



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn**  
**2010 Flow-Through**  
**Limited Partnership**  
Semi-Annual Report  
June 30, 2011

August 29, 2011

Dear fellow Limited Partners,

I am pleased to provide you with the semi-annual report for the Connor, Clark & Lunn 2010 Flow-Through Limited Partnership (the "Partnership") for the six month period ended June 30, 2011. The Partnership's portfolio is managed by Connor Clark & Lunn Investment Management ("the Investment Advisor"). With approximately \$5.4 billion in energy and materials investments, the Investment Advisor is one of the largest investors in natural resource companies in Canada.

There has been significant volatility in the markets during the first half of the year. The price of oil, as measured by West Texas Intermediate has been as high as \$115 and a low of \$91 versus the Investment Advisor's expectations of a range of \$80 - \$100. Meanwhile, Henry Hub natural gas prices continue to be range bound between US\$4.00 per thousand cubic feet ("Mcf") and US\$5.50/Mcf as expected. 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, the Investment Advisor is now seeing producers curtail drilling levels at current gas prices reflecting its view that the marginal cost of supply exceeds US\$5.00/Mcf. On this basis, they 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, their 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 very 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.

We appreciate your investment in the Partnership and remain optimistic on the potential for good investment returns during the remainder of its life.

Yours truly,



W. Neil Murdoch  
Chief Executive Officer  
Connor, Clark & Lunn Capital Markets Inc.

# Management Report of Fund Performance

This semi-annual management report of fund performance for Connor, Clark & Lunn 2010 Flow-Through Limited Partnership (the “Partnership”), contains financial highlights but does not contain the complete semi-annual financial statements of the Partnership. **The semi-annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the semi-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 semi-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 2010 Flow-Through Limited Partnership (the “Partnership”) was formed under the laws of the Province of Ontario pursuant to a Partnership Agreement dated February 25, 2010 between Connor, Clark & Lunn 2010 Flow-Through Management Corp., as General Partner, and Darren Cabral, as the Initial Limited Partner, and became a limited partnership effective February 25, 2010.

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% in Flow-Through Shares of private Resource Issuers with a view to achieving income and capital appreciation for Limited Partners. A Flow-Through Share is a share that enables the issuer to renounce Canadian exploration expenses (“CEE”) and Canadian development expenses (“CDE”) to the holder. CEE and CDE are defined terms in subsections 66.1(6) and 66.2(5) respectively, of the Income Tax Act (Canada) (the “Act”). Resource Issuers are “principal business corporations” as defined in subsection 66(15) of the Act whose principal business is:

- (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.

The General Partner will invest all the proceeds raised through the sale of limited partnership units (the “Offering”) in Flow-Through Shares of Resource Issuers that agree to incur and renounce (directly or indirectly) CEE and qualifying CDE to the Partnership (and thereby maximize the deductions available to Limited Partners in respect of their 2010 taxation years).

In order to achieve the Partnership’s investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”), the Partnership’s investment advisor, will invest 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 April 27, 2010.

## **Risk**

The Partnership's investment restrictions contemplate leverage of up to 15.0% of the net asset value of the Partnership. 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 11.5% during the six month period ended June 30, 2011 (0.0% to 12.5% during the period from May 6, 2010 (commencement of operations) to June 30, 2010). Leverage was eliminated during March 2011. For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated April 27, 2010.

## **Results of Operations**

### ***Investment Advisor Commentary (July 2011)***

#### *Energy*

Oil prices, as measured by West Texas Intermediate ("WTI"), hit a high of almost US\$115 per barrel in April – which exceeded the high end of our expected range for the first half of 2011 of US\$80 per barrel to US\$100 per barrel. The initial push towards the high end of our range at US\$100 per barrel was expected given the continued strength in global oil demand (to record levels of almost 90 million barrels per day). However, the re-emergence of a 'risk premium' (relating to supply disruptions in the Middle East) added an estimated US\$10 per barrel to oil prices. Barring a setback to economic fundamentals (which could push oil prices back towards the marginal cost of supply at US\$70 per barrel but is not within our forecast at this time), we believe that strong demand from emerging economies will continue to drive overall global oil demand to new highs this year, supporting oil prices at the high end of our expected range. That said, we remain wary of oil prices exceeding the US\$110 per barrel, given the potential for demand destruction above these levels. The recent pullback in oil prices to the US\$95 per barrel level presents an optimal scenario as this price level provides a very healthy environment for oil weighted producers to generate rates of return on investment in excess of 30% without upsetting the global recovery.

Meanwhile, Henry Hub natural gas prices continue to be range bound between US\$4.00 per thousand cubic feet ("Mcf") and US\$5.50/Mcf as expected. 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 very 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 has set a new high again in 2011 on the back of sovereign and political risk factors. Developments in Europe, which include the Greece restructuring/default and the risk of contagion to other weak peripheral countries (such as Ireland, Portugal, Spain and even Italy), are pressuring the outlook for the Euro (along with other fiat currencies), which is supporting upward pressure on gold. In addition to the Eurozone problems, China is suffering from strong inflation, negative real interest rates, and a massive excess supply of M1 and M2 (M1 and M2 are measures of the money supply) – necessitating bank reserve increases and lending limits. The US continues to struggle with its obvious problems, including

record deficits, persistent unemployment and a sluggish manufacturing recovery, all of which support accommodative monetary policy, which remains very supportive for gold prices. Accordingly, gold continues to hit new highs in most currencies and continues to outperform almost all asset classes – a trend we see persisting through the second half of 2011.

