

Financial Statements of

**FRONT STREET ENERGY
GROWTH FUND INC.**

March 31, 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

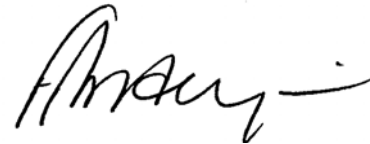
The accompanying financial statements of Front Street Energy Growth Fund Inc. are the responsibility of management. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles using information available to June 9, 2006 and management's best estimates and judgments, where appropriate.

Management has established a system of internal accounting and administrative controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and financial records are properly maintained for the preparation of reliable financial statements.

The Board of Directors discharges its responsibility for the financial statements primarily through its Audit Committee, which comprises members of the Board of Directors. The Audit Committee meets with management and with the external auditors to discuss the results of the audit examination with respect to the adequacy of internal accounting controls and to review the financial statements of the Fund. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. These financial statements have been approved by the Board of Directors and have been audited by Deloitte & Touche LLP, Chartered Accountants, in accordance with Canadian generally accepted audited standards. Their auditors' report outlines the scope of their audit and their opinion on the accompanying financial statements. Deloitte & Touche LLP has full and unrestricted access to the Audit Committee.



Gary Selke
Chief Executive Officer



Frank Portugais
Chief Financial Officer

Auditors' Report

To the Unitholders of:
Front Street Energy Growth Fund Inc.
(the "Fund")

We have audited the statements of financial position of the Fund as at March 31, 2006 and 2005 and the statements of income and retained earnings and of changes in net assets for the years then ended and the statement of venture investment portfolio as at March 31, 2006. These financial statements are the responsibility of Front Street Capital 2004, the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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 the Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and 2005, the results of its operations and the changes in its net assets for the years then ended and the investment portfolio as at March 31, 2006 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
June 9, 2006

FRONT STREET ENERGY GROWTH FUND INC.

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FRONT STREET ENERGY GROWTH FUND INC.

Statements of Financial Position

As at March 31, 2006

(with comparative figures as at March 31, 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and short-term investments (Note 4)	\$ 24,761,076	\$ 12,095,138
Venture investments, at fair value (cost: \$57,028,682; 2005: \$40,786,809)	73,490,235	71,035,905
Share subscriptions receivable, Class A - Series III	160	61,588
Dividend income receivable	1,600	-
Refundable capital gains taxes	360,238	-
Prepaid expenses	-	8,505
TOTAL ASSETS	98,613,309	83,201,136
LIABILITIES		
Accounts payable and accrued liabilities (Notes 9(a), (b) and (c))	532,203	383,058
Liabilities for securities redeemed	189,560	271,542
Income taxes payable	360,238	-
Liability for performance bonus and related GST (Notes 6(c) and 9(b))	6,540,721	904,712
Provision for performance bonus and related GST (Note 6(c))	3,920,200	6,831,516
TOTAL LIABILITIES	11,542,922	8,390,828
NET ASSETS	\$ 87,070,387	\$ 74,810,308
SHAREHOLDERS' EQUITY		
Share capital, Class A shares (Note 5)	\$ 54,788,199	\$ 49,655,717
Share issue costs, write-off of deferred sales commissions	(1,145,922)	(1,200,183)
Retained earnings	33,428,010	26,354,674
Shareholders' equity attributable to Class A shares	87,070,287	74,810,208
Share capital, Class B shares	100	100
TOTAL SHAREHOLDERS' EQUITY	\$ 87,070,387	\$ 74,810,308

Net assets attributable to outstanding Class A shares are allocated as follows:

Net asset value, Class A - Series I	\$ 24,236,004	\$ 22,765,408
Number of shares outstanding, Class A - Series I	1,065,254	1,127,567
Net asset value per share, Class A - Series I	\$ 22.75	\$ 20.19
Net asset value, Class A - Series II	\$ 12,467,057	\$ 11,736,816
Number of shares outstanding, Class A - Series II	548,150	581,126
Net asset value per share, Class A - Series II	\$ 22.74	\$ 20.20
Net asset value, Class A - Series III	\$ 50,367,226	\$ 40,307,984
Number of shares outstanding, Class A - Series III	2,223,624	2,005,609
Net asset value per share, Class A - Series III	\$ 22.65	\$ 20.10

See accompanying notes.

