

# **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2006 FRONT STREET ENERGY GROWTH FUND INC.**

*This Interim Management Report of Fund Performance contains financial highlights but does not contain the complete interim financial statements for Front Street Energy Growth Fund Inc. (the “Fund”). The interim financial statements of the Fund are attached to this report. You can also obtain a copy of the interim financial statements at your request and at no cost, by calling 1-800-513-2832, by writing to Front Street Capital 2004, 87 Front Street East, Suite 400, Toronto, Ontario M5E 1B8, or by visiting our web site at [www.frontstreetcapital.com](http://www.frontstreetcapital.com) or SEDAR at [www.sedar.com](http://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, or proxy voting disclosure record relating to the Fund.*

## **FORWARD-LOOKING INFORMATION**

This Interim Management Report of Fund Performance contains forward-looking information and statements relating to, 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, projections 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 OBJECTIVE AND STRATEGIES**

The investment objective of the Fund is to seek capital appreciation through investment in equity securities of companies whose product, service or management team Front Street Capital believes can realize value and growth. Front Street Capital may rely on “top down” fundamental research to identify equity securities of companies in a particular industry or sector, but portfolio diversification will be driven primarily from the Fund’s investments, as opposed to targeting sector weights.

Front Street Capital will employ alternative investment strategies, including event-related special situations investing (including, for instance, investment in securities of issuers undergoing or undertaking tenders, mergers and acquisitions, liquidations, spin-offs and recapitalizations) and the purchase of undervalued shares in the equity markets.

From time to time, the Fund may use clearing corporation options and listed warrants (“permitted derivatives”) as permitted by Canadian securities regulators and consistent with the investment objectives and strategies of the Fund. The Fund may use these permitted derivatives for hedging and non-hedging purposes.

## **RISK**

Most of the Fund’s assets will be invested in common shares and other equity securities. The Fund will therefore be subject to stock market risk. Since the Fund may also invest in foreign securities, this 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 offers three series of units and is therefore subject to series 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 traded in a narrow range relative to the U.S. dollar, over the six-month period. Currency risk impacted principally the Fund’s investments that had revenues in US\$. 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, gas, and other commodities was a positive factor that contributed to Canadian equity market performance, particularly in the energy sector. Natural gas inventories were higher than normal (about 16% higher) due to the warm 2006 winter. Price volatility is expected to be high until cooler weather begins and inventory drawdowns commence, likely in November 2006.

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.

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 only for investors seeking long-term growth with a high tolerance for risk and volatility and a long-term investment horizon.

## **RESULTS OF OPERATIONS**

The Fund’s investment advisor continued to focus on long-term capital appreciation for the portfolio during the first half of fiscal 2007. There was a significant change to the portfolio throughout the past year – there was a switch into companies whose main business is providing infrastructure, such as oil upgraders, pipelines, and engineering services. Many of these companies are private, with the result that the portfolio was 45% invested in private companies as at September 30, 2006. Company concentration was not an issue as the investment advisor continued its long-standing commitment to a diversity of names, while maintaining a focus on the sectors that had high appreciation potential.

Unlike all of 2004 and most of 2005, global oil demand is not driving oil prices higher as Crude demand has essentially been flat since last the fall of 2005. Moreover, as mentioned earlier, natural gas inventories are high, suggesting price weakness until the winter heating season begins.

Currency volatility also had a minimal impact as revenues denominated in US\$ declined when converted to C\$ on most investee company's income statements. Notwithstanding this situation, the Fund had the benefit of a good equity market for energy stocks as demand for commodities continued to grow in a supply-constrained environment.

### **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, with the exception of Natural Gas, leading to an inability to cushion any shocks to the system. This reality, coupled with a slightly rising interest rate environment, has led to steady economic growth, albeit at higher commodity price levels. As well, Mergers and Acquisitions activities continue to play out in recent months, as it is perceived to be a safer place to invest capital than exploration in volatile countries. Income Trusts are not only continuing to acquire reserves but are consolidating amongst each other as they seek greater economies to control costs.

### **RELATED PARTY TRANSACTIONS**

The Fund is managed by Front Street Capital 2004 ("FSC"). FSC provides or arranges for the provision of all general management and administrative services required by the Fund in its day-to-day operations, including providing or arranging for the provision of investment advice, establishment of brokerage arrangements relating to the purchase and sale of the investment portfolio, and bookkeeping, record-keeping and other administrative services for the Fund. In exchange for providing management services, FSC receives a monthly management fee, based on an annual rate of 1% of the net asset value of the Fund, calculated and payable monthly in arrears.

The Fund's Investment Advisor (the "Investment Advisor") is Front Street Investment Management Inc. ("FSIMI"). FSIMI is an affiliate of FSC and has entered into an Investment Advisor Agreement to provide advisory services to the Fund. FSIMI receives a monthly investment advisory fee, based on an annual rate of 2% of the net asset value of the Fund, calculated and payable monthly in arrears. In addition, as described in Note 6(c) to the annual financial statements for the year ended March 31, 2006, the Investment Advisor may be entitled to a performance bonus based on realized gains and the cumulative performance of each eligible investment. The entitlement of the Investment Advisor to the payment of the performance bonus is subject to certain conditions.

The Fund may place a portion of its portfolio transactions with Tuscarora Capital Inc., which is a brokerage firm affiliated with FSC, provided it determines that this affiliate's trade execution abilities and costs are comparable to those of qualified, non-affiliated brokerage firms, on an execution-only basis.

