

# Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn 2009 Flow-Through Limited Partnership (the “Partnership”), contains financial highlights but does not contain the complete annual financial statements of the Partnership. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) to the following address: Connor, Clark & Lunn Capital Markets Inc., Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager’s website at [www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com). You can also obtain the annual financial statements by visiting [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the Partnership’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Any reference to “Net Assets” or “Net Assets per Unit” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accepted Principles “GAAP” for financial statements purposes. Any reference to “Net Asset Value” or “Net Asset Value per Unit” or “Transactional NAV” means that the value was determined for valuation and transactional purposes.

## Investment Objectives and Strategy

The Connor, Clark & Lunn 2009 Flow-Through Limited Partnership (the “Partnership”) was formed under the laws of the Province of Ontario pursuant to a Partnership Agreement dated October 13, 2009 between Connor, Clark & Lunn 2009 Flow-Through Management Corp., as General Partner, and Darren Cabral, as the Initial Limited Partner, and became a limited partnership effective October 13, 2009.

The Partnership has been organized to provide Limited Partners with a tax-assisted investment in a diversified portfolio of flow-through shares of resource issuers whose shares are publicly listed and to a maximum of 20% of the Gross Proceeds flow-through shares of private resource issuers with a view to achieving income and capital appreciation for Limited Partners. The principal businesses of the resource issuers are:

- (i) oil and gas exploration, development and production;
- (ii) mineral exploration, development and production; or
- (iii) certain energy production that may incur certain start-up phase costs of renewable energy and energy efficient projects.

In order to achieve the Partnership’s investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”), the Partnership’s investment advisor, invested the net proceeds of the Offering, in flow-through shares of resource issuers that: (i) have experienced and reputable management with a defined track record in the energy, mining or alternative energy industries; (ii) have exploration programs or exploration and development programs in place; (iii) have shares that are suitably priced and offer capital appreciation or income potential; and (iv) meet certain market capitalization and other criteria set out in the Investment Guidelines mentioned in the Partnership’s prospectus dated November 20, 2009.

## Risk

The risk profile of the Partnership has changed in the following area:

**Leverage:** The Partnership’s investment restrictions contemplate leverage of up to 15.0% of the gross proceeds of the

offering. Leverage increases the exposure of the Partnership to market fluctuations. The Partnership pays interest on the amount borrowed and such interest payments may exceed the total return on the leveraged portion of the Partnership's portfolio. The Partnership employed leverage in the range of 0.0% to 17.8% of the NAV (13.6% of the original gross proceeds of the offering) during the year ended December 31, 2010. Leverage was eliminated during June 2010.

For full disclosure of risks associated with an investment in the Partnership's units, please refer to the Prospectus dated November 20, 2009.

## **Results of Operations**

### ***Investment Advisor Commentary***

#### *Energy*

As expected, oil prices, as measured by West Texas Intermediate ("WTI"), were range bound between US\$65 per barrel and US\$85 per barrel in 2010 with a late break-out in the year through the US\$90 per barrel level on improving economic fundamentals, both in developing and emerging economies. Barring a setback to economic fundamentals (which could push oil prices back towards the marginal cost of supply at US\$65 per barrel but is not within our forecast at this time), we believe that strong demand from emerging economies will drive overall global demand to new highs this year, setting our expected range for oil prices in 2011 at \$80.00 per barrel to \$100.00 per barrel. The high end of this limit is set based on expectations that OPEC would increase supply to mitigate the potential for demand destruction at oil prices above \$100 per barrel. While we do not forecast material upside in oil prices through 2011, this outlook still provides a very healthy environment for oil weighted producers to generate rates of return on investment in excess of 30%.

Similarly, Henry Hub natural gas prices were range bound in 2010 between US\$4.00 per thousand cubic feet ("Mcf") and US\$5.50/Mcf. While gas prices may continue to languish near the US\$4.00/Mcf level through 2011 due to higher than expected supply levels and only a modest recovery in demand, we are now seeing producers curtail drilling levels at current gas prices reflecting our view that the marginal cost of supply exceeds US\$5.00/Mcf. On this basis, we foresee a recovery in gas prices over the next 12 to 18 months to the high end of our expected trading range of US\$4.00/Mcf to US\$5.50/Mcf. That said, our natural gas weighted investments remain selective with a focus on those producers that either offer the lowest cost projects or a high liquids content associated with gas production.

