



Front Street Energy Venture Fund

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Fund Description

Front Street Energy Venture Fund Ltd. ("EVF") seeks to generate long-term capital appreciation by investing in equity and equity-related securities of small- and medium-sized Canadian companies engaged in oil and gas exploration and production, servicing, and drilling. EVF maintains a special focus on businesses in the natural resources and energy sector in Western Canada. EVF employs a long-biased portfolio that also uses option strategies to help maximize returns and limit risk. On average, EVF holds positions in between 50 to 60 names, and tends to invest in larger positions in small- and mid-cap companies. Although technical and fundamental analyses are employed, EVF also relies on technical and momentum signals for trading. EVF portfolio managers are among the most experienced energy investors in Canada and EVF is often able to use superior market and company-specific knowledge to exploit the trading behavior of less-experienced investors.

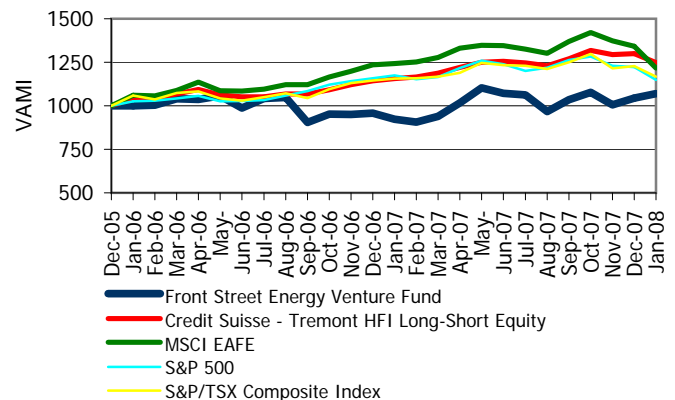
Monthly Performance (%) Net of Fees

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	2.4%												2.4%
2007	-3.6%	-1.9%	3.7%	8.2%	8.6%	-2.8%	-1.0%	-8.9%	6.9%	4.2%	-6.7%	3.8%	9.1%
2006	0.0%	0.4%	3.7%	-0.3%	1.9%	-6.6%	5.8%	0.4%	-13.6%	5.3%	-0.2%	0.8%	-4.2%

Fund Statistics

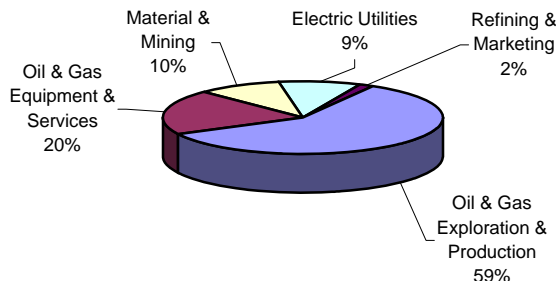
	FUND	CS/Tre HFI L-S Equity	S&P/TSX Composite Index	S&P 500	MSCI EAFE
Comp. Ann. Return	3.3%	11.2%	7.7%	6.9%	9.9%
1 Year Return	15.8%	7.8%	0.9%	-2.3%	-2.1%
Since Inception	6.9%	24.7%	16.7%	14.8%	21.7%
Largest Month Gain	8.6%	4.2%	6.0%	4.4%	6.1%
Largest Month Loss	-13.6%	-4.1%	-6.4%	-6.0%	-9.3%
Max. Drawdown	-14.3%	-5.3%	-10.1%	-10.6%	-14.4%
R-Squared	-	0.17	0.31	0.07	0.09

Value Per \$1000 Invested at Fund Inception



Portfolio and Holdings Analysis

SECTOR ALLOCATION of LONG HOLDINGS (as at December 31, 2007)



PORTFOLIO COMPOSITION* (as at September 30, 2007)

Top Ten Holdings (in alphabetical order)

ALBERTA CLIPPER ENRG
 BIRCHCLIFF ENERGY
 CREW ENERGY
 HIGHPINE OIL&GAS
 KERECO ENERGY
 NORTHWEST UPGRADING
 PACIFIC STRATUS ENRG
 PETRO ANDINA RES
 PROEX ENERGY
 SILVERSTONE RES CORP

* Long positions only, short positions are not disclosed.

* Information is disclosed back-dated by a minimum of two months.

Summary of Fund Terms

Lead Portfolio Manager	Norm Lamarche	Lock Up	12 Months
Fund AUM (US\$)	\$60,896,012	Minimum Initial Subscription (US\$)	\$100,000
Strategy AUM (approx US\$)	\$363,000,000	Year End	31-Dec
Performance Fee	20% of net profits if annual ROR is 6% +	Redemption After Lock Up	30 Days Notice (up to 1/3 per month)
Management Fee	2.25% per annum, charged monthly based on average weekly NAV	Contributions	Monthly
Administrator	Royal Bank of Canada Trust Company (Cayman)	Auditors	Deloitte
		Prime Broker	TD Securities

Front Street Energy Venture Fund

Front Street Capital Hedge Fund Strategies

Front Street Capital manages three distinct Canadian long/short equity hedge fund portfolio strategies:

- Diversified and Opportunistic
- Sector-Specific Energy
- Sector-Specific Resources

Front Street is an established leader in the Canadian hedge fund industry, and is one of the most successful and experienced investment groups in Canada. The Firm invests only in Canadian equities, which tend to be heavily weighted towards energy and resources. Front Street's portfolio managers have demonstrated long-term success in assessing global macroeconomic and structural forces driving energy and resource markets. Front Street combines a sophisticated global macroeconomic viewpoint and comprehensive knowledge of the Canadian corporate landscape with sound fundamental and technical analysis of Canadian equities.