ON BEHALF OF THE BOARD



Director



Director

FRONT STREET ENERGY GROWTH FUND INC.

Statements of Income and Retained Earnings

For the year ended March 31, 2006

(with comparative figures for the year ended March 31, 2005)

	<u>2006</u>	<u>2005</u>
INTEREST AND OTHER REVENUES	\$ 472,189	\$ 220,571
EXPENSES		
Administrative	69,888	29,580
Audit fees	37,376	75,350
Clearing and settlement, and back office fees	182,849	228,582
Custodial fees	25,867	19,860
Directors' and meeting fees (Note 6(e))	21,456	19,860
Goods and Services Tax ("GST")	195,274	208,340
Insurance	18,120	16,441
Investment advisor fees (Notes 6(b) and 9(b))	1,735,164	1,097,444
Increase (decrease) in provision for performance bonus and related GST Note 6(c)	(2,894,054)	5,326,139
Legal fees	94,113	69,300
Performance bonus and related GST (Notes 6(c) and 9(b))	6,523,464	904,712
Management fees (Notes 6(a) and 9(a))	846,186	548,722
Marketing and printing (recovered)	(17,044)	58,950
Service (trail) fees (Note 3(d))	612,392	379,160
Sponsor's fees (Notes 6(d) and 9(c))	248,405	164,617
Tax on capital	84,898	8,000
	<u>7,784,354</u>	<u>9,155,057</u>
NET INVESTMENT LOSS	(7,312,165)	(8,934,486)
CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF VENTURE INVESTMENTS	(13,752,743)	23,576,775
UNDISTRIBUTED REALIZED GAIN ON DISPOSITION OF VENTURE INVESTMENTS (Note 10)	30,573,744	5,678,573
INCREASE IN NET ASSETS FROM OPERATIONS	9,508,836	20,320,862
RETAINED EARNINGS, BEGINNING OF YEAR	26,354,674	7,143,792
PREMIUM ON REDEMPTION OF CLASS A SHARES (Note 5(d))	(2,435,500)	(1,109,980)
RETAINED EARNINGS, END OF YEAR	\$ 33,428,010	\$ 26,354,674

Increase in net assets from operations attributable to Class A shares is allocated as follows:

Increase in net assets from operations, Class A – Series I	\$ 2,853,834	\$ 7,251,211
Increase in net assets from operations per share, Class A – Series I	\$ 2.61	\$ 6.24
Increase in net assets from operations, Class A – Series II	\$ 1,458,602	\$ 3,681,158
Increase in net assets from operations per share, Class A – Series II	\$ 2.58	\$ 6.14
Increase in net assets from operations, Class A – Series III	\$ 5,196,400	\$ 9,388,493
Increase in net assets from operations per share, Class A – Series III	\$ 2.54	\$ 6.04

See accompanying notes.

FRONT STREET ENERGY GROWTH FUND INC.

Statements of Changes in Net Assets

For the year ended March 31, 2006

(with comparative figures for the year ended March 31, 2005)

	<u>2006</u>	<u>2005</u>
CLASS A – SERIES I		
Increase in net assets from operations	\$ 2,853,834	\$ 7,251,211
Capital transactions		
Amounts paid on redemption of Shares	(1,424,249)	(1,004,144)
Write-off of deferred sales commissions applicable to the Series, before redemption fees applied	-	(934,217)
Redemption fees applied to the Series	41,011	45,322
	(1,383,238)	(1,893,039)
Increase in net assets	1,470,596	5,358,172
Net assets, beginning of year	22,765,408	17,407,236
Net assets, end of year	\$ 24,236,004	\$ 22,765,408
CLASS A – SERIES II		
Increase in net assets from operations	\$ 1,458,602	\$ 3,681,158
Capital transactions		
Amounts paid on redemption of Shares	(741,612)	(742,157)
Write-off of deferred sales commissions applicable to the Series, before redemption fees applied	-	(332,665)
Redemption fees applied to the Series	13,251	21,496
	(728,361)	(1,053,326)
Increase in net assets	730,241	2,627,832
Net assets, beginning of year	11,736,816	9,108,984
Net assets, end of year	\$ 12,467,057	\$ 11,736,816
CLASS A – SERIES III		
Increase in net assets from operations	\$ 5,196,400	\$ 9,388,493
Capital transactions		
Proceeds on issuance of Shares	9,436,545	18,365,488
Amounts paid on redemption of Shares	(4,573,703)	(2,683,529)
Write-off of deferred sales commissions applicable to the Series, before redemption fees applied	-	(119)
	4,862,842	15,681,840
Increase in net assets	10,059,242	25,070,333
Net assets, beginning of year	40,307,984	15,237,651
Net assets, end of year	\$ 50,367,226	\$ 40,307,984