### **FINANCIAL HIGHLIGHTS**

The following tables report selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the six months ended September 30, 2006 and the prior five financial years (periods). This information is derived from the Fund's audited annual financial statements and the unaudited interim financial statements.

**Front Street Energy Growth Fund Inc., Class A, Series I shares**

Financial years/periods ended <sup>(1)</sup>	Sept. 30, 2006 (6 months)	March 31, 2006 (one year)	March 31, 2005 (one year)	March 31, 2004 (one year)	March 31, 2003 (one year)	March 31, 2002 (5 months)
<b>Net Asset Value (NAV) per share</b>						
NAV per share, beginning of year/period	\$ 22.75	\$ 20.19	\$ 14.88	\$ 12.73	\$ 11.20	\$ 10.00
<b>Increase (decrease) from investment operations:</b>						
Total revenue	0.10	0.13	0.07	0.04	0.01	0.00
Total expenses	(1.16)	(2.06)	(2.65)	(1.65)	(1.98)	(1.85)
Realized gains	0.59	8.25	1.71	3.18	1.55	0.00
Unrealized gains (losses)	2.10	(3.71)	7.11	0.49	1.83	3.29
<b>Total increase from investment operations <sup>(2)</sup></b>	<b>1.63</b>	<b>2.61</b>	<b>6.24</b>	<b>2.06</b>	<b>1.41</b>	<b>1.44</b>
<b>Total distributions <sup>(3)</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Redemptions fees applied to Series (write-off of deferred sales commissions (“DSC”))<sup>(4)</sup></b>	<b>0.01</b>	<b>0.04</b>	<b>(0.77)</b>	<b>–</b>	<b>–</b>	<b>–</b>
NAV per share, end of year/period	\$ 24.39	\$ 22.75	\$ 20.19	\$ 14.88	\$ 12.73	\$ 11.20
<b>Ratios and Supplemental Data, Class A, Series I shares</b>						
Net assets (000's) <sup>(5)</sup>	\$ 25,449,998	\$ 24,236	\$ 22,765	\$ 17,621	\$ 14,798	\$ 9,332
Number of units outstanding	1,043,603	1,065,254	1,127,567	1,184,179	1,162,465	833,242
Management expense ratio <sup>(6)</sup>	6.27%	8.28%	20.30%	12.17%	17.41%	53.73%
Management expense ratio before waivers or absorptions	6.27%	8.28%	20.30%	12.17%	17.41%	53.73%
Management expense ratio before write-off of DSC (redemptions fees applied)	6.32%	8.44%	15.70%	n/a	n/a	n/a
Management expense ratio, excluding performance bonus expense and changes in provision for performance bonus <sup>(7)</sup> and related GST and write-off of DSC (redemption fees applied)	4.03%	4.17%	4.60%	6.96%	10.12%	43.43%
Portfolio turnover rate <sup>(8)</sup>	7.04%	62.66%	31.66%	50.15%	44.47%	n/a
Trading expense ratio <sup>(9)</sup>	0.00%	0.21%	0.11%	0.21%	0.09%	0.00%
Pricing NAV reported at interim year/period-end <sup>(10)</sup>	\$ 25.41	\$ 23.35	\$ 20.85	\$ 14.85	\$ 12.84	\$ 11.62
Return for the year/period <sup>(11)</sup>	7.21%	12.67%	35.69%	16.89%	13.66%	12.00%

**Front Street Energy Growth Fund Inc., Class A, Series II shares**

Financial years/periods ended <sup>(1)</sup>	Sept. 30, 2006 (6 months)	March 31, 2006 (one year)	March 31, 2005 (one year)	March 31, 2004 (one year)	March 31, 2003 (one year)	March 31, 2002 (5 months)
<b>Net Asset Value (NAV) per share</b>						
NAV per share, beginning of year/period	\$ 22.74	\$ 20.20	\$ 14.61	\$ 12.45	\$ 10.96	\$ 10.00
<b>Increase (decrease) from investment operations:</b>						
Total revenue	0.11	0.13	0.07	0.04	0.01	0.00
Total expenses	(1.20)	(2.09)	(2.75)	(1.77)	(1.99)	(1.85)
Realized gains	0.60	8.25	1.71	3.18	1.55	0.00
Unrealized gains (losses)	2.11	(3.71)	7.11	0.49	1.83	3.29
<b>Total increase from investment operations <sup>(2)</sup></b>	<b>1.62</b>	<b>2.58</b>	<b>6.14</b>	<b>1.94</b>	<b>1.40</b>	<b>1.44</b>
<b>Total distributions <sup>(3)</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Redemptions fees applied to Series (write-off of deferred sales commissions (“DSC”))<sup>(4)</sup></b>	<b>0.02</b>	<b>0.02</b>	<b>(0.52)</b>	<b>–</b>	<b>–</b>	<b>–</b>
NAV per share, end of year/period	\$ 24.38	\$ 22.74	\$ 20.20	\$ 14.61	\$ 12.45	\$ 10.96
<b>Ratios and Supplemental Data, Class A, Series I shares</b>						
Net assets (000's) <sup>(5)</sup>	\$ 12,737,833	\$ 12,467	\$ 11,737	\$ 9,162	\$ 7,670	\$ 4,966
Number of units outstanding	522,572	548,150	581,126	627,125	616,044	453,115
Management expense ratio <sup>(6)</sup>	6.87%	10.08%	21.00%	13.25%	17.74%	53.73%
Management expense ratio before waivers or absorptions	6.87%	10.08%	21.00%	13.25%	17.74%	53.73%
Management expense ratio before write-off of DSC (redemptions fees applied)	6.94%	10.18%	17.70%	n/a	n/a	n/a
Management expense ratio, excluding performance bonus expense and changes in provision for performance bonus <sup>(7)</sup> and related GST and write-off of DSC (redemption fees applied)	4.59%	5.79%	5.60%	7.99%	10.40%	43.43%
Portfolio turnover rate <sup>(8)</sup>	7.04%	62.66%	31.66%	50.15%	44.47%	n/a
Trading expense ratio <sup>(9)</sup>	0.00%	0.21%	0.11%	0.21%	0.09%	0.00%
Pricing NAV reported at interim year/period-end <sup>(10)</sup>	\$ 24.51	\$ 23.19	\$ 20.65	\$ 14.66	\$ 12.63	\$ 11.62
Return for the year/period <sup>(11)</sup>	7.21%	12.57%	38.26%	17.35%	13.59%	9.60%

