CONNOR, CLARK & LUNN

CAPITAL MARKETS

2009

Connor, Clark & Lunn Natural Resources Fund Inc.

Semi-Annual Report

December 31, 2009

Connor, Clark & Lunn Natural Resources Fund Inc. Message to Shareholders

March 1, 2010

Dear Investor,

I am pleased to provide the semi-annual report for the Connor, Clark & Lunn Natural Resources Fund Inc. (the "Fund") for the period from commencement of operations on October 16, 2009 to December 31, 2009.

The Fund seeks to generate long-term growth by providing investors with exposure to Canadian natural resource companies. The principal business of the companies that we invest in include: (1) oil and gas exploration, development and production; (2) mineral exploration, development and production; (3) forestry-related industries; (4) alternative energy development and production; and (5) resource-related services such as service and infrastructure providers for natural resource companies. Connor, Clark & Lunn Investment Management Ltd. ("CC&L" or the "Investment Manager") is responsible for managing the Fund's portfolio and utilizes the expertise of portfolio managers from CC&L's fundamental equity team that is focused exclusively on natural resources. As of December 31, 2009, CC&L manages approximately $4.3 billion in energy and materials investments primarily on behalf of institutional investors.

On October 16, 2009, unitholders of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the "Partnership") received Class A Shares of the Fund in exchange for the assets of the Partnership on a tax-deferred basis. Investors who received Class A Shares of the Fund as a result of the rollover of the Partnership can continue to defer the capital gains tax liability that results from the disposition of their investment by maintaining their investment in the Fund. The Fund uses a corporate structure that enables us to create additional funds under the same structure that investors can switch between without triggering a taxable disposition. We currently plan to establish a balanced fund class managed by CC&L by mid-2010 to provide taxable investors in the Fund with the financial flexibility and freedom to re-adjust their portfolio to suit their needs without realizing a capital gain.

The Fund is available for sale through investment dealers and financial planners via Fundserv code CCL100. Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to good performance as the Fund matures.

Yours truly,

W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Natural Resources Fund Inc.

Management Report of Fund Performance

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

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 Natural Resources Fund Inc. (the “Fund”) is a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation. The Fund has been created to acquire all of the assets of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the “Flow-Through LP”), which consisted primarily of common shares of resource issuers, in exchange for shares of the Fund, as a result of a transfer agreement dated October 3, 2007.

The Fund seeks to generate long term growth by providing investors with exposure to Canadian natural resource companies. The principal business of the companies that the Fund can invest in include:

(i) oil and gas exploration, development and production;

(ii) mineral exploration, development and production;

(iii) forestry-related industries;

(iv) alternative energy development and production; and

(v) resource-related services such as service and infrastructure providers for natural resource companies.

Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”) utilizes an active fundamentals based approach to achieve the Fund’s investment objectives. When assessing a resource company, the Investment Manager looks at the number of key characteristics: (i) strong and experienced management team; (ii) demonstrated ability to create shareholder value; (iii) well-defined strategic plan with visibility; (iv) quality assets that provide organic growth potential; (v) strong board and corporate governance; (vi) strong balance sheet and funding ability; (vii) diversified risk exposures; and (viii) defined financial metric goals.

Recent Developments

Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards (“IFRS”) will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Adoption of New Accounting Standards

CICA Section 3862, "Financial Instruments – Disclosures": In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Fund adopted the amendments to Section 3862 as of October 16, 2009 (commencement of operations). This standard impacted the Fund's disclosure but did not affect the Fund's results or financial position.

EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities": On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty should be taken into consideration in assessing the fair value of financial assets and financial liabilities. The Fund adopted the abstract as of as of October 16, 2009 (commencement of operations).

Results of Operations

The Investment Manager's Commentary

Energy

After bottoming with the broader equity markets in March 2009, oil prices, as measured by the West Texas Intermediate ("WTI"), rallied through the last three quarters of the year, exiting 2009 at US$80 per barrel. On average, WTI oil prices declined by 38% relative to 2008 levels. By contrast, Henry Hub natural gas prices bottomed in the fall of 2009 before rallying through year-end, exiting 2009 at US$5.50 per thousand cubic feet ("Mcf"). On average, Henry Hub natural gas prices declined by 55% relative to 2008 levels. Our outlook for both oil and gas prices remains positive for 2010.