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FRONT STREET ENERGY GROWTH FUND INC.

Statements of Changes in Net Assets (continued)

For the year ended March 31, 2006

(with comparative figures for the year ended March 31, 2005)

	<u>2006</u>	<u>2005</u>
TOTALS		
Increase in net assets from operations attributable to Class A shares	\$ 9,508,836	\$ 20,320,862
Capital transactions attributable to Class A shares		
Proceeds on issuance of Shares	9,436,545	18,365,488
Amounts paid on redemption of Shares	(6,739,564)	(4,429,830)
Write-off of deferred sales commissions applicable to the Series, before redemption fees applied	-	(1,267,001)
Redemption fees applied to share issue costs	54,262	66,818
	2,751,243	12,735,475
Increase in net assets attributable to Class A shares	12,260,079	33,056,337
Net assets attributable to Class A shares, beginning of year	74,810,208	41,753,871
Net assets attributable to Class A shares, end of year	\$ 87,070,287	\$ 74,810,208

FRONT STREET ENERGY GROWTH FUND INC.

Statement of Venture Investment Portfolio

As at March 31, 2006

	<u>Cost</u>	<u>Fair Value</u>
EQUITY SECURITIES, PUBLICLY-TRADED ENTITIES (HAVING QUOTED MARKET VALUES)		
Alberta Clipper Energy Inc. (500,000 common shares)	\$ 2,250,000	\$ 1,700,000
Atlas Energy Ltd. (391,600 common shares)	1,116,060	1,958,000
Bulldog Resources Inc. (262,500 common shares)	267,750	525,000
Clear Energy Inc. (530,085 common shares)	1,401,706	2,438,391
Crescent Point Energy Trust (8,000 trust units)	173,997	179,840
Cyries Energy Inc. (185,000 common shares)	1,017,500	2,467,900
Fairquest Energy Limited (424,910 common shares)	2,812,165	2,719,424
International Royalty Corporation (759,943 common shares)	904,829	3,085,369
Javelin Capital Corporation (2,858,000 common shares, restricted)	1,000,300	1,446,148
Kereco Energy Limited (300,000 common shares)	3,300,000	3,414,000
Midnight Oil Exploration Limited (145,000 common shares)	469,800	571,300
OPTI Canada Inc. (68,966 common shares)	1,000,007	3,053,125
Orleans Energy Limited (414,000 common shares)	1,242,000	2,628,900
Prairie Schooner Petroleum Limited (70,000 common shares)	910,000	1,389,500
Proex Energy Limited (283,000 common shares)	1,485,750	4,148,780
Rock Energy Inc. (200,000 common shares)	677,400	848,000
Rockyview Energy Inc. (80,051 common shares)	427,625	476,303
Stylus Energy Inc. (817,892 common shares)	970,000	2,968,948
Stylus Energy Inc. (275,000 common shares, restricted)	990,000	978,285
Valiant Energy Inc. (93,324 common shares)	373,296	345,299
West Energy Ltd. (571,500 common shares)	1,000,125	3,200,400
Zenas Energy Corporation (669,996 common shares)	3,420,480	3,128,881
TOTAL VENTURE INVESTMENTS IN PUBLICLY-TRADED ENTITIES (carried forward)	\$ 27,210,790	\$ 43,671,793

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FRONT STREET ENERGY GROWTH FUND INC.
Statement of Venture Investment Portfolio (continued)
As at March 31, 2006

