

Financial Statements

(Stated in United States Dollars)

Front Street Energy and Power Performance Offshore Fund Inc.

December 31, 2005

Report of Independent Auditors

To the Directors
Front Street Energy and Power Performance Offshore Fund Inc.

We have audited the accompanying statement of net assets, including the statement of investments, of Front Street Energy and Power Performance Offshore Fund Inc. (the “Company”) as at 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Front Street Energy and Power Performance Offshore Fund 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

Front Street Energy and Power Performance Offshore Fund Inc.

STATEMENT OF NET ASSETS ATTRIBUTABLE TO HOLDERS OF PARTICIPATING SHARES

(Stated in United States Dollars)

As at December 31

| | 2005 | 2004 |
|---|--------------------|--------------------|
| | \$ | \$ |
| ASSETS | | |
| Cash | 11,190,694 | 8,207,343 |
| Investments owned, at fair value | 317,683,442 | 109,049,050 |
| Accounts receivable | 194,102 | 66,686 |
| Due from brokers | 338,995 | 2,467,699 |
| Others assets | 32,213 | 43,881 |
| | 329,439,446 | 119,834,659 |
| LIABILITIES | | |
| Investments sold short, at fair value | 40,218,757 | 11,282,132 |
| Due to brokers <i>[note 5]</i> | - | 199,319 |
| Performance fees payable <i>[note 3(c)]</i> | 21,534,992 | 5,373,506 |
| Management fees payable | - | 151,897 |
| Accrued liabilities | 195,228 | 41,466 |
| | 61,948,977 | 17,048,320 |
| Net assets attributable to holders of participating shares | 267,490,469 | 102,786,339 |
| Participating shares outstanding <i>[note 4]</i> | 11,108,147 | 6,295,922 |
| Net asset value per participating share | \$ 24.08 | \$ 16.33 |

See accompanying notes

Approved by:

(Signed)
Director

(Signed)
Director

Front Street Energy and Power Performance Offshore Fund Inc.

STATEMENT OF OPERATIONS

(Stated in United States Dollars)

| | Year ended December 31, 2005 \$ | Year ended December 31, 2004 \$ |
|---|--|--|
| REVENUE | | |
| Dividend income (net of withholding tax of \$81,655) | 1,743,056 | 499,382 |
| Interest income | 1,930,677 | 176,925 |
| Other income | 117,866 | - |
| | 3,791,599 | 676,307 |
| EXPENSES | | |
| Management fees <i>[note 3(a)]</i> | 4,091,240 | 1,084,433 |
| Performance fees <i>[note 3(c)]</i> | 21,534,992 | 5,373,506 |
| Dividends on short sales | 350,251 | 18,262 |
| Legal fees | 44,319 | 26,402 |
| Other | 338,794 | 205,263 |
| Securities borrowing | 201,960 | 22,094 |
| | 26,561,556 | 6,729,960 |
| Net investment loss | (22,769,957) | (6,053,653) |
| Realized and unrealized gain (loss) on investments | | |
| Net realized gain on investments owned and sold short | 64,021,282 | 8,180,400 |
| Realized loss on foreign exchange | (8,804,280) | (507,809) |
| Net change in unrealized appreciation on investments, derivatives and foreign exchange | 44,941,844 | 19,882,073 |
| Net realized and unrealized gain on investments | 100,158,846 | 27,554,664 |
| Net increase in net assets resulting from operations attributable to holders of participating shares | 77,388,889 | 21,501,011 |
| Net increase in net assets resulting from operations per unit | \$ 7.28 | \$ 3.42 |

See accompanying notes

Front Street Energy and Power Performance Offshore Fund Inc.