### *Base Metals*

While the first half of 2011 was plagued by near-term demand factors from the European debt crisis, the Japanese earthquake and an uncertain macroeconomic environment, the long-term outlook for demand will be largely driven by China and other developing Asian economies. The most predominant swing factor in the outlook for the metals and bulk commodities is supply. Copper continues to be effected by supply issues, and a resurgence of Chinese demand expected in the second half of 2011, which is expected to push copper into a new record territory in 2011. The nickel outlook is expected to be challenging due to an abundance of supply coming online over the next two years. A lack of major capital commitments over the last few years in zinc and uranium should see a significant shortfall in production by mid-decade. An increase to iron ore supply is coming but barriers to entry remain high and supply risks exist. Australia, currently the largest seaborne metallurgical coal exporter, has an insufficient project pipeline to meet long-term demand.

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 1,100 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). Relative to 2010 exit levels of 23,000 barrels of equivalent oil per day (“Boe/d”), current production is approaching 30,000 Boe/d with a 2011 exit target exceeding 37,000 Boe/d. Based on this 2011 production estimate, Tourmaline will generate production per share growth of more than 350% from mid-2009 levels (and over 50% per share from 2010 to 2011). Flow-through funds from two equity raises in 2010 are being used to supplement an active \$470 million drilling program in 2011 that will remain focused within 3 core areas in the Deep Basin.

**Vero Energy Inc.:** Vero is a growth oriented exploration and production company focused on natural gas and oil in west central Alberta. The company’s proven technical team has generated average annual production and reserves per share growth of greater than 20% since inception in 2005. The company is now moving into the intermediate peer group with production forecast to exceed 10,000 Boe/d in 2011. This represents 50% growth from mid-2009 levels. While the company has historically focused on low cost liquids-rich natural gas development, the company has shifted its focus to light oil development targeting the high return Cardium oil play in western Canada, which is present throughout its land base. Leveraging off its focused land position, top quartile cost structure and projects that generate economic returns at gas prices down to \$3.50/Mcf and \$45.00 per barrel, we believe that Vero offers above average growth at a compelling valuation. On future strip prices, the company trades at a 2011 EV/DACF multiple of 4.5x (versus the peer group at 6.5x), 2011 EV/Boe/d metric of \$42,000 per Barrel per day (“B/d”) (versus the peer group of \$60,000/B/d) and a 25% discount to after-tax net asset value (versus the peer group at an average premium of 15%). As a backstop, we believe that the company’s asset base is highly coveted by potential acquirers with operations in the area.

**Sabina Gold & Silver Corp.:** Sabina Gold & Silver Corp. is an exploration company with a 100% interest in the Hackett River polymetallic deposit in Nunavut. In addition, Sabina is working toward a prefeasibility study for its Back River project in Nunavut. Sabina also has a 65% interest in the Del Norte silver-gold project in B.C. Corporate Developments – In early March, SBB announced the results of an initial resource estimate for the Umwelt and Llama zones, located at the Back River gold project (the Umwelt and Llama zones were discovered during the 2010 drill program). The inclusion of resources at Umwelt and Llama has increased total resources for the Back River project by 80% to 4.2 million ounces of gold while Sabina plans to release a resource update for the Goose deposit in April 2011. A Preliminary Economic Assessment (PEA) for Back River is expected to be completed during the second half of 2011. Sabina is undertaking an aggressive exploration program in 2011, expecting to spend \$50 million to \$55 million (CAD) across all properties. While the company has shown good success with the drilling programs, the PEA will provide economics for the project driving an expected re-rating of the stock in the second half of 2011.

### *Credit Facility*

The Partnership has entered into a non-revolving term credit facility agreement (the “Credit Agreement”) with Bank of

Montreal (“BMO”) dated April 27, 2010. The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the net asset value of the Partnership.

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, 2010, in order to maximize the investment of the Offering 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 loan 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 six month period ended June 30, 2011, the Credit Facility had outstanding balance from \$nil to \$800,000 (from \$nil to \$800,000 during the period from May 6, 2010 (commencement of operations) to June 30, 2010). Leverage was eliminated during March 2011.

### ***Capital transactions***

Units of the Partnership were offered to the public by way of prospectus. On May 6, 2010, the Partnership completed an initial public offering pursuant to the prospectus dated April 27, 2010. The offering raised \$7,035,750 through the issue of 281,430 Units at \$25.00 per Unit incurring Agents’ fee and issue expenses of \$624,711, and \$200,000 through the issue of 8,000 Class F Units at \$25.00 per Class F Unit incurring Agents’ fee and issue expenses of \$9,259.