	<u>Cost</u>	<u>Fair Value</u>
TOTAL VENTURE INVESTMENTS IN PUBLIC COMPANIES (brought forward)	\$ 27,210,790	\$ 43,671,793
EQUITY SECURITIES, PRIVATE ENTITIES		
(NOT HAVING QUOTED MARKET VALUES)		
Big Eagle Energy Services Trust (1,000,000 trust units)	5,000,000	5,000,000
Dolomite Energy Inc. (1,300,000 common shares)	1,300,000	1,300,000
Escavar Energy Inc. (700,000 common shares)	700,000	700,000
Ferus Gas Industries Trust (500,000 trust units)	1,250,000	1,250,000
Laricina Energy Limited (600,000 common shares)	3,000,000	3,000,000
Los Altares Resources Limited (833,000 common shares)	999,600	999,600
Morpheus Energy Corporation (400,000 common shares)	1,060,000	1,060,000
North West Upgrading Inc. (5,000,000 common shares, restricted)	5,000,000	5,000,000
Quadrise CDA Fuel Systems Inc. (535,000 Class "A" shares)	4,012,500	4,012,500
Range Royalty Limited Partnership (55,024 Class B, Series 1 units)	320,790	321,340
Ridgeback Exploration Limited (2,000,000 common shares)	2,500,000	2,500,000
Timberrock Energy Corporation (2,000,000 common shares)	2,000,000	2,000,000
Timing Energy Inc. (1,000,000 common shares)	1,000,000	1,000,000
Xtreme Coil Drilling Inc. (239,286 common shares)	1,675,002	1,675,002
	29,817,892	29,818,442
TOTAL VENTURE INVESTMENTS	\$ 57,028,682	\$ 73,490,235
UNREALIZED APPRECIATION OF VENTURE INVESTMENTS		\$ 16,461,553

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

1. CORPORATE STATUS AND ACTIVITIES

Front Street Energy Growth Fund Inc. (the "Fund") was incorporated under the laws of Canada by Articles of Incorporation dated November 1, 2001.

The Fund is a registered labour-sponsored venture capital corporation under the Income Tax Act (Canada) (the "Federal Act"). The Fund is subject to certain investment restrictions under the Federal Act. In addition, the Fund has adopted certain other investment restrictions.

The Fund's investment objective is to achieve maximum capital appreciation by investing in small and medium-sized eligible business entities in a range of energy-related industries. These industries include oil and gas exploration and production, servicing and drilling, and alternative energy-related projects including fuel cell, power generation and wind power projects.

The sponsor of the Fund is The National Guild of Canadian Media, Manufacturing, Professional & Service Workers/CWA (the "Sponsor").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Venture investments*

Venture investments in securities having quoted market values and which are publicly-traded on a recognized stock exchange, and are not otherwise restricted or thinly traded securities, are valued based on the closing quoted market price.

Venture investments in securities not having quoted market values or in restricted or thinly traded securities are valued at cost, unless a different fair value is independently determined by the Investment Advisor.

The Fund's valuation methodology is described in detail in its annual prospectus ("Valuation of Investments").

(b) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. The process of valuing investments for which no public market exists is inevitably based on inherent uncertainties, and the resulting values may differ from those that would have been used had a ready market existed for the investments. Management believes its estimates to be appropriate; however, actual results could vary materially from those estimates.

(c) *Provision for performance bonus*

As reported in Note 6(c), Front Street Investment Management Inc. (hereinafter referred to as the "Investment Advisor") is entitled to a performance bonus, which is payable by the Fund on the realization of gains on venture investments and dependent upon other criteria. As at the date of the financial statements, the amount payable, if any, is recorded as a liability and charged to operations in the period that liability is due.

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Provision for performance bonus (continued)*

In addition, the Fund records a provision for the amount of performance bonus that might otherwise become payable at a future date, based on the:

- i) unrealized appreciation in the Fund's eligible investments; and
- ii) other realized gains attributable to dispositions of eligible investments that were not yet payable to the Investment Advisor in accordance with the prerequisite conditions pertinent to the payment of a liability for a performance bonus on realized gains.

The Fund charges that provision to operations in the period in which the appreciation of the eligible investments and the other realized gains are recognized for accounting purposes. Notwithstanding the recognition of such a provision in these financial statements, no legal liability exists for the payment of that provision and the Goods and Services Taxes ("GST") provided thereon. The amount eventually paid at a future date may differ materially from the provision, depending primarily on the variances between the market value of the eligible investments as at the date of these financial statements and the price at which the eligible investments might eventually be sold.

