STATEMENTS**

[Stated in United States dollars]

December 31, 2005

**[c] Fair value disclosure of financial instruments**

International Financial Reporting Standards require all entities to disclose the fair value of financial instruments, both assets and liabilities that are recognized and not recognized in the statement of net assets, for which it is practicable to estimate fair value.

At December 31, 2005, the following methods and assumptions were used by management to estimate the fair value of each class of financial instruments. For certain of the Company's financial instruments including accrued interest and dividends receivable and accrued liabilities, the carrying values approximate fair value due to the immediate or short-term maturity of these financial instruments. Investments are carried at fair value as disclosed in note 2[d].

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**[d] Valuation of investments**

All of the Company's investments in securities are classified as trading, with changes in fair value reflected in the statement of operations. The Company's investments are valued in accordance with International Accounting Standards 39 ["IAS 39"] which indicates that listed securities are valued at their last "bid" price on the valuation date and the closing "asked" price for securities sold short. The Company's offering document, however, specifies that securities that are listed on national exchanges and are freely transferable shall be valued at their last sales price as at the close of business on the net asset valuation date which produces substantially the same results. Investments for which exchange quotations are not readily available are valued using prices furnished by independent dealers in such securities or estimated fair values as determined in good faith by the Directors of the Company with consultation from the Investment Manager.

Investments which are not publicly traded or other assets for which no public market exists will be valued at the lesser of cost and the most recent value at which such investments have been exchanged in an arm's length transaction unless a different fair value is otherwise determined to be appropriate.

**[e] Investment transactions and income recognition**

Investment transactions are accounted for on a trade date basis. Realized gains and losses on investment transactions and unrealized appreciation (depreciation) on investments are determined using the average cost method.

**First Wave Inc.**

**NOTES TO FINANCIAL STATEMENTS**

[Stated in United States dollars]

December 31, 2005

Interest is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. The premium or discount on bonds is amortized/accreted over the life of the bond. The net change in unrealized appreciation on investments and unrealized gains and losses on foreign exchange are included in the statement of operations.

**[f] Foreign exchange translation**

*Foreign currency transactions*

Amounts denominated in foreign currencies are translated into United States dollars as follows:

- [i] fair value of investments, other assets and liabilities at the rate of exchange prevailing at the period end; and
- [ii] revenue and expenses at the rate of exchange prevailing on the respective dates of such transactions.

**3. SIGNIFICANT AGREEMENTS AND TRANSACTIONS WITH AFFILIATES**

**[a] Manager and Administrator**

Pursuant to a Management and Administrative Services Agreement dated October 1, 2001, DGM Bank & Trust Inc. [the "Manager and Administrator"] was appointed Manager and Administrator for the Company. Effective September 30, 2003 DGM Bank & Trust Inc. resigned as the Manager and Administrator and the Company appointed Front Street Capital (Barbados) Inc., a wholly owned offshore subsidiary of Front Street Capital Inc., as the Manager and Administrator. Effective as at the same date DGM Bank & Trust Inc. was appointed as the Sub-Administrator for the fund. The Manager and Administrator is responsible for the management of the investment and reinvestment of the assets, the determination of net asset value, maintaining the books and records of the Company, and other administrative services. Management fees are payable monthly at the beginning of each month to the Manager and Administrator at an annual rate of 1% of the average monthly Net Asset Value of the Company. Administration fees are payable monthly to the Manager and Administrator at an annual rate of 0.1% of the Net Asset Value of the Company, together with the reimbursement of agreed upon out-of-pocket expenses incurred in connection with the performance of the Manager and Administrator's duties. On May 31, 2004, the Management and Administrative Services Agreement amended the monthly management fee payable to the Manager and Administrator to be 1/12<sup>th</sup> of 2% of the Net Asset Value of the Participating Shares.

**First Wave Inc.**

**NOTES TO FINANCIAL STATEMENTS**

[Stated in United States dollars]

December 31, 2005

**[b] Investment Management Agreement and Investment Advisory Agreement**

On October 1, 2001, the Manager and Administrator on behalf of the Company have entered into an Investment Management Agreement with Front Street Capital Inc. [the "Investment Manager"]. Under this agreement, investment management fees were payable monthly at an annual rate of 0.66% of the average monthly Net Asset Value of the Company. On September 30, 2003, the Company entered into an amended and restated investment management agreement with Front Street Capital Inc. Under this agreement, investment management fees are payable monthly at an annual rate of 0.30% of the average monthly Net Asset Value of the Company. Under the current and previous agreement, these fees are paid by the Manager and Administrator and are not an expense of the Company.