On October 29, 2010, the Partnership raised an additional \$900,000 through the issue of 36,000 Units from a private placement at \$25.00 per Unit incurring Agents’ fees of \$60,750 and increasing the total number of Units to 317,430.

## **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 six month period ended were \$82,982 (\$20,396 during the period from May 6, 2010 (commencement of operations) to June 30, 2010).

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 (May 6, 2010) 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.

### ***Class F Units***

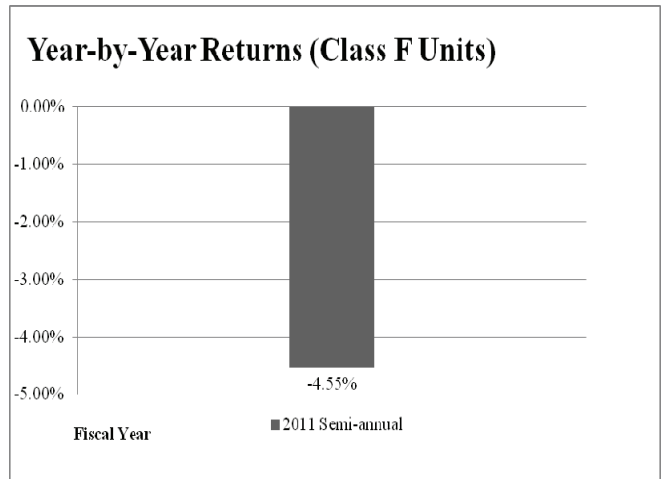
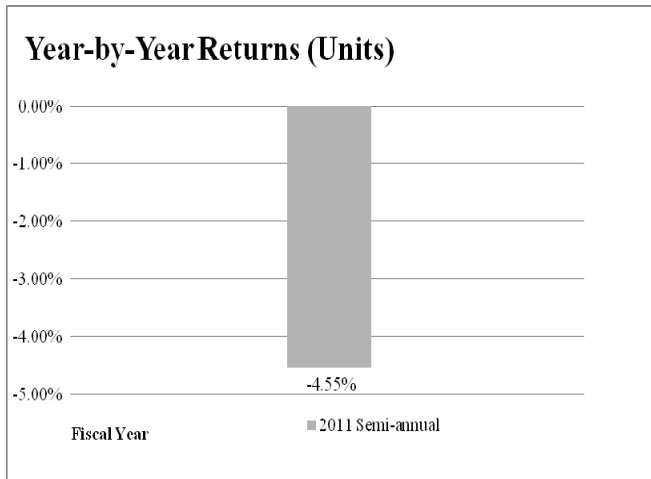
Class F Units are solely held by employees of the Manager and its affiliates.

## **Past Performance**

The following bar charts indicate the performance of the Partnership's Units and Class F Units by showing semi-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 semi-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.



## 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 and semi-annual financial statements:

### Units:

The Partnership's Net Assets per unit:

	June 30, 2011 <sup>(2)</sup>	December 31, 2010 <sup>(1)</sup>
<b>Net Assets, beginning of period</b>	<b>22.46</b>	<b>25.00</b>
<b>Unit issue expense <sup>(3)</sup></b>	-	<b>(2.36)</b>
<b>Increase (decrease) from operations:</b>		
Total revenues	-	0.05
Total expenses	(0.46)	(0.72)
Realized gains (losses) for the period	0.10	-
Unrealized gains (losses) for the period	(0.90)	0.25
<b>Total increase (decrease) from operations <sup>(4)</sup></b>	<b>(1.26)</b>	<b>(0.42)</b>
<b>Distributions:</b>		
From income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total Distributions</b>	-	-
<b>Net Assets, end of period <sup>(5)</sup></b>	<b>21.19</b>	<b>22.46</b>

<sup>(1)</sup> Results for the period from May 6, 2010 (commencement of operations) to December 31, 2010.

<sup>(2)</sup> Results for the six month period ended June 30, 2011.

<sup>(3)</sup> Issue expenses of \$685,461 incurred in connection with the unit issuance. The full amount of issue expenses will be deducted from the retained earnings for accounting purposes and will be amortized over a period of five years for tax purposes.

<sup>(4)</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 the weighted average number of units of 317,430 (2010 – 291,030) units outstanding over the financial period.

<sup>(5)</sup> This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

	June 30, 2011 <sup>(2)</sup>	December 31, 2010 <sup>(1)</sup>
Net asset value (000's)	6,780	7,103
Number of units outstanding	317,430	317,430
Base Management expense ratio <sup>(3)(4)</sup>	4.05%	4.50%
Issue expenses ratio <sup>(3)(4)</sup>	0.00%	10.92%
Interest expense ratio <sup>(3)(4)</sup>	0.00%	0.53%
Management expense ratio (annualized) <sup>(4)</sup>	4.05%	15.95%
Management expense ratio before waivers or absorptions (annualized) <sup>(4)</sup>	4.05%	15.95%
Portfolio turnover rate <sup>(5)</sup>	15.97%	0.00%
Trading expense ratio <sup>(6)</sup>	0.00%	0.00%
Net asset value per unit	21.36	22.38

<sup>(1)</sup> Results for the period from May 6, 2010 (commencement of operations) to December 31, 2010.