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

(Stated in United States Dollars)

| | Year ended December 31, 2005 | Year ended December 31, 2004 |
|---|------------------------------------|------------------------------------|
| | \$ | \$ |
| Net assets attributable to holders of participating shares, beginning of year | 102,786,339 | 9,524,717 |
| Capital transactions | | |
| Subscriptions <i>[note 4]</i> | 106,055,168 | 72,062,817 |
| Redemptions <i>[note 4]</i> | (18,739,927) | (302,206) |
| Net proceeds from capital transactions | 87,315,241 | 71,760,611 |
| Income transactions | | |
| Net increase in net assets attributable to holders of participating shares resulting from operations | 77,388,889 | 21,501,011 |
| Net assets attributable to holders of participating shares | 267,490,469 | 102,786,339 |

See accompanying notes

Front Street Energy and Power Performance Offshore Fund Inc.

STATEMENT OF CASH FLOWS

(Stated in United States Dollars)

| | Year ended December 31, 2005 | Year ended December 31, 2004 |
|--|------------------------------------|------------------------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Increase in net assets attributable to holders of participating shares | | |
| resulting from operations | 77,388,889 | 21,501,011 |
| Net increase in investments | (179,697,767) | (87,752,225) |
| Changes in non-cash balances related to operations | | |
| Accrued interest and dividends receivable | (127,416) | (47,492) |
| Due from brokers | 2,128,704 | (2,467,699) |
| Performance fee payable | 16,161,486 | 4,997,277 |
| Management fees payable | (151,897) | 151,897 |
| Accrued liabilities | 153,762 | 20,082 |
| Due to broker | (199,319) | 32,179 |
| Other assets | 11,668 | 11,702 |
| Cash used in operating activities | (84,331,890) | (63,553,268) |
| FINANCING ACTIVITIES | | |
| Proceeds received from issuance of shares | 106,055,168 | 72,062,817 |
| Payments for shares redeemed | (18,739,927) | (302,206) |
| Cash provided by financing activities | 87,315,241 | 71,760,611 |
| Net increase in cash during the year | 2,983,351 | 8,207,343 |
| Cash, beginning of year | 8,207,343 | - |
| Cash, end of year | 11,190,694 | 8,207,343 |
| Supplemental cash flow information | | |
| Interest received | 1,860,556 | 150,213 |
| Dividends received | 1,685,760 | 478,601 |
| Dividends paid on short sales | 304,710 | 13,402 |

See accompanying notes

Front Street Energy and Power Performance Offshore Fund Inc.

NOTES TO FINANCIAL STATEMENTS

(Stated in United States Dollars)

December 31, 2005

1. ORGANIZATION OF THE FUND AND NATURE OF OPERATIONS

Front Street Energy and Power Performance Offshore Fund Inc. [the "Company"] was incorporated under the laws of the Cayman Islands on July 14, 2003 as an open-ended investment company. The Company is registered under the Cayman Islands Mutual Funds Law. The Company commenced operations on August 29, 2003.

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 Board of Directors effective March 20, 2006

The Company has no employees.

2. 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.

[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

Front Street Energy and Power Performance Offshore Fund Inc.

NOTES TO FINANCIAL STATEMENTS

(Stated in United States Dollars)

December 31, 2005

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.

Interest is recognized on an accrual basis and dividend income is recognized on the exdividend date. The premium or discount on bonds are 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 year end; and
- [ii] revenue and expenses at the rate of exchange prevailing on the respective dates of such transactions.

[g] Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

3. SIGNIFICANT AGREEMENTS AND TRANSACTIONS WITH AFFILIATES

[a] Manager and Administrator

Pursuant to a Management and Administrative Services Agreement, Front Street Capital (Barbados) Inc. [the "Manager and Administrator"] has been appointed Manager and Administrator for the Company. 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 to the Manager and Administrator at an annual rate of 2% of the average monthly Net Asset Value of the Company.

During 2004, pursuant to an Administrative Services Agreement, RBC Global Services currently known as RBC Dexia Investor Services [the "Sub-Administrator"] was appointed the Sub-Administrator to provide various administration, accounting and shareholder record-keeping services.