While overall valuations within the energy space have moved to premium levels (on a historical basis), we continue to see areas of opportunities within the junior/intermediate space where the market is not recognizing above average growth from premium management teams with top decile asset quality. We continue to remain selective and will continue to focus on producers that can generate reasonable rates of return on capital projects at current commodity prices, while maintaining strong balance sheets to withstand continued commodity price volatility.

#### *Gold*

Gold appreciated strongly in 2010 aided by investors who were adding gold to their portfolios on a confluence of factors, including a weakening US dollar and inflation expectations. Central banks have also been steady buyers. In additions gold companies have also tried to eliminate their gold hedge books. Considering the current global macro economic backdrop, we believe that the incentive to liquidate gold positions among investors and central banks remains small and with a high likelihood of further inflows into gold, market participants should remain net gold buyers. Hence, we see further support to prices in 2011.

#### *Base Metals*

We see commodity prices moving higher in 2011 on the back of robust growth in the emerging markets and improving growth in developed markets. We also expect 2011 to be a bumpy year as we expect to see tighter monetary policy in emerging markets creating occasional short-term headwinds for commodities. However we still believe that supply-constrained commodities will perform well in 2011. Copper price strength in 2010 has been heavily influenced by a

tightening physical market, reflected by steady declines of London Metal Exchange inventories. We expect increased demand, continued underperformance in copper mine output and low inventories will likely push copper to a new record in 2011. In addition we also remain bullish on the bulk sector, especially metallurgical coal, in 2011 on supply disruptions. Metallurgical coal demand has been easing since mid-2010 as Chinese steel production has weakened. Despite this, metallurgical coal spot prices have set new highs mainly due to supply issues in Queensland. The flooding situation in Queensland has triggered a number of force majeure declarations.

The following is an update on some of the companies in the portfolio.

**Tourmaline Oil Corp.:** The Tourmaline management team represents the latest iteration of the former group from Duvernay Oil (a successful gas focused exploration and Production Company that went public in 2004 at \$10.00/share and subsequently sold to Royal Dutch Shell (“RDS”) in 2008 for \$83.00/share). In its short history since forming Tourmaline in 2008, management has already amassed 1,200 net sections of land in the Deep Basin of Alberta and British Columbia (more than twice the size of Duvernay’s land position when it sold to RDS). Current production is approaching 23,000 barrels of equivalent oil per day (“Boe/d”) with a 2011 exit target of 30,000 Boe/d. Based on this 2011 production estimate, Tourmaline will generate production per share growth of almost 350% from mid-2009 levels. Flow-through funds from two equity raises in 2010 will be used to supplement an active \$350MM drilling program in 2011 that will remain focused within 3 core areas in the Deep Basin.

**Anvil Mining:** Anvil Mining operates in the Democratic Republic of the Congo in Central Africa. The company has an operating asset called Kinsevere Stage 1 HMS. However, the major focus of the Company is to complete the development and the construction of Kinsevere Stage II, a copper project with 60,000 tonnes per annum of expected capacity, in which Anvil Mining has a 95% interest. Construction of the Kinsevere Stage II project remains slightly behind schedule, with commissioning expected to begin in Q1 of 2011 and continue into Q2 of 2011. The company has 1,060 workers onsite and has spent approximately US\$316M of the total capital costs for the project of US\$400M (with a further US\$55M committed). We expect the stock to continue to outperform as the project moves towards completion in Q2 of 2011.