<sup>(2)</sup> Results for the six month period ended June 30, 2011.

<sup>(3)</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. Since this is the first year of operations, this base management expense ratio calculation annualizes expenses that can be regarded as period expenses (such as Management Fees) and do not annualize any expenses that are annual in nature (such as Audit Fees).

<sup>(4)</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>(5)</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>(6)</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.

**Class F:**

The Partnership's Net Assets per unit:

	June 30, 2011 <sup>(2)</sup>	December 31, 2010 <sup>(1)</sup>
<b>Net Assets, beginning of period</b>	<b>23.12</b>	<b>25.00</b>
<b>Unit issue expense <sup>(3)</sup></b>	<b>—</b>	<b>(1.16)</b>
<b>Increase (decrease) from operations:</b>		
Total revenues	—	0.05
Total expenses	(0.48)	(0.74)
Realized gains (losses) for the period	0.10	—
Unrealized gains (losses) for the period	(0.93)	(0.04)
<b>Total increase (decrease) from operations <sup>(4)</sup></b>	<b>(1.31)</b>	<b>(0.73)</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>(5)</sup></b>	<b>21.81</b>	<b>23.12</b>

<sup>(1)</sup> Results for the period from May 6, 2010 (commencement of operations) to June 30, 2010.<sup>(2)</sup> Results for the six month period ended June 30, 2011.<sup>(3)</sup> Issue expenses of \$9,259 incurred in connection with the unit issuance. The full amount of issue expenses will be deducted from the retained earnings for accounting purposes and will be amortized over a period of five years for tax purposes.<sup>(4)</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 the weighted average number of units of 8,000 (2010 – 8,000) units outstanding over the financial period.<sup>(5)</sup> This is not reconciliation between the opening and the closing net assets per unit.

## Ratios and Supplemental Data:

	June 30, 2011 <sup>(2)</sup>	December 31, 2010 <sup>(1)</sup>
Net asset value (000's)	176	184
Number of units outstanding	8,000	8,000
Base Management expense ratio <sup>(3) (4)</sup>	4.05%	4.47%
Issue expenses ratio <sup>(3) (4)</sup>	0.00%	5.14%
Interest expense ratio <sup>(3) (4)</sup>	0.00%	0.53%
Management expense ratio (annualized) <sup>(4)</sup>	4.05%	10.14%
Management expense ratio before waivers or absorptions (annualized) <sup>(4)</sup>	4.05%	10.14%
Portfolio turnover rate <sup>(5)</sup>	0.00%	0.00%
Trading expense ratio <sup>(6)</sup>	0.00%	0.00%
Net asset value per unit	21.99	23.04

<sup>(1)</sup> Results for the period from May 6, 2010 (commencement of operations) to June 30, 2010.<sup>(2)</sup> Results for the six month period ended June 30, 2011.<sup>(3)</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. Since this is the first year of operations, this base management expense ratio calculation annualizes expenses that can be regarded as period expenses (such as Management Fees) and do not annualize any expenses that are annual in nature (such as Audit Fees).<sup>(4)</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>(5)</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>(6)</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 June 30, 2011

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).

	Market Value \$	% of NAV
<b>Portfolio by Category</b>		
Energy	4,814,426	69.2%
Materials	2,082,200	29.9%
Cash & Equivalents	88,155	1.3%
 <b>Top 25 Holdings</b>		
Tourmaline Oil Corp.	2,028,132	29.2%
Vero Energy	936,201	13.5%
Sabina Gold & Silver Corp	737,500	10.6%
Rock Energy	700,400	10.1%
Premier Gold Mines Ltd	623,700	9.0%
St Andrew Goldfields Ltd	574,000	8.3%
Reliable Energy Ltd.	361,000	5.2%
Strategic Oil & Gas Ltd.	310,000	4.5%
Yoho Resources Inc.	234,241	3.4%
Base Oil & Gas Ltd.	168,000	2.4%
West Kirkland Mining Inc.	147,000	2.1%
Cash & Equivalents	88,155	1.3%
Paramount Resources Ltd. Class A	76,452	1.1%
 <b>Net asset value</b>	 <b>6,956,166</b>	

## **Connor, Clark & Lunn 2010 Flow-Through Limited Partnership**

Financial Statements (Unaudited)

**June 30, 2011**

***Notice to Reader:***

*These interim financial statements and related notes for the six month period ended June 30, 2011 have been prepared by management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Partnership have not audited or reviewed these interim financial statements.*

# Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

Statements of Net Assets (Unaudited)