With respect to our outlook on oil fundamentals, demand continues to demonstrate the initial signs of recovery from the lows witnessed early in 2009 while the material reductions in supply from the Organization of the Petroleum Exporting Countries ("OPEC") has positively impacted inventory levels. We continue to expect the recovery in oil prices will be demand driven, with the magnitude of the broader economic recovery driving the upside in oil prices over the next few years.

In contrast, we expect the recovery in natural gas prices to be supply driven. We expect that the 50% reduction in active onshore drilling rigs over the last year, coupled with steep production declines from new unconventional gas wells, will have a meaningful impact on supply through 2010 (which is being demonstrated in North American production data through the fourth quarter of 2009). We envision a more balanced demand-supply balance in 2010 with the potential for prices to recover to more sustainable levels in the US$6 – US$8/Mcf range.

As expected, energy stocks followed commodity prices through 2009 with oil weighted producers outperforming their gas peers. More recently, we have seen gas producers outperforming their oil peers as the market gains comfort with the recovery in fundamentals and possibly begins to see the potential for the relationship between oil and gas prices to narrow to the longer term trend near the 8:1 level.

From a high level perspective, valuations within the energy space remain at reasonable levels while a significant amount of new assets currently being marketed by the large cap peer group should provide attractive opportunities for consolidation and future growth. We will continue to focus on producers that can generate reasonable rates of return on capital projects at current commodity prices and offer balance sheets that can withstand continued commodity price volatility while maintaining attractive upside exposure to rising commodity prices as the global economy recovers.

Gold

We continue to remain positive on the outlook for gold. The usual five reasons remain the fundamental drivers of gold price in our view: (a) inflation resurgence, (b) investment demand, (c) central bank purchases, (d) loss of confidence in the reserve currencies and (e) a bubble phase. While all the five factors may not come to fruition in 2010, we expect some of these factors will drive gold price higher in 2010. For instance, we expect International Monetary Fund ("IMF") to sell its remaining position in gold and we also expect a central bank, most likely China, to be a buyer. We have started to see some developed economies, specifically the UK, to start reporting higher inflation.

The only negative factor would relate to weak jewellery demand. That said, we do expect investment demand to fully compensate for the lack of jewellery demand, hence we remain positive on the outlook for gold.

Base Metals

We continue to remain positive on the outlook for base metals. The three factors that will drive base metals higher would be: (a) Chinese demand remaining strong, (b) resurgence of Western world demand and finally (c) investment demand fuelled by a weak US dollar. Copper remains our favorite base metal commodity. We foresee limited supply availability in the near term (over the next two to four years), which is expected to be insufficient to keep pace with normalized demand growth and the potential for consumer restocking as demand recovers. This is before one considers the impact from the restocking events seen in China, and now possibly outside China, as the global economy pulls itself out of the current recession. Given the current low level of inventories from which to start a new demand cycle, inventory levels could quickly reverse the current trend and reach critical levels in the later part of 2010. Nickel and aluminum, however, continue to remain well-supplied and we expect prices to follow the overall market direction due to funds flow as opposed to fundamentals.

Investment Income and Capital Gains

During the period from October 16, 2009 (commencement of operations) to December 31, 2009, the Fund had net investment loss of $109,300. In addition, the portfolio realized $274,380 in losses and had a $272,265 increase in unrealized gains on its investments. Investment losses, realized losses and unrealized gains combined for a total decrease in net assets from operations of $111,415, or $0.13 per Class A Share.

Liquidity and Capital Resources

As at December 31, 2009, the Fund had current assets excluding investments of $88,541. Current liabilities totalled $220,659.

Capital transactions

On October 16, 2009, former limited partners of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership ("the Partnership") received 1.24962 Class A Shares of the Fund for each Partnership Unit held pursuant to a rollover transaction, for a total amount of $9,996,948 for 999,695 Class A Shares.

Distributions

The Fund will pay an annual distribution on or before the Fund's year-end, which is June 30, 2010.

Related Party Transactions

Management Fees

Pursuant to a management agreement ("the Management Agreement") the Fund retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 2.00% per annum of the net asset value of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund during the period from October 16, 2009 to December 31, 2009 were $38,587.