(d) *Net asset value per share*

The net asset value per share is calculated by dividing the net asset value attributable to each Series of Class A shares by the number of shares of each respective Series outstanding as at the end of the fiscal year.

(e) *Increase in net assets from operations per share*

Increase in net assets from operations per share is calculated by dividing the increase in net assets from operations attributable to each Series of Class A shares by the weighted-average number of shares in each respective Series during the year.

(f) *Allocation of income and expenses to Class A shares*

Except for service (trail) fees expense, all revenues and expenses and realized and unrealized gains and losses on the investment portfolio are allocated to each Series of Class A shares based on the pro-rata share of the weighted-average number of shares of each Series outstanding for the year over the total weighted-average number of all Class A shares outstanding during the year. Service (trail) fees expense is allocated to the Series of Class A shares to which the expense relates (see note 3(d)).

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

3. SALES COMMISSIONS AND SERVICE FEES

- (a) In prior years, deferred charges represented initial sales commissions at the rate of 6%, which were payable to dealers by the Fund on the issuance of Class A, Series I shares and Class A, Series II shares. Prior to April 1, 2004, such sales commissions were amortized by the Fund using the straight-line method, over a period of eight years from the date of issuance of such shares. The Fund charged the amortization of the 6% deferred sales commissions to retained earnings. Effective April 1, 2004, the Fund adopted the direct charge method of accounting for sales commissions incurred on the issuance of Class A shares. The unamortized balance of deferred sales commissions as at April 1, 2004 has been charged to shareholders' equity as share issue costs.
- (b) On the issuance of Class A, Series I shares, an additional initial sales commission was calculated at the rate of 4% and was payable to dealers by the Fund in lieu of the annual service (trail) fees otherwise payable to dealers before the eighth anniversary of issue of the Class A, Series I shares. Prior to April 1, 2004, the Fund amortized the additional 4% deferred sales commissions on Class A, Series I shares on a straight-line basis over a period of eight years from the date of issuance of such shares. The Fund charged the amortization of this 4% deferred sales commissions to operations. Effective April 1, 2004, the Fund adopted the direct charge method of accounting for sales commissions incurred on the issuance of Class A shares. The unamortized balance of the additional sales commissions on Class A, Series I shares as at April 1, 2004 has been charged to shareholders' equity as share issue costs.
- (c) Holders of Class A, Series I shares and Class A, Series II shares, who redeem their shares prior to the eighth anniversary of the date of issuance thereof, are charged an early redemption fee. Prior to April 1, 2004, the early redemption fee was applied first against the remaining unamortized deferred charges related to such redeemed shares, with any resulting gain or loss included in operations in the period in which redemption occurred. Effective April 1, 2004 and thereafter, early redemption fees are applied against the amount of deferred sales commissions on Class A, Series I shares and Class A, Series II shares that were charged to shareholders' equity as share issue costs as at that date. The amount of redemption fees applied against those share issue costs in 2006 totaled \$41,011 for Class A, Series I shares and \$13,251 for Class A, Series II shares (2005: \$45,322 for Series I and \$21,496 for Series II).
- (d) Service (trail) fees, attributable to Class A, Series II shares, are calculated at the annual rate of 0.50%. Such fees attributable to Class A, Series III shares are calculated at the annual rate of 1.25%. Service (trail) fees are charged to operations in the year incurred.

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

4. CASH AND SHORT-TERM INVESTMENTS

	<u>2006</u>	<u>2005</u>
Cash	\$ 4,285,050	\$ 5,101,325
Short-term investments, at cost plus accrued interest receivable	20,476,026	6,993,813
	<u>\$ 24,761,076</u>	<u>\$ 12,095,138</u>

As at March 31, 2006, short-term investments represent Bankers' Acceptances issued by Canadian Chartered Banks, which have an aggregate cost of \$20,447,305, mature on dates ranging from April 3, 2006 to April 24, 2006 at an aggregate maturity value of \$20,500,000, and earn an effective yield ranging from 3.652% to 3.726%.

5. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A shares, voting and participating, issuable in series and only to individuals and qualifying trusts at \$10 per share until March 1, 2002 and continuously thereafter at the net asset value per share, redeemable and transferable with restrictions. The holders of these shares are entitled to elect one of the seven directors of the Fund.

Unlimited number of Class B shares issuable only to the Sponsor of the Fund, or such other organizations, entities or persons as are permitted under the Federal Act to hold Class B Shares. The holders of these shares are entitled to elect six of the seven directors of the Fund.

(b) Fees on redemption of Class A shares

Subject to certain restrictions, a shareholder may redeem all or part of the Class A shares held at the net asset value per Class A share.

For the Class A shares, Series I, a redemption fee is charged in the amount of up to 10% of the original issue price, calculated as being 1.25% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue. For the Class A shares, Series II, a redemption fee is charged in the amount of up to 6% of the original issue price, calculated as being 0.75% of the original issue price times the number of years or part years remaining until the eighth anniversary of the date of issue.

(c) Summary of Class A shares issued and redeemed for cash

The following table summarizes the issuance and redemption of Class A shares for the years ended March 31, 2005 and 2006. The amounts attributed to the redemption of Class A shares of any Series are calculated using the weighted-average stated capital value of the shares as at the date of redemption. Premiums paid by the Fund on the redemption of Class A shares of any Series are disclosed separately in Note 5(d).

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

5. SHARE CAPITAL (continued)

(c) *Summary of Class A shares issued and redeemed for cash (continued)*

	Series I		Series II		Series III		Total
	Number	Amount	Number	Amount	Number	Amount	
Year ended							
<u>March 31, 2005</u>							
Balance,							
March 31, 2004	1,184,179	\$ 13,074,862	627,125	\$ 7,022,070	1,053,563	\$ 14,513,147	\$ 34,610,079
Issued	-	-	-	-	1,103,967	18,365,488	18,365,488
Redeemed	(56,612)	(617,739)	(45,999)	(509,160)	(151,921)	(2,192,951)	(3,319,850)
Balance,							
March 31, 2005	1,127,567	\$ 12,457,123	581,126	\$ 6,512,910	2,005,609	\$ 30,685,684	\$ 49,655,717
Year ended							
<u>March 31, 2006</u>							
Issued	-	-	-	-	427,516	9,436,545	9,436,545
Redeemed	(62,313)	(688,410)	(32,976)	(369,580)	(209,501)	(3,246,073)	(4,304,063)
Balance,							
 March 31, 2006	1,065,254	\$ 11,768,713	548,150	\$ 6,143,330	2,223,624	\$ 36,876,156	\$ 54,788,199

(d) *Premium on redemption of Class A shares*

During the year ended March 31, 2006, premiums were paid on the redemption of Class A shares, as follows:

- (i) the premium on the 62,313 Series I shares redeemed at the relevant net asset value on the date of redemption was \$735,839 (2005: 56,612 Series I shares redeemed having a premium on redemption of \$386,404);
- (ii) the premium on the 32,976 Series II shares redeemed at the relevant net asset value on the date of redemption was \$372,031 (2005: 45,999 Series II shares redeemed having a premium on redemption of \$232,997); and
- (iii) the premium on the 209,501 Series III shares redeemed at the relevant net asset value on the date of redemption was \$1,327,630 (2005: 151,921 Series III shares redeemed having a premium on redemption of \$490,579).

The aggregate premium paid on the redemption of all Series of Class A shares was in the amount of \$2,435,500 (2005: \$1,109,980) and was charged to retained earnings.

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

6. EXPENSES

(a) *Fund Manager*

The Fund has an agreement (the "Management Agreement") having an effective date of January 1, 2005 with Front Street Capital 2004 (the "Manager") to manage the business and affairs of the Fund. The Manager will be paid fees, calculated and paid monthly in arrears, consisting of an annual management fee of 1% of the net asset value of the Fund.

(b) *Investment Advisor*

The Fund has retained Front Street Investment Management Inc. to provide advice on and manage the Fund's investments. The Fund will pay fees, calculated and paid monthly in arrears, consisting of an annual investment advisory fee of 2% of the net asset value of the Fund.