As at June 30, 2011 and December 31, 2010

	2011	2010
	\$	\$
<b>Assets</b>		
Cash	88,155	-
Investments at fair value (cost - \$7,062,230; 2010 - \$8,135,748)	<u>6,841,102</u>	<u>8,207,499</u>
	<u>6,929,257</u>	<u>8,207,499</u>
<b>Liabilities</b>		
Bank overdraft	-	26,787
Loan payable (note 4)	-	799,181
Accounts payable and accrued liabilities	15,607	57,515
Management fees payable	<u>13,008</u>	<u>11,176</u>
	<u>28,615</u>	<u>894,659</u>
<b>Net Assets representing Partners' Equity</b>	<u>6,900,642</u>	<u>7,312,840</u>
<b>Net Assets</b>		
<b>Units</b>	6,726,132	7,127,906
<b>Class F</b>	174,510	184,934
<b>Units issued and outstanding (note 5)</b>		
<b>Units</b>	317,430	317,430
<b>Class F</b>	8,000	8,000
<b>Net assets per unit</b>		
<b>Units</b>	21.19	22.46
<b>Class F</b>	21.81	23.12
<b>Partners' Equity</b>		
Unit capital (note 5)	7,441,030	7,441,030
Surplus (deficit)	<u>(540,388)</u>	<u>(128,190)</u>
<b>Total Partners' Equity</b>	<u>6,900,642</u>	<u>7,312,840</u>

Approved by the Manager



Director



Director

## Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

Statements of Operations (Unaudited)

For the six month period ended June 30, 2011 and period from May 6, 2010 (commencement of operations) to June 30, 2010

	2011	2010
	\$	\$
<b>Income</b>		
Interest income	624	3,948
	<u>624</u>	<u>3,948</u>
<b>Expenses</b>		
Management fees (note 7)	82,982	20,396
Legal fees	15,967	2,367
Printing fees	13,787	302
Audit fees	10,156	6,213
Administration fees	9,766	2,794
Filing fees	5,009	1,503
Transfer agent fees	3,992	1,174
Loan interest expenses (note 4)	3,661	1,200
Other	1,522	-
Transaction costs	3,422	-
Custodial and other unitholders' fees	873	42
Loan fee expense	-	12,890
	<u>151,137</u>	<u>48,881</u>
<b>Investment income (loss) for the period</b>	(150,513)	(44,933)
<b>Net realized gain (loss) on investments</b>		
Net realized gain (loss) on investments	31,194	-
Change in unrealized gain (loss) on investments	(292,879)	(207,250)
	<u>(261,685)</u>	<u>(207,250)</u>
<b>Net gain (loss) on investments</b>	<u>(261,685)</u>	<u>(207,250)</u>
<b>Increase (decrease) in net assets from operations</b>	<u>(412,198)</u>	<u>(252,183)</u>
<b>Increase (decrease) in net assets from operations</b>		
Units	(401,774)	(244,944)
Class F	(10,424)	(7,239)
<b>Increase (decrease) in net assets from operations per unit *</b>		
Units	(1.26)	(3.07)
Class F	(1.31)	(2.01)

\* (based on average number of units outstanding during the period)

**Connor, Clark & Lunn 2010 Flow-Through Limited Partnership**

Statements of Changes in Net Assets and Surplus (Deficit) (Unaudited)

For the six month period ended June 30, 2011 and period from May 6, 2010 (commencement of operations) to June 30, 2010

	Units		Class F		Total	
	\$	\$	\$	\$	\$	\$
<b>Increase (decrease) in net assets from operations</b>	(401,774)	(244,944)	(10,424)	(7,239)	(412,198)	(252,183)
<b>Unitholders' transactions:</b>						
Gross proceeds from issue of units (note 5)	-	7,035,750	-	200,000	-	7,235,750
Agents' fees and issue expenses	-	(615,628)	-	(9,000)	-	(624,628)
	-	6,420,122	-	191,000	-	6,611,122
<b>Change in net assets during the period</b>	(401,774)	6,175,178	(10,424)	183,761	(412,198)	6,358,939
<b>Net assets - Beginning of period</b>	7,127,906	-	184,934	-	7,312,840	-
<b>Net assets - End of period</b>	6,726,132	6,175,178	174,510	183,761	6,900,642	6,358,939
<b>Surplus (deficit), beginning of period</b>	(122,383)	-	(5,807)	-	(128,190)	-
Increase (decrease) in net assets from operations	(401,774)	(245,158)	(10,424)	(7,025)	(412,198)	(252,183)
<b>Surplus (deficit), end of period</b>	(524,157)	(245,158)	(16,231)	(7,025)	(540,388)	(252,183)

## Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

Statements of Cash Flow (Unaudited)

**For the six month period ended June 30, 2011 and period from May 6, 2010 (commencement of operations) to June 30, 2010**