**Front Street Energy Growth Fund Inc., Class A, Series III shares <sup>(12)</sup>**

<b>Financial years/periods ended <sup>(1)</sup></b>	<b>Sept. 30, 2006 (6 months)</b>	<b>March 31, 2006 (one year)</b>	<b>March 31, 2005 (one year)</b>	<b>March 31, 2004 (one year)</b>	<b>March 31, 2003 (one year)</b>	<b>March 31, 2002 (5 months)</b>
<b>Net Asset Value (NAV) per share</b>						
<b>NAV per share, beginning of year/period</b>	\$ 22.65	\$ 20.10	\$ 14.22	\$ 11.85	\$ <sup>(13)</sup> 10.49	\$ <sup>(13)</sup> n/a
<b>Increase (decrease) from investment operations:</b>						
Total revenue	0.10	0.13	0.07	0.04	0.01	n/a
Total expenses	( 1.10)	(2.12)	(2.85)	(1.60)	(1.93)	n/a
Realized gains	0.60	8.25	1.71	3.18	1.55	n/a
Unrealized gains (losses)	2.11	(3.71)	7.11	0.49	1.83	n/a
<b>Total increase from investment operations <sup>(2)</sup></b>	<b>1.71</b>	<b>2.54</b>	<b>6.04</b>	<b>2.11</b>	<b>1.46</b>	<b>n/a</b>
<b>Total distributions <sup>(3)</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>n/a</b>
<b>NAV per share, end of year/period</b>	<b>\$ 24.36</b>	<b>\$ 22.65</b>	<b>\$ 20.10</b>	<b>\$ 14.22</b>	<b>\$ 11.85</b>	<b>\$ n/a</b>
<b>Ratios and Supplemental Data,</b>						
<b>Class A, Series III shares</b>						
Net assets (000's) <sup>(5)</sup>	\$ 53,456,483	\$ 50,367	\$ 40,308	\$ 14,982	\$ 2,960	\$ n/a
Number of shares outstanding	2,194,035	2,223,624	2,005,609	1,053,563	249,781	n/a
Management expense ratio <sup>(6)</sup>	7.65%	9.76%	17.30%	11.38%	13.23%	n/a
Management expense ratio before waivers or absorptions	7.65%	9.76%	17.30%	11.38%	13.23%	n/a
Management expense ratio, excluding performance bonus expense and changes in provision for performance bonus <sup>(7)</sup> and related GST	5.24%	5.30%	5.60%	6.13%	5.98%	n/a
Portfolio turnover rate <sup>(8)</sup>	7.04%	62.66%	31.66%	50.15%	44.47%	n/a
Trading expense ratio <sup>(9)</sup>	0.00%	0.21%	0.11%	0.21%	0.09%	0.00%
Return for the year/period <sup>(11)</sup>	7.55%	12.69%	41.35%	20.00%	2.96%	n/a