**Reliable Energy:** Following a recapitalization transaction by a new management team late in 2008, Reliable has delivered significant growth in its first two years of operations increasing production from 50 Boe/d at inception to over 700 Boe/d at the end of 2010. Spending \$22MM in 2011 (in line with cash flow), production is expected to grow to an average rate of 1,100 Boe/d this year with an exit target of almost 1,500 Boe/d. The bulk of this growth will continue to be delivered from its contiguous Bakken land position of 80,000 net acres in southeast Saskatchewan where the company has extended the play towards the Manitoba border with its joint venture partner, Crescent Point (Crescent Point also holds a 19.9% equity interest in Reliable). Supplementing the visibility provided by its lower risk Bakken development program in Saskatchewan, the company has amassed a significant land position targeting the emerging “Alberta Bakken” play that extends from southern Alberta in to Montana. Reliable has just kicked off its initial exploration work on a large contiguous land position covering 100,000 net acres of undeveloped land at the south end of this play. This project could materially expand the company’s extensive development inventory and could add to its appeal as a consolidation candidate.

### ***Credit Facility***

The Partnership has entered into a non-revolving term credit facility agreement (the “Credit Agreement”) with Bank of Montreal (“BMO”) dated November 26, 2009. The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the original gross proceeds of the offering.

Borrowing was used solely to finance the Agents’ fees, and other expenses of the Offering (including legal, accounting and audit, travel, marketing and sales expenses), the Manager’s fee and certain operating and administrative costs and expenses of the Partnership that were not expected to be fully deductible in computing income of the Partnership for the year ending December 31, 2009, in order to maximize the investment of the Gross Proceeds in flow-through shares.

The Partnership’s obligation under the Credit Agreement (if any) is secured by a pledge of the Partnership assets, and requires the Partnership to meet certain minimum margin requirements, and is repayable on demand. If the Partnership Loan Facility is not repaid at the time of dissolution of the Partnership, the former Limited Partners will become personally obligated to repay the Partnership Loan Facility, although recourse against them will be limited to their interest in the securities or assets of the Partnership. The General Partner expects that all amounts outstanding under the Partnership Credit Facility, including all interest accrued thereon, will be repaid prior to the earlier of the closing of any Mutual Fund Rollover Transaction (a transaction that would provide liquidity, where the General Partner can transfer the assets of the Partnership

to a mutual fund) and the dissolution of the Partnership.

During the year ended December 31, 2010, the Credit Facility had a minimum balance outstanding of \$nil and maximum balance outstanding of \$900,000 (from \$nil to \$900,000 during the period from November 26, 2009 (date of Credit Facility Agreement) to December 31, 2009). The related total interest expense during the year ended December 31, 2010 was \$6,053 (\$390 during the period from November 26, 2009 (date of Credit Facility Agreement) to December 31, 2009). Leverage was eliminated during May 2010.

### ***Capital transactions***

On November 26, 2009, the Partnership completed an initial public offering pursuant to the prospectus dated November 20, 2009. The offering raised \$6,613,500 through the issue of 264,540 Units at \$25.00 per Unit.

Total proceeds, including the first closing, after Agents' fees and issue expense was \$5,832,124.

## **Recommendations or Reports by the Independent Review Committee ("IRC")**

The IRC did not table any special reports or make any material recommendations to management of the Partnership during the year ended December 31, 2010.

## **Related Party Transactions**

### ***Management Fees***

Pursuant to a management agreement ("the Management Agreement") the Partnership retained the Manager to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Partnership, the Manager is entitled to an annual management fee in an amount equal to 2% per annum of the net asset value of the Partnership to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Partnership during the year ended December 31, 2010 were \$111,560 (\$10,162 during the period from November 26, 2009 (commencement of operations) to December 31, 2009).

The Manager pays the Investment Advisor out of the above management fees.

The Manager will also be entitled to a Performance Bonus. The Performance Bonus is equal to 20% of the product of: (a) the number of Units outstanding on the last day of the Performance Bonus Term (the "Performance Bonus Date"); and (b) the amount by which Net Asset Value per Unit on the Performance Bonus Date (prior to giving effect to the Performance Bonus) plus the total distributions per Unit during the Performance Bonus Term exceeds \$28.

*"Performance Bonus Date"* means the last day of the Performance Bonus Term.