	\$	\$
<b>Operating Activities</b>		
Increase (decrease) in net assets from operations	(412,198)	(252,183)
Items not affecting cash:		
Net realized (gain) loss on investments	(31,194)	
Unrealized (gain) loss on investments	292,879	207,250
Changes in non-cash working capital		
(Increase) decrease in interest receivable	-	(1,829)
Increase (decrease) in accounts payable and accrued liabilities	(41,908)	9,414
Increase (decrease) in issue expense payable	-	4,222
Increase (decrease) in management fees payable	1,832	11,202
Increase (decrease) in payable from investment purchases	-	660,000
Cost of investments purchased	(76,236)	(1,466,750)
Proceeds from investments sold	1,180,948	-
<b>Net cash flow provided by (used in) operating activities</b>	<u>914,123</u>	<u>(828,674)</u>
<b>Financing Activities</b>		
Proceeds from issuance of units	-	7,235,750
Unit issue costs	-	(624,628)
Proceeds from bank indebtedness	-	800,000
Repayment of bank indebtedness	(799,181)	(2,728)
<b>Net cash flow provided by (used in) financing activities</b>	<u>(799,181)</u>	<u>7,408,394</u>
<b>Net increase (decrease) in cash and short-term investments</b>	114,942	6,579,720
<b>Cash and short-term investments - beginning of period</b>	<u>(26,787)</u>	<u>-</u>
<b>Cash and short-term investments - end of period</b>	<u>88,155</u>	<u>6,579,720</u>
<b>Supplementary information</b>		
Interest paid	3,661	1,200

## Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

Statement of Investment Portfolio (Unaudited)

As at June 30, 2011

		Average Cost \$	Fair Value \$	% of Net Assets
<b>Investments</b>				
<b>Canadian equities</b>				
<b>Energy</b>				
Base Oil & Gas Ltd.	700,000	210,000	164,500	2.4%
Paramount Resources Ltd. Class A	2,764	79,633	76,231	1.1%
Reliable Energy Ltd.	950,000	346,750	342,000	5.0%
Rock Energy	170,000	918,000	700,400	10.1%
Strategic Oil & Gas Ltd.	310,000	341,000	288,300	4.2%
Tourmaline Oil Corp.	63,300	1,392,600	2,025,600	29.4%
Vero Energy	171,780	1,400,007	936,201	13.6%
Yoho Resources Inc.	70,982	234,240	227,142	3.3%
		<u>4,922,230</u>	<u>4,760,374</u>	<u>69.1%</u>
<b>Materials</b>				
Premier Gold Mines Ltd.	110,000	660,000	623,700	9.0%
Sabina Gold & Silver Corp	125,000	250,000	737,500	10.7%
St Andrew Goldfields Ltd.	700,000	1,050,000	567,000	8.2%
West Kirkland Mining Inc.	150,000	180,000	147,000	2.1%
St Andrew Goldfields Ltd. Warrants Jan 28, 2012	350,000	-	5,528	0.1%
		<u>2,140,000</u>	<u>2,080,728</u>	<u>30.1%</u>
<b>Total Canadian equities</b>		<u>7,062,230</u>	<u>6,841,102</u>	<u>99.2%</u>
<b>Total investments (before transaction costs)</b>		<u>7,062,230</u>	<u>6,841,102</u>	<u>99.2%</u>
Transaction costs		<u>-</u>	<u>-</u>	<u>0.0%</u>
<b>Total investments</b>		<u>7,062,230</u>	<u>6,841,102</u>	<u>99.2%</u>
<b>Liabilities, net of other assets</b>			<u>59,540</u>	<u>0.9%</u>
<b>Net assets</b>			<u>6,900,642</u>	<u>100.1%</u>

(See accompanying notes to financial statements)

# Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

## Notes to Financial Statements (Unaudited)

June 30, 2011

### 1 Formation of Partnership

The Connor, Clark & Lunn 2010 Flow-Through Limited Partnership (the "Partnership") was formed under the laws of the Province of Ontario pursuant to a Partnership Agreement dated February 25, 2010 between Connor, Clark & Lunn 2010 Flow-Through Management Corp., as General Partner (the "General Partner"), and Darren Cabral, as the Initial Limited Partner, and became a limited partnership effective February 25, 2010.

Pursuant to a limited partnership agreement dated February 25, 2010 (the "Limited Partnership Agreement") between the General Partner and the Initial Limited Partner at that time, and each person who became a Limited Partner thereafter, the General Partner is entitled to a 0.01% beneficial interest in the Partnership. As at June 30, 2010, the General Partner held no Units in the Partnership. The Limited Partners will be allocated on a pro rata basis 99.9% of the net income or loss of the Partnership and 100% of any eligible expenditures renounced to the Partnership, and 0.01% of the net income or loss of the Partnership will be allocated to the General Partner. On dissolution, Limited Partners are entitled to 99.99% of the assets of the Partnership and the General Partner is entitled to 0.01% of such assets after payment of all liabilities of the Partnership.

**Mutual fund rollover transaction:** The Limited Partnership Agreement provides that the General Partner will dissolve the Partnership on or about July 12, 2012, subject to the right of the General Partner to extend the dissolution date by up to three months. The General Partner can also transfer the assets of the Partnership to a mutual fund (the "Liquidity Alternative") pursuant to an agreement (the "Transfer Agreement"), in exchange for units of a mutual fund, prior to the dissolution of the Partnership. However, this Transaction is subject to the receipt of all necessary regulatory approvals, and is at the discretion of the General Partner.

Pursuant to a management agreement dated April 27, 2010, Connor, Clark & Lunn Capital Markets Inc. (the "Manager") has been retained by the Partnership to provide investment advisory and portfolio management services to the Partnership and to manage the ongoing business and administrative affairs of the Partnership.