(c) *Performance bonus*

In addition, the Investment Advisor will be entitled to a performance bonus (the "Performance Bonus") based on realized gains and cumulative performance of each eligible investment. Such investments represent those made in eligible businesses as defined by the Federal Act and exclude liquid investments.

Before any Performance Bonus is paid by the Fund on the gains realized on an eligible investment, the following conditions must be satisfied:

- (i) the Fund has earned sufficient income to generate a rate of return on eligible investments in excess of a cumulative annualized threshold return of 6%. The income on eligible investments includes investment gains and losses (realized and unrealized) earned and incurred since the inception of the Fund;
- (ii) the Fund has earned income from the eligible investment, on which the Performance Bonus is to be paid, which provides a cumulative investment return at an average annual rate in excess of 6% since the date of the investment; and
- (iii) the Fund has fully recouped an amount equal to all principal invested in the eligible investment on which Performance Bonus is to be paid.

Subject to all of the above, the Performance Bonus will be an amount equal to the lesser of (i) 20% of all income earned from the eligible investment, and (ii) the portion of the amount calculated in (i) that does not reduce returns to shareholders on the investment portfolio below a cumulative annualized threshold return of 6%.

Realized gains and losses on the partial disposition of eligible investments are included with the realized gains and losses on the total disposition of eligible investments and form part of the calculation for the determination of the Performance Bonus liability as at any date, only if the Fund has recovered (from all dispositions of that eligible investment on a cumulative basis) an amount equal to at least the full amount of the principal invested in the entire eligible investment. Otherwise, the portion of the Performance Bonus attributable to realized gains and losses on partial dispositions (for which the full amount of the principal invested in the entire eligible investment has not been recovered on a cumulative basis) is included by the Fund with the Provision for Performance Bonus.

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

6. EXPENSES (continued)

(c) *Performance bonus (continued)*

For 2006, the Performance Bonus expense charged to operations amounted to \$6,523,464 (2005: \$904,712). As at March 31, 2006, the liability for Performance Bonus and related GST in the aggregate amount of \$6,540,721 (2005: \$904,712) is reported separately on the statements of financial position. As at March 31, 2006, the statements of financial position also reflect a Provision for Performance Bonus in the amount of \$3,663,739 and related GST in the amount of \$256,461 (2005: Performance Bonus of \$6,384,594 and GST of \$446,922).

(d) *Sponsor*

The Sponsor is entitled to an annual fee of 0.30% of the net asset value of the Fund, calculated and charged monthly in arrears.

(e) *Directors*

External directors are entitled to a basic annual fee of \$5,000 each, plus certain meeting fees.

7. RECONCILIATION OF NET ASSET VALUES PER SHARE

Effective April 1, 2004 and pursuant to new accounting recommendations from the Canadian Institute of Chartered Accountants, the Fund adopted the direct charge method of accounting for sales commissions incurred on the issuance of Class A shares. Prior thereto, such commissions had been capitalized and amortized using the straight-line method over a period of eight (8) years. In its financial statements for the year ended March 31, 2005, the Fund charged the unamortized balance of the previously deferred sales commissions ("DSC") to shareholders' equity as share issue costs on the date of the Fund's adoption of the new accounting policy.

The Ontario Securities Commission's Staff Notice concerning accounting for DSC provides exemptive relief to the Fund on a transitional basis, solely for the purpose of calculating the net asset value ("NAV") of the Class A, Series I and Series II shares for daily pricing purposes ("Pricing NAV"), whereby sales commissions capitalized prior to January 1, 2004 would continue to be amortized in accordance with the accounting practice formerly used by the Fund. Consequently, the effect of this transitional provision will be that for a period of up to 8 years, the Pricing NAV for Class A, Series I and Series II shares as set out by the Fund in its prospectus will differ from its NAV under generally accepted accounting principles ("GAAP NAV").

GAAP NAV per share as reported in these financial statements and Pricing NAV per share for Class A, Series I and Series II shares are reconciled as follows:

	<u>Series I</u>	<u>Series II</u>
GAAP NAV	\$ 22.75	\$ 22.74
Share issue costs, write-off of deferred sales commissions ("DSC")	0.80	0.54
Amortization of DSC recorded for daily Pricing NAV purposes	(0.20)	(0.09)
Pricing NAV	<u>\$ 23.35</u>	<u>\$ 23.19</u>

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

8. INCOME AND OTHER TAXES

Under the Federal Act, no income taxes are payable by the Fund on dividends received from Canadian corporations. In addition, income taxes payable related to capital gains are fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. Income taxes payable as at March 31, 2006 will be recovered in a future year, either as a result of the redemptions of its shares or capital gains dividends.