*"Performance Bonus Term"* means the period commencing on the date of the final Closing (November 26, 2009) and ending on the earlier of:

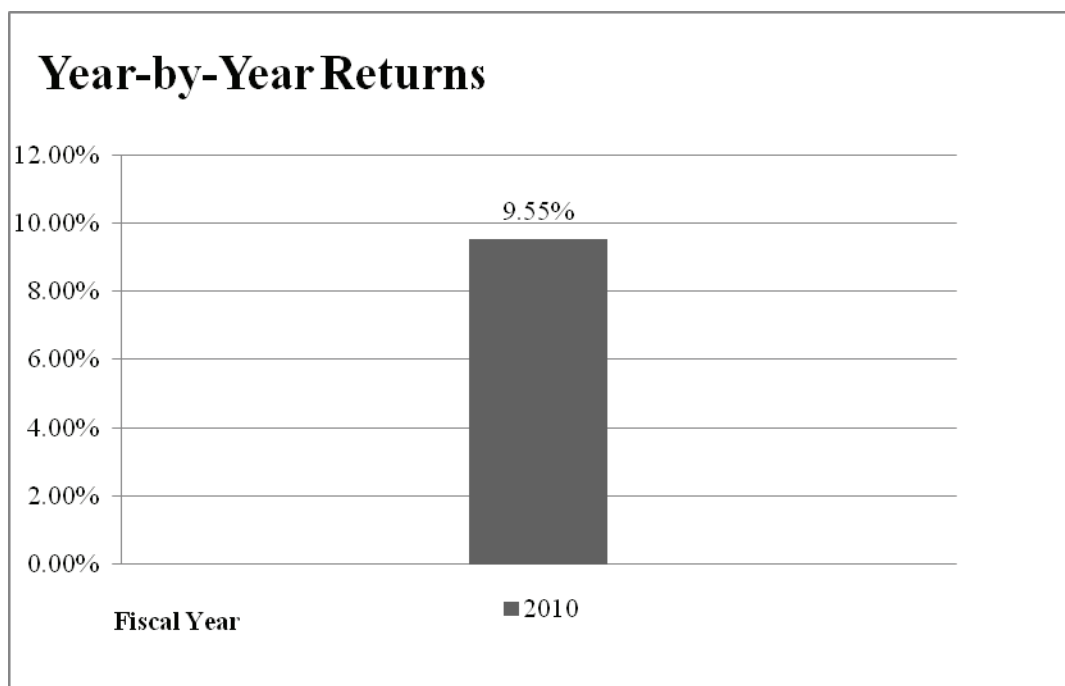
- a) the Business Day prior to the date on which the Partnership's assets are transferred to a Mutual Fund pursuant to a Mutual Fund Rollover Transaction; and
- b) the Business Day immediately prior to the day of dissolution or termination of the Partnership.

## Past Performance

The following bar chart and table indicate the performance of the Partnership's units by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Partnership in the year shown were reinvested in additional securities of the Partnership. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance is not necessarily indicative of future performance.

### *Year – by– Year Returns*

The following bar chart shows the Partnership's annual performance for the years shown. The bar charts shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period.



### *Annual Compound Returns*

	Past Year	Since Inception <sup>(1)</sup>
Based on NAV	9.55%	7.71%
Blended Index <sup>(2)</sup>	18.85%	20.53%

<sup>(1)</sup> Annualized for the period November 26, 2009 (Commencement of operations) to December 31, 2010.

<sup>(2)</sup> Blended Index of the S&P/TSX Oil & Gas Exploration & Production Index (75%) and the S&P/TSX Materials Index (25%).

The Partnerships' performance may lag the performance of the Blended Index as a result of (i) the premiums over market price that are paid to obtain shares of resource companies on a flow-through basis; and (ii) the performance of large capitalization companies which comprise a significant portion of the indices selected in comparison to their junior counterparts which are more frequent issuers of flow-through shares. The tax deductions from that the Partnership receives are not considered in the above calculations of the Partnership's returns since the returns are presented on a pre-tax basis.