### 2 Investment objectives

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 listed on a public exchange and (up 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.

### 3 Summary of significant accounting policies

#### Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates.

This Partnership is unincorporated and these financial statements do not include all the assets, liabilities, revenues and expenses of the limited partners.

#### Valuation of Investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Partnership calculates its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the fair value of the investment Partnership's assets and liabilities (being the last traded price for the day). The Partnership did not change its methodology in this respect.

The Partnership continues to calculate its net asset value for pricing purposes using the closing prices of securities. As at June 30, 2011, the Partnership's net asset value per Unit was \$22.00 and Class F unit was \$23.02. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed above. The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Sections 3855 is as follows:

	<u>Transactional NAV</u>	<u>Section 3855 Adjustment</u>	<u>GAAP Net Assets</u>
<b>Per Unit Closing Values as at December 31, 2010</b>			
Units	22.38	0.08	22.46
Class F	23.04	0.08	23.12
<b>Per Unit Closing Values as at June 30, 2011</b>			
Units	21.36	(0.17)	21.19
Class F	21.99	(0.18)	21.81

#### Cash

Cash includes cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

# Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

## Notes to Financial Statements (Unaudited)

June 30, 2011

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### Income recognition

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

### Unit valuation

Units of the Partnership are valued at the net asset value per unit of the Partnership. The net asset value per unit is determined by dividing the aggregate fair value of assets less liabilities of the Partnership by the total number of units of the Partnership outstanding before giving effect to redemptions or subscriptions for units on that day.

### Increase (decrease) in net assets from operation per unit

This calculation is based on the increase (decrease) in net assets from operations attributable to each class divided by the weighted average number of units of that class outstanding during the period.

### Valuation of series

A separate net assets per unit is calculated for each class. The net assets of a class are computed by calculating the class' proportionate share of the assets and liabilities to all classes, less the liabilities attributable only to that class. Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class based upon the relative net assets of each class.

## 4 Loan payable

The Partnership has entered into a non-revolving term credit facility agreement (the "Credit Agreement") with Bank of Montreal ("BMO") dated May 6, 2010. The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the net asset value of the Partnership.

Borrowing is 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 fiscal period ending December 31, 2010, in order to maximize the investment of the Gross Proceeds in Flow-Through Shares.

The Partnership's obligation under the Partnership Credit Facility 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 Liquidity Alternative and the dissolution of the Partnership.

During the six month period ended June 30, 2011, the Credit Facility had outstanding balance from \$nil to \$800,000 (from \$nil to \$800,000 during the period from May 6, 2010 (commencement of operations) to June 30, 2010). Leverage was eliminated during March 2011.

## 5 Partners' Equity

Units of the Partnership were offered to the public by way of prospectus. On May 6, 2010, the Partnership completed an initial public offering pursuant to the prospectus dated April 27, 2010. The offering raised \$7,035,750 through the issue of 281,430 Units at \$25.00 per Unit incurring Agents' fee and issue expenses of \$624,711, and \$200,000 through the issue of 8,000 Class F Units at \$25.00 per Class F Unit incurring Agents' fee and issue expenses of \$9,259.

On October 29, 2010, the Partnership raised an additional \$900,000 through the issue of 36,000 Units from a private placement at \$25.00 per Unit incurring Agents' fees of \$60,750 and increasing the total number of Units to 317,430. The Partnership will not issue any more Units or Class F units. The Partnership is expected to be dissolved on or about July 12, 2012.

There is no market through which the Units may be sold and none is expected to develop. The Units will not be listed on any stock exchange. Investors are likely to find it difficult or impossible to sell their Units. Under the Partnership Agreement, Units may be transferred by a Limited Partner subject to certain conditions.

Changes in outstanding units during the six month period ended June 30, 2011 and during the period from May 6, 2010 (commencement of operations) to December 31, 2010 are summarized as follows:

	June 30, 2011		December 31, 2010	
	Units	Class F Units	Units	Class F Units
Balance – beginning of period	317,430	8,000	–	–
Units issued	–	–	317,430	8,000
Units redeemed	–	–	–	–
Balance – end of period	317,430	8,000	317,430	8,000

# Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

## Notes to Financial Statements (Unaudited)

June 30, 2011

### 6 Custodian

Pursuant to a custodian agreement ("the Custodian Agreement"), the Partnership has retained RBC Dexia Investor Trust Services to act as custodian of the assets of the Partnership. The Custodian is also responsible for certain aspects of the Partnership's day-to-day operations. In consideration for these services, the Partnership pays a fee to the Custodian.

### 7 Management fees and other expenses

As compensation for management services rendered to the Partnership, the Manager receives an annual management fee in an amount equal to 2.0% of the net asset value of the Partnership, calculated and paid monthly in arrears, plus applicable taxes. The Manager will pay Connor, Clark & Lunn Investment Management ("Investment Advisor") the Investment Advisor's fee out of the Manager's Fee.