[b] Investment Management Agreement and Investment Advisory Agreement

The Manager and Administrator, on behalf of the Company, have entered into an Investment Advisory Agreement with Front Street Capital Investment Management Inc. [the "Investment Advisor"]. 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. The fees are paid by the Manager and Administrator and are not an expense of the Company.

Front Street Energy and Power Performance Offshore Fund Inc.

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(Stated in United States Dollars)

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[c] Performance fee

Under the terms of the Management and Administrative Services Agreement between the Company and the Manager and Administrator, 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 amount by which the Net Asset Value per participating share exceeds the highest year-end Net Asset Value per participating share achieved to date in excess of 6%, which shall be accrued on the last business day of each month, will be payable to the Manager or Administrator annually in arrears. In the event that the Company generates a return on investment to the participating shares which is less than 6% in any fiscal year, then no Performance Fee shall be payable to the Manager and Administrator.

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 August 29, 2003 and are held by the Manager and Administrator.

The issued participating shares are as follows:

| | 2005 | 2004 |
|--|-------------------|-----------|
| | # | # |
| Shares outstanding, beginning of year | 6,295,922 | 798,175 |
| Shares issued | 5,728,498 | 5,520,329 |
| Shares redeemed | (916,273) | (22,582) |
| Shares outstanding, end of year | 11,108,147 | 6,295,922 |

Subject to certain restrictions, holders of the non-voting Participating Shares may redeem their Participating Shares on the last business day of each month [the "Redemption Day"], or such other day as the 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 the request is made 30 days prior to the Redemption Day.

5. DUE TO BROKERS

The due to brokers balance represents the cash and margin balances held with the broker and balances related to unsettled trades. 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 cash and investments in their account as collateral. Amounts due to broker are due on demand and bear interest at a floating rate. Cash related to short sales may be restricted until securities are repurchased.

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 U.S. dollar. Consequently, the Company is exposed to risks that the exchange rate of the U.S. 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.

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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 or broker margin account positions will be affected by fluctuations in interest rates. As at December 31, 2005, approximately 1.31% [2004 - 1.76%] of net investments owned are held in bonds. The bonds held carry a fixed interest rate ranging from 5% to 10% [2004 - 5% to 10%] and have a maturity date ranging from November 23, 2007 to October 1, 2013. 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 cash, investments in bonds and amounts due from brokers. The Company seeks to mitigate its exposure to credit risk by placing its cash and 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. Withholding taxes have been netted against dividend income.

8. BROKERS' COMMISSIONS

Total commissions paid by the Fund to brokers in connection with portfolio transactions for the year ended December 31, 2005 were \$1,558,383 (2004 - \$205,025).

Front Street Energy and Power Performance Offshore Fund Inc.

NOTES TO FINANCIAL STATEMENTS

(Stated in United States Dollars)

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9. DERIVATIVE CONTRACTS

As of 31 December 2005, the following derivative contracts were included in the Company's balance sheet at fair value:

| | Fair Value US\$ Assets 2005 | Fair Value US\$ Liabilities 2005 | Fair Value US\$ Assets 2004 | Fair Value US\$ Liabilities 2004 |
|-------------------|--|---|--------------------------------------|---|
| Forward contracts | 585,942 | — | — | — |
| Futures contracts | 1,284,525 | — | — | — |
| Total | 1,870,467 | — | — | — |

Forward contracts entered into by the Company represent a firm commitment to buy or sell an underlying asset, or currency at a specified value and point in time based upon an agreed or contracted quantity. The realised / unrealised gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at year-end date and are included in the statement of operations.

Futures are contracts for delayed delivery of commodities, securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified commodity or instrument, at a specified price or yield. Gains and losses on futures are recorded by the Company based upon market fluctuations and are recorded as realised or unrealised gains or losses in the statement of operations.

10. COMPARATIVE FINANCIAL STATEMENTS

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