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

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period from October 16, 2009 (commencement of operation) to December 31, 2009.

Financial Highlights

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

The Fund's Net Assets per Class A Share:

	December 31, 2009(1)
Net Assets, beginning of period	**10.00**
Increase (decrease) from operations:	
Total revenues	0.02
Total expenses	(0.14)
Realized gains (losses) for the period	(0.32)
Unrealized gains (losses) for the period	0.31
Total increase (decrease) from operations (2)	**(0.13)**
Distributions:	
From income (excluding dividends)	–
From dividends	–
From capital gains	–
Return of capital	–
Total Distributions	**–**
Net Assets, end of period (3)	**9.93**

(1) Results for the period from October 16, 2009 (commencement of operations) to December 31, 2009.

(2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

(3) This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

	December 31, 2009 (1)
Net asset value (000's)	7,970
Number of shares outstanding	798,485
Management expense ratio (annualized) (2)	4.66%
Management expense ratio before waivers or absorptions (annualized) (2)	4.66%
Portfolio turnover rate (3)	65.25%
Trading expense ratio (4)	0.51%
Net asset value per Class A Share	9.98

(1) Results for the period from October 16, 2009 (commencement of operations) to December 31, 2009.

(2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund'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 Fund.

(4) 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, 2009

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund.
A quarterly update is available at www.cclcapitalmarkets.com and www.sedar.com .

Portfolio by Category	Market Value $	% of NAV
Energy	4,437,206	55.7%
Materials	3,649,464	45.8%
Cash & Cash Equivalents	80,136	1.0%
Utilities	15,400	0.2%
Top 25 Holdings		
Artek Exploration Ltd.	475,000	6.0%
Progress Energy Resources Corp.	449,970	5.6%
Calfrac Well Services Ltd.	339,855	4.3%
Athabasca Oil Sands Corp.	335,500	4.2%
Celtic Exploration Ltd.	325,884	4.1%
Metanor Resources Inc.	311,505	3.9%
Detour Gold Corporation	298,596	3.7%
Storm Exploration Inc.	297,084	3.7%
Major Drilling Group International Ltd.	287,700	3.6%
Niko Resources Ltd.	285,360	3.6%
Eldorado Gold Corp.	276,020	3.5%
Cathay Forest Products Corp.	265,200	3.3%
Consolidated Thompson Iron Mines Ltd.	263,640	3.3%
Potash Corp. of Saskatchewan	263,097	3.3%
Vermilion Energy Trust	259,360	3.3%
Osisko Mining Corp.	257,184	3.2%
Precision Drilling Trust	250,155	3.1%
Suncor Energy Inc.	234,423	2.9%
Mullen Group Ltd.	227,265	2.9%
Anvil Mining Ltd.	225,280	2.8%
Red Back Mining Inc.	225,000	2.8%
Canadian Natural Resources Ltd.	205,200	2.6%
Inmet Mining Corp.	204,096	2.6%
Equinox Minerals Ltd.	204,091	2.6%
Mercator Minerals Ltd.	193,440	2.4%
Net asset value (NAV)	**7,969,951**	

Connor, Clark & Lunn Natural Resources Fund Inc.

Statement of Net Assets (Unaudited)

As at December 31, 2009

	$
Assets	
Cash	80,136
Investments at fair value (cost - $7,786,991)	8,059,260
Interest receivable	8,405
	8,147,801
Liabilities	
Redemptions payable	9,945
Accounts payable and accrued liabilities	194,065
Management fees payable	16,649
	220,659
Net Assets and Shareholders' Equity	7,927,142
Shares issued and outstanding (note 5)	798,485
Net assets per Class A share	9.93

Approved by the Manager

Director

Director

(See accompanying notes to financial statements)

Connor, Clark & Lunn Natural Resources Fund Inc.