**Notes:**

- <sup>(1)</sup> The Fund was incorporated on November 1, 2001. Its first financial period was from November 1, 2001 to March 31, 2002. Thereafter, the financial year end has been March 31 annually.
- <sup>(2)</sup> Net asset value per share and distributions per share are calculated using the actual number of shares outstanding for each Series of Class A shares as at the date of calculation or distribution. Increases/decreases from investment operations are calculated using the weighted-average number of shares outstanding over the financial year/period.
- <sup>(3)</sup> No distributions of revenues, dividends, capital gains or return of capital have been made from the commencement of operations to September 30, 2006.
- <sup>(4)</sup> In 2005, under the requirements of generally accepted accounting principles, the Fund wrote-off the deferred sales commissions (“DSC”) and charged the amount to shareholders’ equity as share issue costs in that year. Thereafter, redemptions fees earned from the redemptions of Class A shares for Series I and Series II have been applied to reduce those costs written-off in 2005.
- <sup>(5)</sup> This information is reported as at the end of the financial year/period presented.
- <sup>(6)</sup> Management expense ratio is based on total expenses for the stated year/period and is expressed as an annualized percentage of daily average net assets during the financial year/period.
- <sup>(7)</sup> Please refer to Note (6(c)) to the financial statements for the year ended March 31, 2006 for additional information concerning the performance bonus.
- <sup>(8)</sup> 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/period. The higher a Fund’s portfolio turnover rate in a year/period, the greater the trading costs payable by the Fund in the year/period, and the greater the chance of an investor receiving taxable capital gains in the year/period. There is not necessarily a relationship between a high turnover rate and the performance of a Fund or the likelihood of the Fund making any distributions to shareholders. Portfolio turnover rate is calculated by dividing the lesser of cost of purchases and the proceeds of sales of portfolio securities for the financial year/period, excluding cash and short-term investments maturing in less than one year, by the average market value of the portfolio investments during that financial year/period.
- <sup>(9)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the financial year/period.
- <sup>(10)</sup> For March 31, 2005, March 31, 2006 and September 30, 2006, the variance between Net Asset Value per share as calculated under generally accepted accounting principles (“GAAP NAV”) and the Net Asset Value determined on a daily basis (“Pricing NAV”) for Class A, Series I and Series II shares represents primarily the effect on NAV for the write-off of DSC as required under generally accepted accounting principles and reported in the interim financial statements for the year ended March 31, 2005. The change in accounting for DSC was effective on April 1, 2004. Please refer to Note 5 to the interim financial statements for the six-month period ended September 30, 2006 for a reconciliation of GAAP NAV to Pricing NAV as at that date (March 31, 2006 financial statements: Note 7; March 31, 2005 financial statements: Note 8).
- <sup>(11)</sup> The Fund has presented information concerning the returns for each year/period in the form of a bar graph later in this report.
- <sup>(12)</sup> The Fund began issuing Class A, Series III shares on August 1, 2002. No such shares were issued and outstanding prior to that date.
- <sup>(13)</sup> For Class A, Series III shares, the NAV per share presented at the commencement of the year ended March 31, 2003 represents the value at which the Fund first issued these shares on August 1, 2002.

## PAST PERFORMANCE

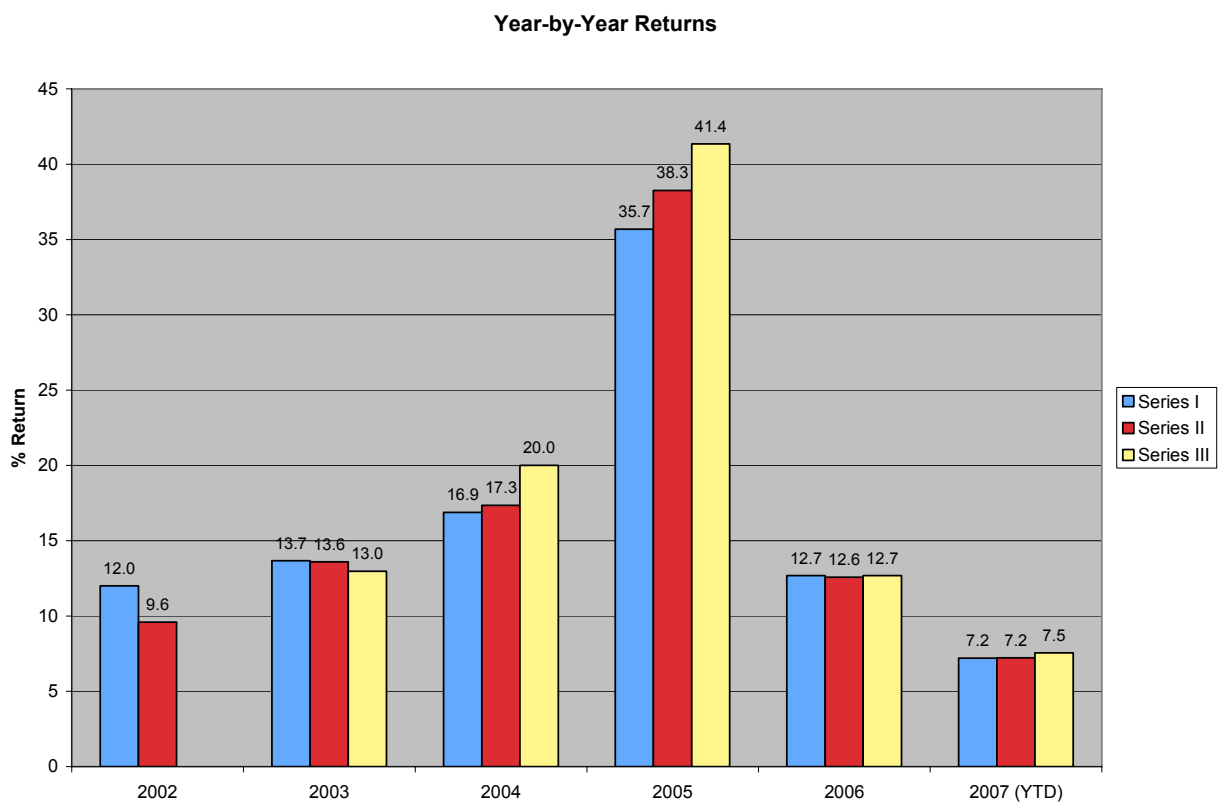
The past performance of the Fund is set out below and includes year-by-year returns and annual compound returns.

With respect to the charts displayed below, please note the following:

- (a) the Fund made no distributions from the commencement of operations to September 30, 2006;
- (b) the return or performance information does not take into account sales and redemptions that might 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.