As at March 31, 2006, the Fund has no non-capital losses or net capital losses being carried forward.

The Federal Act sets minimum levels of qualifying eligible investments required to be made by the Fund. If the Fund were to fail to meet required minimum level of qualifying venture investments, the Fund would be subject to prescribed taxes and penalties.

9. RELATED PARTY TRANSACTIONS

The nature of the relationships between the Fund and its Manager, its Investment Advisor and its Sponsor has been reported in Notes 6(a), 6(b), 6(c) and 6(d) respectively. The transactions occurring in the period between the Fund and these related parties are as follows:

(a) *Fund Manager*

For the year ended March 31, 2006, management fees payable to the Fund Manager, in the amount of \$846,186 were charged to operations (2005: \$548,722). As at March 31, 2006, management fees payable in the amount of \$71,887 (2005: \$45,224) are included in accounts payable and accrued liabilities.

(b) *Investment Advisor*

For the year ended March 31, 2006, Investment Advisor's fees payable to the Investment Advisor, in the amount of \$1,735,164 were charged to operations (2005: \$1,097,444). As at March 31, 2006, the Investment Advisor's fees payable in the amount of \$143,775 (2005: \$47,657) are included in accounts payable and accrued liabilities.

In addition, for the year ended March 31, 2006, the Fund has charged a Performance Bonus expense in the amount of \$6,523,464 including GST to operations (2005: \$904,712 including GST). Such Performance Bonus is payable to the Investment Advisor under the terms described in Note 6(c). As at March 31, 2006, a liability for Performance Bonus fees in the amount of \$6,540,721 including GST (2005: \$904,712 including GST) was reported separately in the statements of financial position.

(c) *Sponsor*

For the year ended March 31, 2006, Sponsor's fees payable to the Sponsor, in the amount of \$248,405 have been charged to operations (2005: \$164,617). As at March 31, 2006, the Sponsor's fees payable in the amount of \$21,566 (2005: \$19,019) are included in accounts payable and accrued liabilities.

FRONT STREET ENERGY GROWTH FUND INC.

Notes to the Financial Statements

March 31, 2006 and 2005

9. RELATED PARTY TRANSACTIONS (continued)

(d) Issuance and redemption of Class A shares

During the year ended March 31, 2006, the Fund issued 232 Class A, Series III shares (2005: 277 Class A, Series III shares) for cash, based on the net asset value on the date of issuance to certain directors of the Fund, and to certain directors of the Fund Manager and the Investment Advisor and their immediate families.

During 2006 and 2005, no Class A, Series I, II or III shares were redeemed by parties related to the Fund.

(e) Commissions on portfolio transactions

During the year, the Fund paid commissions and related transaction costs (as and when applicable) concerning the venture portfolio in the amount of \$9,214 (2005: \$4,817) to Tuscarora Capital Inc., which is a corporation affiliated to the Investment Advisor and the Fund Manager. The Fund does not use soft dollars to pay for third-party research.

10. UNDISTRIBUTED REALIZED GAIN ON DISPOSITION OF VENTURE INVESTMENTS

	<u>2006</u>	<u>2005</u>
Cost of venture investments, beginning of year	\$ 40,786,809	\$ 28,538,690
Cost of venture investments, acquired during the year	50,736,967	21,944,579
Return of capital on venture investments during the year	(50,438)	(174,000)
	<u>91,473,338</u>	50,309,269
Cost of venture investments, end of year	57,028,682	40,786,809
Cost of venture investments dispositions	34,444,656	9,522,460
Proceeds from disposition of venture investments	65,018,400	15,201,033
	<u>\$ 30,573,744</u>	\$ 5,678,573

11. COMMISSIONS ON PORTFOLIO TRANSACTIONS

During the year, the Fund paid commissions and related transaction costs (as and when applicable) concerning the venture portfolio in the amount of \$172,030 (2005: \$58,129).