Statement of Operations (Unaudited)

For the period from October 16, 2009 (inception date) to December 31, 2009

	2009 $
Income	
Dividends	14,535
Interest	327
	14,862
Expenses	
Transaction costs	43,222
Management fees (note 6)	38,587
Service fees (note 6)	11,418
Audit fees	7,718
Custodial and other unitholders' fees	6,207
Transfer agent fees	4,039
Legal fees	3,932
Administration fees	3,491
Filing fees	3,223
Other	1,033
IRC fees	741
Interest expense	551
	124,162
Investment income (loss) for the period	(109,300)
Net realized gain (loss) on investments	
Net realized gain (loss) on investments	(274,380)
Net unrealized gain (loss) on investments	
Change in unrealized gain (loss) on investments	272,269
Unrealized gain (loss) on foreign exchange	(4)
	272,265
Net gain (loss) on investments	(2,115)
Increase (decrease) in net assets from operations	(111,415)
Increase (decrease) in net assets from operations per share *	(0.13)

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

(See accompanying notes to financial statements)

Connor, Clark & Lunn Natural Resources Fund Inc.

Statement of Changes in Net Assets (Unaudited)

For the period from October 16, 2009 (inception date) to December 31, 2009

	2009 $
Increase (decrease) in net assets from operations	(111,415)
Shareholders' transactions (note 4):	
Sale of shares	2,411
Shares issued pursuant to Transfer Agreement (note 4)	9,996,949
Payments on redemption of shares	(1,960,803)
	8,038,557
Change in net assets during the period	7,927,142
Net assets - Beginning of period	-
Net assets - End of period	7,927,142

(See accompanying notes to financial statements)

Connor, Clark & Lunn Natural Resources Fund Inc.

Statement of Cash Flow (Unaudited)

For the period from October 16, 2009 (inception date) to December 31, 2009

	2009 $
Operating Activities	
Increase (decrease) in net assets from operations	(111,415)
Items not affecting cash:	
Net realized (gain) loss on investments	274,380
Unrealized (gain) loss on investments	(272,269)
Net assets acquired pursuant to Transfer Agreement (note 4)	9,996,949
Changes in non-cash working capital	
(Increase) decrease in interest and dividends receivable	(8,405)
Increase (decrease) in accounts payable and accrued liabilities	194,065
Increase (decrease) in management fees payable	16,649
Cost of investments purchased	(12,979,955)
Proceeds from investments sold	4,918,584
Net cash flow provided by (used in) operating activities	2,028,583
Financing Activities	
Proceeds from issuance of units	2,411
Payments on redemption/cancellation of units	(1,950,858)
Net cash flow provided by (used in) financing activities	(1,948,447)
Net increase (decrease) in cash	80,136
Cash - beginning of period	-
Cash - end of period	80,136

(See accompanying notes to financial statements)

Connor, Clark & Lunn Natural Resources Fund Inc.

Statement of Investment Portfolio (Unaudited)

As at December 31, 2009

	Par Value/ Quantity	Average Cost $	Fair Value $	% of Net Assets
Investments				
Canadian equities				
Energy				
Artek Exploration Ltd.	25,000	625,000	475,000	6.0%
Athabasca Oil Sands Corp.	22,000	335,500	335,500	4.2%
Bonterra Oil and Gas	4,000	117,083	138,640	1.7%
Calfrac Well Services Ltd.	16,300	281,040	336,921	4.3%
Canadian Natural Resources Ltd.	2,700	185,243	204,309	2.6%
Celtic Exploration Ltd.	15,600	306,115	324,324	4.1%
Cenovus Energy Inc.	3,800	110,970	100,586	1.3%
Crescent Point Energy Corp.	3,400	125,410	134,130	1.7%
EnCana Corp.	3,800	117,835	129,390	1.6%
Mullen Group Ltd.	13,900	218,169	226,014	2.9%
Niko Resources Ltd.	2,900	253,305	284,867	3.6%
Paladin Resources Ltd.	37,700	147,134	147,407	1.9%
Precision Drilling Trust	32,700	230,104	248,520	3.1%
Progress Energy Resources Corp.	31,800	469,423	448,380	5.7%
ProspEx Resources Ltd.	83,900	95,646	101,519	1.3%
Storm Exploration	22,800	319,579	296,628	3.7%
Suncor Energy Inc.	6,300	224,398	233,793	2.9%
Vermilion Energy Trust	8,000	232,594	259,200	3.3%
		4,394,548	4,425,128	55.9%
Materials				
Anvil Mining	70,400	208,084	224,576	2.8%
Cathay Forest Products Corp.	442,000	303,302	260,780	3.3%
Consolidated Thompson Iron Mines Ltd.	39,000	188,776	262,470	3.3%
Detour Gold Corp.	16,700	247,995	297,427	3.8%
Eldorado Gold Corp.	18,500	227,998	275,095	3.5%
Equinox Minerals Ltd.	49,900	183,167	201,596	2.5%
Inmet Mining Corp.	3,200	186,937	203,392	2.6%
Lundin Mining	42,800	181,764	182,756	2.3%
Major Drilling Group Intl	10,000	217,000	285,000	3.6%
Mercator Minerals Ltd.	78,000	185,563	193,440	2.4%
Metanor Resources Inc	546,500	404,410	300,575	3.8%
Minefinders Corp.	17,500	182,074	189,700	2.4%
Osisko Mining Corp.	30,400	225,107	256,272	3.2%
Potash Corp. of Saskatchewan	2,300	230,740	262,453	3.3%
Red Back Mining Inc.	15,000	211,813	223,200	2.8%
		3,384,730	3,618,732	45.6%