### *Year-By-Year Returns*

The bar chart below shows the Fund's annual total return in each of the past 5 financial years (from its first financial period ended March 31, 2002 to the most recent financial year ended March 31, 2006) plus for the interim six-month period ended September 30, 2006 ("2007 YTD"). It illustrates how the Fund's performance has changed over each reported year/period. This chart shows, in percentage terms, how much an investment made the first day of each financial year/period would have grown or decreased by the last day of each financial year/period.



### ***Annual Compound Returns***

The following table shows the Fund's historical annual compound total return for the past three and one-year financial periods ended on March 31, 2006 and for the six-month period ended September 30, 2006, as compared to the performance of the S&P/TSX Composite Index.

	Past 5 years <sup>(1)</sup>	Past 3 years ended March 31, 2006	Past year ended March 31, 2006	6-month period ended Sept. 30, 2006
Front Street Energy Growth Fund, Class A, Series I	n/a	23.28%	12.68%	7.21%
Front Street Energy Growth Fund, Class A, Series II	n/a	25.02%	12.57%	7.21%
Front Street Energy Growth Fund, Class A, Series III <sup>(2)</sup>	n/a	29.61%	12.69%	7.55%
S&P/TSX Composite Index	n/a	34.28%	25.99%	(2.88%)

**Notes:**

<sup>(1)</sup> The Fund commenced operations on March 1, 2002. As at September 30, 2006, the Fund has not been in operations for a period of at least five complete financial years. The fifth complete financial year will end on March 31, 2007.

<sup>(2)</sup> The Fund commenced issuing Class A, Series III shares on August 1, 2002.

The S&P/TSX Composite Index is a float market capitalization that tracks the performance of some of the largest and most widely held Canadian stocks listed on the Toronto Stock Exchange (TSX). Prior to May 1, 2002, this index was known as the TSE 300 Composite Index.

### **Summary of Venture Investment Portfolio, as a Percentage of Total Net Asset Value (“NAV”) as at September 30, 2006**

	<b>% OF TOTAL NAV</b>
<b>Cash and Short-Term Investments</b>	<b>13.94</b>
<b>Venture Investment Portfolio</b>	
<b>Income trusts and limited partnerships</b>	
Financial services	1.93
Oil and gas	8.31
	<b>10.24</b>
<b>Equities</b>	
Oil and gas	78.88
Metals and minerals	3.65
<b>Total Equities</b>	<b>82.53</b>
<b>Total Venture Investment Portfolio</b>	<b>92.77</b>
<b>Aggregate of Venture Investment Portfolio and Cash and Short-Term Investments</b>	<b>106.71</b>
Excess of Liabilities over Other Assets	(6.71)
<b>Total Net Asset Value, September 30, 2006</b>	<b>100.00</b>

**Top 25 Venture Investments, at Fair Value,  
as a Percentage of Total NAV as at September 30, 2006**

	<b>% OF TOTAL NAV</b>
<b>Long positions</b>	
North West Upgrading Inc. (private company)	21.82%
Big Eagle Energy Services Trust (private company)	5.46%
Stylus Energy Inc.	4.52%
Quadrise CDA Fuel Systems Inc. (private company)	4.39%
Proex Energy Limited	3.96%
International Royalty Corporation	3.65%
West Energy Ltd.	3.56%
Alberta Clipper Energy Inc.	3.33%
Laricina Energy Limited (private company)	3.27%
Kereco Energy Limited	3.01%
Xtreme Coil Drilling Inc.	2.73%
Ridgeback Exploration Limited (private company)	2.73%
OPTI Canada Inc.	2.69%
Orleans Energy Limited	2.65%
Zenas Energy Corporation	2.32%
Cyries Energy Inc.	2.28%
Timberrock Energy Corporation (private company)	2.18%
Sound Energy Trust	1.92%
Fairquest Energy Limited	1.85%
Atlas Energy Ltd.	1.64%
Dolomite Energy Inc. (private company)	1.42%
Ferus Gas Industries Trust (private company)	1.36%
In Depth Resources Limited (private company)	1.36%
Los Altares Resources Limited (private company)	1.09%
True Energy Trust	0.99%
<b>Total of the NAV represented by the top 25 venture investments</b>	<b>86.18%</b>

As at September 30, 2006, the Fund had no short positions. The information contained in the foregoing lists may change due to the ongoing portfolio transactions of the Fund.

*Interim Financial Statements of*

**FRONT STREET ENERGY GROWTH  
FUND INC.**

*Six-month period ended September 30, 2006*

# **FRONT STREET ENERGY GROWTH FUND INC.**

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# FRONT STREET ENERGY GROWTH FUND INC.