The Manager is also entitled to a Performance Bonus. The Performance Bonus is equal to 20% of the product of (a) the number of Units outstanding on the Performance Bonus Date; and (b) the amount by which the Net Asset Value per Unit on the Performance Bonus Date (prior to giving effect to the Performance Bonus) plus the total distributions per Unit over 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 (May 6, 2010) and ending on the earlier of:

- 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
- the Business Day immediately prior to the day of dissolution or termination of the Partnership.

The Partnership is also responsible for all expenses incurred in connection with its operation and administration.

### 8 Broker commission charges and soft dollar services

There were \$3,422 broker commissions paid during the six month period ended June 30, 2011 (nil during the period from May 6, 2010 (commencement of operations) to June 30, 2010) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

### 9 Financial instruments

	June 30, 2011	December 31, 2010
<b>Assets</b>	\$	\$
Held for trading	6,929,257	7,839,220
Loans and receivables	-	1,829
<b>Total assets</b>	<b>6,929,257</b>	<b>7,841,049</b>
<b>Liabilities</b>		
Held for trading	-	-
Financial liabilities at amortized cost	28,615	1,482,109
<b>Total liabilities</b>	<b>28,615</b>	<b>1,482,109</b>

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments – Disclosures, interest receivable is deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, bank indebtedness and management fees payable are deemed to be financial liabilities and reported at amortized cost.

The following table illustrates the classification of the Partnership's financial instruments within the fair value hierarchy as at June 30, 2011 and December 31, 2010:

Assets at fair value as at June 30, 2011	Level 1	Level 2	Level 3	Total
Equities	6,688,574	152,528	-	6,841,102
<b>Total</b>	<b>6,688,574</b>	<b>152,528</b>	<b>-</b>	<b>6,841,102</b>
Assets at fair value as at December 31, 2010	Level 1	Level 2	Level 3	Total
Equities	7,644,399	563,100	-	8,207,499
<b>Total</b>	<b>7,644,399</b>	<b>563,100</b>	<b>-</b>	<b>8,207,499</b>

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

*Equities:* The Partnership's long equity positions are classified as Level 1 when these securities are actively traded and a reliable quote is observable. Long equity positions are classified as Level 3 when fair values are based on broker quote in an inactive active market.

# Connor, Clark & Lunn 2010 Flow-Through Limited Partnership

## Notes to Financial Statements (Unaudited)

June 30, 2011

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### 10 Financial instrument risk

The Partnership may be exposed to a variety of financial risks. The Investment Advisor seeks to minimize potential adverse effects of these risks on the Partnership's performance through daily monitoring of the Partnership's positions and market events and by diversifying the investment portfolio within the constraints of the investment objective. The investment portfolio is comprised of junior Resource Issuers.

#### Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds, fixed income derivatives and interest-bearing liabilities such as the loan payable. The Partnership is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Other assets and liabilities are short-term in nature and non-interest bearing. As at June 30, 2011 and December 31, 2010, interest rate risk was negligible as the Partnership had no significant exposure to interest-bearing investments.

#### Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Partnership's functional currency. The Partnership is exposed to risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. As at June 30, 2011 and December 31, 2010, the currency risk was negligible as the Partnership had no significant exposure to securities denominated in currencies other than the Canadian dollar.

#### Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Advisor moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Partnership's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices had increased or decreased by 10% on June 30, 2011, all other variables held constant, the net assets of the Partnership would have increased or decreased, respectively, by approximately \$684,000 (December 31, 2010 - \$821,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

#### Concentration risk

The business activities of investees are speculative and may be adversely affected by factors outside the control of those issuers. Resource Issuers may not hold or discover commercial quantities of petroleum, natural gas or minerals and their profitability may be affected by adverse fluctuations in commodity prices, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, native land claims, liability for environmental damage, competition, imposition of tariffs, duties or other tax and government regulation, as applicable. Resource Issuers in the renewable energy and energy efficient sector that may incur Canadian Renewable and Conservation Expenses, in particular, may be adversely affected by drought and variations in the water flow of watersheds upon which such issuers have plants.

Since the Partnership invests primarily in securities issued by firms engaged in the oil and gas, mining, or related resource businesses (including junior issuers), the Net Assets may be more volatile than portfolios with a more diversified investment focus. Also, the Net Assets may fluctuate with underlying market prices for commodities produced by those sectors of the economy.

#### Liquidity risk

Flow-Through Shares and other securities, if any, of Resource Issuers are typically purchased by the Partnership on a private placement basis, and will be subject to resale restrictions. In the case of publicly traded Resource Issuers, these resale restrictions will generally last for four months. In the case of private Resource Issuers, these resale restrictions will be indefinite.

The Investment Advisor actively manages the Partnership's Investment Portfolio, and this may involve the sale and reinvestment of the proceeds of sale of some or all of the Flow-Through Shares and other securities pursuant to certain statutory exemptions. The existence of resale restrictions may hamper the ability of the Investment Advisor to take advantage of opportunities for profit taking, or limitation of losses, which might be available in the absence of resale restrictions, and this in turn may reduce the amount of capital appreciation or magnify the capital loss in the Partnership's investment portfolio.

The Partnership's financial liabilities are all short-term in nature and are expected to mature within three months from the June 30, 2011 report date.