Hedge Strategy Asset Breakdown (January 31 2008)

Diversified and Opportunistic Long-Short Canadian Equity

	Suitability	Start	C\$ AUM ¹	Comp. Ann. Net Return
FS Canadian Opportunities Fund	Non-CDN	Mar-00	56	19.7%
FS Canadian Hedge	CDN	Jul-99	222	19.8%
FS Performance Fund II	CDN	Oct-04	77	10.8%
Total Diversified Strategy AUM			\$355	

Energy Long-Short Canadian Equity

<u>Energy Sector</u>	Suitability	Start	C\$ AUM ¹	Comp. Ann. Net Return
FS Energy Venture	Non-CDN	Jan-06	61	3.3%
FS Energy & Power Performance Fund	Non-CDN	Sep-03	235	23.1%
FS Energy Growth Fund	CDN	Feb-02	67	15.1%
Total Resources AUM			\$363	

Resource Long-Short Canadian Equity

<u>Resource Sector</u>	Suitability	Start	C\$ AUM ¹	Comp. Ann. Net Return
FS Mining Opportunities Fund	CDN	Jan-05	78	37.2%
FS Resource Hedge Fund	Non-CDN	Feb-05	203	27.9%
FS Resource Hedge Fund (sub acct)	n/a	Jun-05	122	35.1%
Total Resources AUM			\$403	

Hedge Strategy Asset Breakdown Totals

Total Diversified Strategy AUM	\$355
Total Energy AUM	\$363
Total Resources AUM	\$403
Total Hedge Strategy AUM	\$1,121

¹ All Assets Expressed in CDN\$ Millions (CDN \$1 = Approx US \$1.00)

Strategy Commentary (January 31 2008)

While investors and traders were happily looking forward to the end of 2007's volatility, the beginning of 2008 has reminded them of a popular favorite: "Be careful what you wish for!". The extreme volatility to capital markets in January saw most Western based markets down 15-20% at their troughs in mid January, as the credit crisis continued to take more prisoners.

The actions of a rogue trader at Societe Generale of France also played a role in sending markets in Europe crashing down to their single biggest one-day falls in many years.

Fearing a more broader based financial problem along with the dreaded potential R word (recession), the U.S. Federal Reserve cavalry came to the rescue with emergency interest rate cuts.

As a result of the inherent volatility, the month of January continued to be large-capitalization dominated as investors maintained a shorter term view of the world. Most pundits are revising their economic outlooks lower, impacting the pure cyclicals more directly.

In Canada, the S&P/TSX Energy sub index declined 7.0%, while the XO1 and OSX indices fell 12.1% & 16.2% respectively. The Front Street Energy Venture Fund rose 2.37%. The Fund benefitted by having no exposure to the Uraniums. The E&P segment added 66 beeps, while the Energy Services group added 27. The Energy alternatives (wind, ethanol, run-of-river) added 47 basis points while the OTHER segments generated 97 beeps for the month.

Year end window dressing and tax-loss selling was very evident this year. As many investors began walking, post the new Alberta Royalty package. Industry reacted both quickly and swiftly to the new taxes. The major producers dramatically curtailed their planned 2008 capex to Alberta's conventional assets, reallocating to other basins. Faced with no fresh capital from Capital markets, the juniors and intermediates ratcheted their spending plans as well. Recent corporate and asset transaction valuations in Canada reflect institutional sentiment. For example, in December, the average M&A (or asset transaction) traded at Canadian \$51,604/BOE/d, with a large number of the transactions taking place in the \$30K/producing barrel! Valuations, particularly for the Gassie deals, would have fetched \$80K to \$100K levels less than two years ago!

We think it's overdone! Notwithstanding the broader concerns of the capital markets, the Canadian group should improve for the following reasons:

- Natural gas prices are recovering as the fundamentals continue to lead to lower inventory levels. Given the relative prices in Europe and Asia for Natural Gas, we would expect to see lower y/y LNG shipments into the U.S. this year.

- The Canadian dollar has given back much of its gains. After having touched a high of 1.1 to 1 against the U.S. greenback late last year, logic is seemingly prevailing as the Canadian currency has drifted back towards the mid 90's. Its impact on Canadian Natural gas prices has been very evident. Canadian producers are now staring at gas prices in the \$7.50 - \$8.00/mcf range for 2008 (compared to \$5.50 - \$6.00 recently!).

- Costs continue to ramp downwards reflecting the inactivity, post tax ruling! Drilling & servicing costs are off 40% from 18 month highs! Trucking costs have been cut in half! Rigs are available and their crews are experienced. Wells that would normally take 8 days to drill and complete are now taking 6 (as they should) with the better rig/crew productive combinations. Land and people costs are either lower and/or available.

- Current industry valuations will either attract new investors or M&A will ramp-up, as many are worth more "dead than alive!".

- The Alberta government will likely (once elected) introduce some tax relief, having now recognized the extent of the pain that they inflicted last year.

The producers are getting a better bang for the buck, which should translate into stronger recycle rates (higher growth rates) we are adding to the group.

While we don't expect the volatility to subside anytime soon, we are sticking with our themes.

Norm Lamarche
Portfolio Manager

General Information

Front Street Energy Venture Fund is offered by Offering Memorandum, only to investors who meet certain eligibility or minimum purchase requirements in jurisdictions outside of Canada. The Offering Memorandum contains important information about Front Street Energy Venture Fund, including management fees, other charges and expenses and should be read carefully before investing. Performance data represents past performance and is not indicative of future performance. Data based on history of less than five years may not give investors enough information to base investment decisions on. Refer to the Benchmark Disclaimer on the following pages for important information that must be considered in interpreting this data. See the following page for a description of the indices. This document should not be considered as a solicitation.