## Interim Statements of Financial Position

As at September 30, 2006 with comparative figures as at March 31, 2006

Unaudited

	<u>September 30,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
<b>ASSETS</b>		
Cash and short-term investment (Note 3)	\$ 12,773,161	\$ 24,761,076
Venture investments, at fair value (cost: \$60,528,695; March 31, 2006: \$57,028,682)	85,016,068	73,490,235
Share subscriptions receivable, Class A – Series III	9,937	160
Dividend income receivable	28,104	1,600
Income taxes recoverable	240,614	-
Refundable capital gains taxes	290,538	360,238
<b>TOTAL ASSETS</b>	<b>98,358,422</b>	<b>98,613,309</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	541,545	532,203
Liabilities for securities redeemed	38,253	189,560
Income taxes payable	-	360,238
Liability for performance bonus and related GST	-	6,540,721
Provision for performance bonus and related GST	6,134,210	3,920,200
<b>TOTAL LIABILITIES</b>	<b>6,714,008</b>	<b>11,542,922</b>
<b>NET ASSETS</b>	<b>\$ 91,644,414</b>	<b>\$ 87,070,387</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital, Class A shares (Note 4)	\$ 53,997,324	\$ 54,788,199
Share issue costs, write-off of deferred sales commissions	(1,124,602)	(1,145,922)
Retained earnings	38,771,592	33,428,010
Shareholders' equity attributable to Class A shares	91,644,314	87,070,287
Share capital, Class B shares	100	100
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 91,644,414</b>	<b>\$ 87,070,387</b>

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

Net asset value, Class A – Series I	\$ 25,449,998	\$ 24,236,004
Number of shares outstanding, Class A - Series I	1,043,603	1,065,254
Net asset value per share, Class A – Series I (Note 5)	\$ 24.39	\$ 22.75
Net asset value, Class A – Series II	\$ 12,737,833	\$ 12,467,057
Number of shares outstanding, Class A - Series II	522,572	548,150
Net asset value per share, Class A – Series II (Note 5)	\$ 24.38	\$ 22.74
Net asset value, Class A – Series III	\$ 53,456,483	\$ 50,367,226
Number of shares outstanding, Class A - Series III	2,194,035	2,223,624
Net asset value per share, Class A – Series III	\$ 24.36	\$ 22.65

See accompanying notes.

ON BEHALF OF THE BOARD



Director



Director

# FRONT STREET ENERGY GROWTH FUND INC.

## Interim Statements of Investment Operations and Retained Earnings

For the six-month periods ended September 30, 2006 and 2005

Unaudited

	<u>September 30,</u> <u>2006</u>	<u>September 30,</u> <u>2005</u>
INTEREST, DIVIDENDS AND OTHER REVENUES	\$ 398,106	\$ 227,150
EXPENSES		
Administrative	44,159	12,960
Audit fees	8,000	26,000
Clearing and settlement, and back office fees	71,949	111,949
Custodial fees	13,271	11,444
Directors' and meeting fees	10,500	10,080
Goods and Services Tax	106,292	96,410
Insurance	8,640	8,640
Investment advisor fees	901,819	872,877
Increase in provision for performance bonus and related GST	2,140,187	4,495,382
Legal fees	45,963	46,080
Management fees	450,909	415,043
Marketing and printing	12,334	-
Service ("trail") fees	314,902	295,760
Sponsor's fees	135,273	119,062
Tax on capital	31,339	38,027
	<b>4,295,537</b>	<b>6,559,714</b>
NET INVESTMENT LOSS	<b>(3,897,431)</b>	<b>(6,332,564)</b>
CHANGE IN UNREALIZED APPRECIATION OF VENTURE INVESTMENTS	<b>8,025,820</b>	<b>4,052,970</b>
UNDISTRIBUTED REALIZED GAIN ON DISPOSITION OF VENTURE INVESTMENTS (Note 6)	<b>2,272,895</b>	<b>16,857,448</b>
<b>INCREASE IN NET ASSETS FROM INVESTMENT OPERATIONS</b>	<b>6,401,284</b>	<b>14,577,854</b>
RETAINED EARNINGS, BEGINNING OF PERIOD	<b>33,428,010</b>	<b>26,354,674</b>
PREMIUM ON REDEMPTION OF CLASS A SHARES (Note 4(b))	<b>(1,057,702)</b>	<b>(948,081)</b>
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 38,771,592</b>	<b>\$ 39,984,447</b>

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

Increase in net assets from investment operations, Class A – Series I	\$ 1,750,575	\$ 4,307,066
Increase in net assets from investment operations per share, Class A – Series I	\$ 1.66	\$ 3.88
Increase in net assets from investment operations, Class A – Series II	\$ 863,575	\$ 2,218,662
Increase in net assets from investment operations per share, Class A – Series II	\$ 1.61	\$ 3.86
Increase in net assets from investment operations, Class A – Series II	\$ 3,787,134	\$ 8,052,126
Increase in net assets from investment operations per share, Class A – Series II	\$ 1.71	\$ 4.01

See accompanying notes.