(See accompanying notes to financial statements)

Connor, Clark & Lunn Natural Resources Fund Inc.

Statement of Investment Portfolio (Unaudited) …. Continued

As at December 31, 2009

	Quantity	Average Cost $	Fair Value $	% of Net Assets
Utilities				
EarthFirst Canada Inc.	770,000	15,400	15,400	0.2%
Total Canadian equities		7,794,678	8,059,260	101.7%
Total Investments (before transaction costs)		7,794,678	8,059,260	101.7%
Transaction costs (note 3)		(7,687)	-	0.0%
Total investments		7,786,991	8,059,260	101.7%
Other assets less liabilities			(132,118)	-1.7%
Net assets			7,927,142	100.0%

(See accompanying notes to financial statements)

1 Formation of Partnership

The Connor, Clark & Lunn Natural Resources Fund Inc. (the "Fund") is a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation. The Fund has been created to acquire all of the assets of the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the "Flow-Through LP"), which consisted primarily of common shares of resource issuers, in exchange for Shares of the Fund, as a result of a transfer agreement dated October 3, 2007.

Pursuant to a management agreement dated September 30, 2009, Connor, Clark & Lunn Capital Markets Inc. (the "Manager") has been retained by the Fund to provide investment advisory and portfolio management services to the Fund and to manage the ongoing business and administrative affairs of the Fund.

2 Investment objectives

The Fund seeks to generate long term growth by providing investors with exposure to Canadian natural resource companies. The principal business of the companies that the Fund can invest in include:
(i) oil and gas exploration, development and production;
(ii) mineral exploration, development and production;
(iii) forestry-related industries;
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Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") utilizes an active fundamentals based approach to achieve the Fund's investment objectives. When assessing a resource company, the Investment manager looks at the number of key characteristics: (i) strong and experienced management team; (ii) demonstrated ability to create shareholder value; (iii) well-defined strategic plan with visibility; (iv) quality assets that provide organic growth potential; (v) strong board and corporate governance; (vi) strong balance sheet and funding ability; (vii) diversified risk exposures; and (viii) defined financial metric goals.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Adoption of New Accounting Standards

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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 Managers, 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 Managers 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 Fund calculates its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day).

As at December 31, 2009, the Fund's net asset value per unit was $9.98. 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:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Per Unit			
Closing Value – December 31, 2009	9.98	(0.05)	9.93

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with terms to maturity of less than 90 days at acquisition. Cash and cash equivalents are deemed to be held for trading and therefore are carried at fair value. Short-term investments are carried at cost, which together with interest receivable approximates market value.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives which are deemed held for trading.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

4 Shareholders' Equity

The Fund is authorized to issue an unlimited number of Class A shares and Class J shares of which, before giving effect to the offering under the prospectus, there is one issued and outstanding Class J share.

The Manager has entered into a transfer agreement dated October 3, 2007 (the “Transfer Agreement”), pursuant to which the Fund acquired all of the assets of the Flow-Through LP, which consists primarily of shares of resource issuers, in exchange for Shares of the Fund. The NAV of the Shares issued during the initial distribution period was $10.00. Immediately after the initial distribution period, the Fund began issuing and redeeming Class A Shares based on the NAV per Class A Share going forward. The initial distribution period ended once the Fund completed its acquisition of the assets of the Flow-Through LP in exchange for Shares of the Fund in accordance with the Transfer Agreement.