## Financial Highlights

The following tables show selected key financial information about the Partnership and are intended to aid in understanding the Partnership's financial performance since inception. This information is derived from the Partnership's annual financial statements:

The Partnership's Net Assets per share:

	December 31, 2010	December 31, 2009 <sup>(1)</sup>
<b>Net Assets, beginning of period</b>	<b>21.42</b>	<b>25.00</b>
<b>Unit issue expense <sup>(2)</sup></b>	<b>(0.14)</b>	<b>(2.95)</b>
<b>Increase (decrease) from operations:</b>		
Total revenues	0.11	–
Total expenses	(0.98)	(0.22)
Realized gains (losses) for the period	2.99	–
Unrealized gains (losses) for the period	0.29	(0.41)
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>2.41</b>	<b>(0.63)</b>
<b>Distributions:</b>		
From income (excluding dividends)	–	–
From dividends	–	–
From capital gains	–	–
Return of capital	–	–
<b>Total Distributions</b>	<b>–</b>	<b>–</b>
<b>Net Assets, end of period <sup>(4)</sup></b>	<b>23.69</b>	<b>21.42</b>

<sup>(1)</sup> Results for the period from November 26, 2009 (commencement of operations) to December 31, 2009.

<sup>(2)</sup> Issue expense of \$817,639 incurred in connection with the unit issuance. The full amount of issue expenses was deducted from the capital earnings for accounting purposes and is amortized over a period of five years for tax purposes.

<sup>(3)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on weighted average number of units of 264,540 units outstanding as of December 31, 2010 (2009 - 264,540).

<sup>(4)</sup> This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

	December 31, 2010	December 31, 2009 <sup>(1)</sup>
Net asset value (000's)	6,318	5,744
Number of units outstanding	264,540	264,540
Base Management expense ratio <sup>(2)(3)</sup>	3.84%	3.28%
Issue expenses ratio <sup>(2)(3)</sup>	0.67%	14.60%
Interest expense ratio <sup>(2)(3)</sup>	0.11%	1.83%
Management expense ratio (annualized) <sup>(3)</sup>	4.62%	25.66%
Management expense ratio before waivers or absorptions (annualized) <sup>(3)</sup>	4.62%	25.66%
Portfolio turnover rate <sup>(4)</sup>	79.54%	0.00%
Trading expense ratio <sup>(5)</sup>	0.82%	0.00%
Net asset value per unit	23.88	21.71

<sup>(1)</sup> Results for the period from November 26, 2009 (commencement of operations) to December 31, 2009.

<sup>(2)</sup> A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

<sup>(3)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average Net Asset Value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

<sup>(4)</sup> The Partnership's turnover rate indicates how actively the Partnership's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Partnership's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Partnership.

<sup>(5)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the period.

## Summary of Investment Portfolio as of December 31, 2010

The summary of investment portfolio may change due to ongoing portfolio transactions of the Partnership. A quarterly update is available at [www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com) and at [www.sedar.com](http://www.sedar.com).

	<b>Market Value \$</b>	<b>% of NAV</b>
<b>Portfolio by Category</b>		
Energy	4,532,462	71.8%
Materials	1,227,021	19.4%
Cash & Cash Equivalents	616,888	9.8%
<b>Top 25 Holdings</b>		
Tourmaline Oil Corp.	719,400	11.4%
Reliable Energy Ltd.	632,400	10.0%
Cash & Cash Equivalents	616,888	9.8%
Celtic Exploration Ltd.	524,512	8.3%
Metanor Resources Inc.	507,923	8.0%
Progress Energy Resources Corp.	469,900	7.4%
ARC Energy Trust Units	414,230	6.6%
Wild Stream Exploration Inc.	383,105	6.1%
Surge Energy Inc.	364,000	5.8%
Anvil Mining	343,710	5.4%
Guyana Goldfields	321,000	5.1%
Vero Energy	289,365	4.6%
Base Oil & Gas Ltd.	247,500	3.9%
NuVista Energy Ltd.	227,550	3.6%
Storm Resources	146,980	2.3%
Artek Exploration Ltd.	113,520	1.8%
Metanor Resources Inc. warrants	54,388	0.9%
<b>Net asset value</b>	<b>6,318,040</b>	