**[c] Performance Fee**

If the Company generates a return on investment on the Participating Shares which is equal to or greater than 6% in any fiscal year, then an annual performance fee [the "Performance Fee"] equal to 20% of the increase in net profit and gains of the Company, if any, during such financial year, shall be accrued on each Valuation Day and will be payable to the Manager and Administrator annually in arrears. In the event that the Company generates a return of investment in the Participating Shares which is less than 6% in any fiscal year, then no Performance Fee shall be payable to the Investment Manager. A Performance Fee of \$1,901,880 was accrued for the year ended December 31, 2005 [2004 - \$1,661,774].

**4. SHARE CAPITAL**

The authorized share capital of the Company is \$50,000 and consists of 2 voting non-participating, Ordinary Shares with a par value of \$0.001 and 49,999,998 non-voting Participating Shares with a par value of \$0.001. The Ordinary Shares were subscribed for and issued on February 29, 2000 and are held by the Manager and the Administrator.

The issued participating capital is as follows:

	2005	2004
	#	#
<b>Shares outstanding, beginning of the year</b>	<b>13,838.499</b>	<b>11,028.346</b>
Shares issued	820.807	3,099.782
Shares redeemed	(2,826.687)	(289.629)
<b>Shares outstanding, end of year</b>	<b>11,832.619</b>	<b>13,838.499</b>

**First Wave Inc.**

**NOTES TO FINANCIAL STATEMENTS**

[Stated in United States dollars]

December 31, 2005

Subject to certain restrictions, holders of the non-voting Participating Shares may redeem their participating shares on the last business day of each fiscal quarter [the "Redemption Day"], or such other day as the Board of Directors may from time to time determine, at an amount equal to the Net Asset Value per Participating Share as at the close of the last business day of the month that follows the redemption request, less applicable redemption fees, provided that the request is made 60 days prior to the Redemption Day.

**5. DUE TO BROKER**

Due to broker balance represents the cash and margin balances held with the custodian. In the regular course of business, the Company purchases investments on a cash or margin basis. In the case of a margin account, the Company borrows funds for the purchase of investments using the investments purchased and/or other investments in their account as collateral. Amounts due to broker are due on demand and bear interest at a floating rate.

**6. FINANCIAL INSTRUMENTS**

The Company's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests directly. The following is a summary of the main risks:

**Currency risk**

The Company invests in securities denominated in currencies other than its reporting currency, the US dollar. Consequently, the Company is exposed to risks that the exchange rate of the US dollar relative to the other currencies may change in a manner which has an adverse effect on the reported value of that portion of the Company's assets.

**Liquidity risk**

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

**Interest rate risk**

The Company may invest in fixed and floating rate securities. The income of the Company 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 positions will be affected by fluctuations in interest rates. As at December 31, 2005, approximately 2.33% [2004:

**First Wave Inc.**

**NOTES TO FINANCIAL STATEMENTS**

[Stated in United States dollars]

December 31, 2005

3.16%] of net investments owned are held in bonds. The majority of these bonds carry fixed interest rates, which range from 5% to 10% [2004 - 5% to 10%] and maturity dates range from December 2005 to December 2011. The remaining portion of the Company's assets is substantially non-interest bearing equity investments and its exposure to interest rate changes is minimal.

**Credit risk**

Financial assets which potentially expose the Company to credit risk consist principally of investments in bonds. The Company seeks to mitigate its exposure to credit risk by transacting its securities activity with large financial institutions. The Company also invests in corporate bonds. Until the bonds are sold or mature, the Company is exposed to credit risk relating to whether the bond issuer will meet its obligation when they come due. The extent of the Company's exposure to credit risk in respect of these financial assets is reflected in their carrying value as recorded in the Company's statement of net assets.

**7. INCOME TAX STATUS**

Under the current laws of the Cayman Islands, there are no income, estate, transfer, sales or other Cayman Islands taxes payable by the Company.

Income and gains from the Company's portfolio investments in equity and equity-related securities may be subject to withholding or other taxes by other countries. To the extent practicable, the Investment Manager will seek to minimize any withholding or other taxes of any jurisdiction to which the Company's portfolio investments might be subject consistent with achieving the Company's investment objective.

**8. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 financial statements.