The Fund has no restrictions or specific requirements on the subscription and redemption of Class A shares. Class A shares can be purchased and/or redeemed through a dealer as outlined in the prospectus dated September 30, 2009.

Changes in outstanding shares during the period from October 16, 2009 (commencement of operation) to December 31, 2009 are summarized as follows:

	Number of shares	
	Class A	**Class J**
Opening balance	–	–
Sales	248	1
Transferred shares	999,695	–
Redeemed during the period	(201,458)	–
Ending balance	798,485	1

5 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust (“the Custodian”) acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund’s day-to-day operations, including calculating the Net Asset Value (“NAV”), net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

6 Management fees and other expenses

The Manager receives a Management Fee from the Fund equal to 2.00% per annum of the Net Asset Value of the Fund, which is accrued daily and paid monthly.

The management fees charged to the Fund during the period from October 16, 2009 (commencement of operation) to December 31, 2009 were $38,587. The Manager is responsible for payment of the investment management fees out of these management fees.

The Fund also pays a service fee to dealers whose clients hold Class A Shares in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.50% annually of the Net Asset Value of the Class A Shares held by clients of the dealers.

The service fee charged to the Fund during the period from October 16, 2009 (commencement of operation) to December 31, 2009 was $11,418.

7 Broker commission charges and soft dollar services

There were $43,222 broker commissions paid during the period from October 16, 2009 (commencement of operation) to December 31, 2009 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

8 Financial instruments

Assets	$
Held for trading	8,139,396
Loans and receivables	8,405
Total assets	**8,147,801**
Liabilities	
Held for trading	-
Financial liabilities at amortized cost	220,659
Total liabilities	**220,659**

For the purposes of categorization in accordance with Section 3862, 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.

During 2009, Section 3862 was amended to include enhanced disclosures about inputs to fair value measurement. The following table illustrates the classification of the Fund's financial instruments within the fair value hierarchy as at December 31, 2009:

Assets at fair value as at October 31, 2009	Level 1	Level 2	Level 3	Total
Equities	8,059,260	–	–	8,059,260

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.

There were no transfers among the three levels during the period from October 16, 2009 (commencement of operation) to December 31, 2009.

9 Financial instrument risk

The Fund may be exposed to a variety of financial risks The Investment Manager seeks to minimize potential adverse effects of these risks on the Fund's performance through daily monitoring of the Fund'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 and fixed income derivatives. The Fund 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 December 31, 2009, interest rate risk was negligible as the Fund 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 Fund's functional currency. The Fund is exposed to risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. As at December 31, 2009, currency risk was negligible as the Fund 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 factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Manager 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 Fund'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 December 31, 2009, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately $806,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Commodity risk

Investments in natural resource companies or in income or royalty trusts based on commodities, such as oil and gas, will be affected by changes in commodity prices. Commodity prices tend to be cyclical and can move dramatically in short periods of time. In addition, new discoveries or changes in government regulations can affect the price of commodities.

For small companies, start-ups, resource companies and companies in emerging sectors, the risks and potential rewards are usually greater. The share price of such companies is often more volatile than the share price of larger, more established companies. For example, some of the products and services offered by emerging technology companies can become obsolete as science and technology advance, causing volatility to the share prices of such companies.

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 Fund invests primarily in securities issued by firms engaged in the oil and gas, mineral exploration, forestry-related industries, alternative energy industries and resource-related services, the Net Assets may be more volatile than portfolio 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

Liquidity risk refers to the possibility that an asset is not able to be sold on an organized market for a price that approximates the amount at which we value the same asset for purposes of calculating the Net Assets. There can be a number of reasons that an asset or a security is not liquid. For example, some issuers may be less well known or have fewer securities outstanding. A security or asset can also be considered to be illiquid because the pool of potential buyers is smaller. Sometimes securities are restricted in the sense that resales are prohibited by a promise or agreement made by the holder of the securities, and this in turn may reduce the amount of capital appreciation or magnify the capital loss in the Fund's investment portfolio.