# FRONT STREET ENERGY GROWTH FUND INC.

## Interim Statements of Changes in Net Assets

For the six-month periods ended September 30, 2006 and 2005

Unaudited

	<u>September 30,</u> <u>2006</u>	<u>September 30,</u> <u>2005</u>
<b>CLASS A – SERIES I</b>		
<b>Increase in net assets from investment operations</b>	<b>\$ 1,750,575</b>	<b>\$ 4,307,066</b>
<b>Capital transactions</b>		
Amounts paid on redemption of Shares	(549,241)	(631,351)
Redemption fees applied to the Series	12,660	16,729
	<b>(536,581)</b>	<b>(614,622)</b>
<b>Increase in net assets</b>	<b>1,213,994</b>	<b>3,692,444</b>
Net assets, beginning of period	<b>24,236,004</b>	<b>22,765,408</b>
<b>Net assets, end of period</b>	<b>\$ 25,449,998</b>	<b>\$ 26,457,852</b>
<b>CLASS A – SERIES II</b>		
<b>Increase in net assets from investment operations</b>	<b>\$ 863,575</b>	<b>\$ 2,218,662</b>
<b>Capital transactions</b>		
Amounts paid on redemption of Shares	(601,460)	(292,709)
Redemption fees applied to the Series	8,661	5,482
	<b>(592,799)</b>	<b>(287,227)</b>
<b>Increase in net assets</b>	<b>270,776</b>	<b>1,913,435</b>
Net assets, beginning of period	<b>12,467,057</b>	<b>11,736,816</b>
<b>Net assets, end of period</b>	<b>\$ 12,737,833</b>	<b>\$ 13,668,251</b>
<b>CLASS A – SERIES III</b>		
<b>Increase in net assets from investment operations</b>	<b>\$ 3,787,134</b>	<b>\$ 8,052,126</b>
<b>Capital transactions</b>		
Proceeds on issuance of Shares	812,336	2,462,364
Amounts paid on redemption of Shares	(1,510,213)	(1,948,434)
	<b>(697,877)</b>	<b>513,930</b>
<b>Increase in net assets</b>	<b>3,089,257</b>	<b>8,566,056</b>
Net assets, beginning of period	<b>50,367,226</b>	<b>40,307,984</b>
<b>Net assets, end of period</b>	<b>\$ 53,456,483</b>	<b>\$ 48,874,040</b>

(continues)

**FRONT STREET ENERGY GROWTH FUND INC.**  
**Interim Statements of Changes in Net Assets (continued)**  
For the six-month periods ended September 30, 2006 and 2005  
*Unaudited*

	<u>September 30,</u> <u>2006</u>	<u>September 30,</u> <u>2005</u>
<b>TOTALS</b>		
<b>Increase in net assets from investment operations attributable to all Class A shares</b>	<b>\$ 6,401,284</b>	<b>\$ 14,577,854</b>
<b>Capital transactions attributable to Class A Shares</b>		
Proceeds on issuance of shares	<b>812,336</b>	2,462,364
Amounts paid on redemption of shares	<b>(2,660,914)</b>	(2,872,494)
Redemption fees applied to share issue costs	<b>21,321</b>	22,211
	<b>(1,827,257)</b>	(387,919)
<b>Increase in net assets attributable to Class A shares</b>	<b>4,574,027</b>	14,189,935
Net assets attributable to Class A shares, beginning of period	<b>87,070,287</b>	74,810,208
<b>Net assets attributable to Class A shares, end of period</b>	<b>\$ 91,644,314</b>	<b>\$ 89,000,143</b>

*See accompanying notes.*

# FRONT STREET ENERGY GROWTH FUND INC.

## Statement of Venture Investment Portfolio

As at September 30, 2006

Unaudited

	<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	\$ 3,050,000
Atlas Energy Ltd. (391,600 common shares)	1,116,060	1,503,744
Bulldog Resources Inc. (262,500 common shares)	267,750	866,250
Crescent Point Energy Trust (8,000 trust units)	173,037	144,720
Cyries Energy Inc. (185,000 common shares)	1,017,500	2,088,650
Eagle Rock Exploration Limited (1,000,000 common shares, restricted)	1,300,000	686,000
Fairquest Energy Limited (424,910 common shares)	2,812,165	1,699,640
International Royalty Corporation (759,943 common shares)	904,829	3,343,749
Javelin Energy Corporation (714,500 common shares)	1,000,300	593,035
Kereco Energy Limited (300,000 common shares)	3,300,000	2,760,000
Midnight Oil Exploration Limited (145,000 common shares)	469,800	493,000
OPTI Canada Inc. (137,932 common shares)	1,000,007	2,468,983
Orleans Energy Limited (600,400 common shares)	2,302,000	2,431,620
Peerless Energy Inc. (98,923 Class "A" shares)	373,296	272,038
Proex Energy Limited (283,000 common shares)	1,485,750	3,625,230
Rock Energy Inc. (200,000 common shares)	677,400	610,000
Rockyview Energy Inc. (80,051 common shares)	427,625	280,179
Silverwing Energy Inc. (265,000 common shares, plus 265,000 warrants @ \$2.25 expiring February 22, 2008)	530,000	424,000
Sound Energy Trust (265,042 trust units)	2,199,849	1,773,131
Stylus Energy Inc. (1,092,892 common shares)	1,960,000	4,142,061
Sure Energy Inc. (88,365 common shares)	93,430	92,783
True Energy Trust (85,400 trust units)	939,400	903,532
West Energy Ltd. (571,500 common shares)	1,000,125	3,263,265
Xtreme Coil Drilling Inc. (239,286 common shares)	1,675,002	2,502,931
Zenas Energy Corporation (669,996 common shares)	3,420,480	2,164,087
TOTAL VENTURE INVESTMENTS IN PUBLICLY-TRADED ENTITIES (carried forward)	\$ 32,695,805	\$ 42,182,628

(continues)

**FRONT STREET ENERGY GROWTH FUND INC.**  
**Statement of Venture Investment Portfolio (continued)**

As at September 30, 2006

Unaudited

	<u>Cost</u>	<u>Fair Value</u>
TOTAL VENTURE INVESTMENTS IN PUBLIC COMPANIES (brought forward)	\$ 32,695,805	\$ 42,182,628
EQUITY SECURITIES, PRIVATE ENTITIES (NOT HAVING QUOTED MARKET VALUES)		
Arcan Resources Limited (200,000 common shares, restricted)	500,000	500,000
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
In Depth Resources Limited (1,000,000 common shares)	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
North West Upgrading Inc. (5,000,000 common shares, restricted)	5,000,000	20,000,000
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
	<u>27,832,890</u>	<u>42,833,440</u>
<b>TOTAL VENTURE INVESTMENTS</b>	<b>\$ 60,528,695</b>	<b>\$ 85,016,068</b>
UNREALIZED APPRECIATION OF VENTURE INVESTMENTS		<b>\$ 24,487,373</b>

# FRONT STREET ENERGY GROWTH FUND INC.

## Notes to the Interim Financial Statements

September 30, 2006 and 2005

Unaudited

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### 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 ("TNG Canada / CWA").

### 2. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared by management. Disclosures in these interim financial statements may not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements. These interim financial statements should be read in conjunction with the most recent audited annual financial statements of the Fund, being for the year ended March 31, 2006.

### 3. CASH AND SHORT-TERM INVESTMENT

	<u>September 30,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
Cash	\$ 2,802,244	\$ 4,285,050
Short-term investments, at cost plus accrued interest receivable	9,970,917	20,476,026
	<u>\$ 12,773,161</u>	<u>\$ 24,761,076</u>

As at September 30, 2006, the short-term investment represents a bankers' acceptance issued by the National Bank of Canada, having a cost of \$9,965,100, maturing on October 25, 2006 at a value of \$10,000,000, and carrying an effective yield of 4.26%.

# FRONT STREET ENERGY GROWTH FUND INC.

## Notes to the Interim Financial Statements

September 30, 2006 and 2005

Unaudited

### 4. SHARE CAPITAL, CLASS A SHARES

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

	Series I		Series II		Series III		Total
	Number	Amount	Number	Amount	Number	Amount	
Year ended							
<u>March 31, 2006</u>							
Balance, beginning	1,127,567	\$ 12,457,123	581,126	\$ 6,512,910	2,005,609	\$ 30,685,684	\$ 49,655,717
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
Period ended							
<u>September 30, 2006</u>							
Issued	-	-	-	-	35,491	812,336	812,336
Redeemed	(21,652)	(239,205)	(25,578)	(286,662)	(65,080)	(1,077,344)	(1,603,211)
Balance, Sept. 30, 2006	1,043,602	\$ 11,529,508	522,572	\$ 5,856,668	2,194,035	\$ 36,611,148	\$ 53,997,324

(b) Redemption of Class A shares

During the six-month period ended September 30, 2006, the following Class A shares were redeemed:

- (i) 21,652 Series I Shares were redeemed at the relevant net asset value on the date of redemption, for cash consideration totalling \$549,241 (six months ended September 30, 2005: 29,287 Series I Shares for cash consideration of \$631,351);
- (ii) 25,578 Series II Shares were redeemed at the relevant net asset value on the date of redemption, for cash consideration totaling \$601,460 (six months ended September 30, 2005: 13,569 Series II Shares for cash consideration of \$292,709); and
- (iii) 65,080 Series III Shares were redeemed at the relevant net asset value on the date of redemption, for cash consideration totaling \$1,510,213 (six months ended September 30, 2005: 94,604 Series III Shares for cash consideration of \$1,948,434).

The aggregate premium paid on the redemption of all Series of Class A shares was the amount of \$1,057,702 (six months ended September 30, 2005: \$948,081) and was charged to retained earnings.

# FRONT STREET ENERGY GROWTH FUND INC.

## Notes to the Interim Financial Statements

September 30, 2006 and 2005

Unaudited

### 5. RECONCILIATION OF NET ASSET VALUES PER SHARE

Effective April 1, 2004, the Fund adopted the direct charge method of accounting for sales commissions incurred on the issuance of Class A shares. Pursuant to the requirements of an OSC Staff Notice, the unamortized balance of deferred sales commissions ("DSC") was charged to shareholders' equity on that date. Effective on that date, redemption fees received or receivable by the Fund on the redemption of Class A, Series I shares and Class A, Series II shares have been applied against the amount of unamortized DSC.

The Staff Notice 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 pricing purposes ("Pricing NAV"), that sales commissions capitalized prior to January 1, 2004 may be amortized in accordance with the accounting practice formerly used by the Fund. Consequently, the effect of this transitional provision will be that until December 31, 2011, 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 interim 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	\$ 24.39	\$ 24.38
Share issue costs, write-off of deferred sales commissions ("DSC")	0.80	0.55
Amortization of DSC recorded for daily Pricing NAV purposes	(0.07)	(0.05)
Pricing NAV	\$ 25.12	\$ 24.88

### 6. REALIZED GAIN ON DISPOSITION OF VENTURE INVESTMENTS

	<u>September 30,</u> <u>2006</u>	<u>September 30,</u> <u>2005</u>
Cost of venture investments, beginning of period	\$ 57,028,682	\$40,786,809
Return of capital received during the period	(27,464)	-
Cost of venture investments acquired during the period	6,862,989	36,257,209
	63,864,207	77,044,018
Cost of venture investments, end of period	60,528,695	52,273,920
Cost of venture investments dispositions	3,335,512	24,770,098
Proceeds from disposition of venture investments	5,608,407	41,627,546
	\$ 2,272,895	\$16,857,448

