

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

Initial Public Offering

October 30, 2001

## PROSPECTUS



### CRESTSTREET 2001 (II) LIMITED PARTNERSHIP

**\$20,000,000 (Maximum Offering)**

**\$3,000,000 (Minimum Offering)**

**A maximum of 2,000,000 and a minimum of 300,000 Limited Partnership Units**

**The Partnership:** Creststreet 2001 (II) Limited Partnership (the “Partnership”), a limited partnership established under the laws of the Province of Ontario, proposes to issue transferable limited partnership units (the “Units”) at a price of \$10.00 per Unit (the “Offering”). See “The Partnership” and “Details of the Offering and Subscription Procedure”.

**Investment Objective:** Creststreet 2001 (II) Management Limited (the “General Partner”) will, on behalf of the Partnership, invest in Flow-Through Shares issued predominantly by Resource Issuers engaged in oil and gas exploration and development in Canada. Investments made by the General Partner on behalf of the Partnership will be made having regard to the guidelines described herein (the “Investment Guidelines”). The General Partner intends to invest the net proceeds of the Offering such that Limited Partners will be entitled to claim certain deductions from income for income tax purposes for the 2001 taxation year and may be entitled to certain investment tax credits deductible from tax payable.

**Investment Strategy:** The General Partner will manage the investment portfolio with a view to: (i) preservation of capital; and (ii) capital appreciation on the Partnership’s investments. The Partnership’s investment strategy is to invest in Flow-Through Shares issued by Resource Issuers that: (i) represent good value in relation to the market price and intrinsic value of the Resource Issuer’s shares; (ii) have experienced and capable senior management; (iii) have a strong exploration program in place; and (iv) offer potential for future growth.

**The General Partner:** Creststreet 2001 (II) Management Limited is the general partner of the Partnership and has co-ordinated the organization of the Partnership. The General Partner will work with the Agents in developing and implementing all aspects of the Partnership’s communications, marketing and distribution strategies and will manage the ongoing business, investment and administrative affairs of the Partnership. The General Partner is a wholly-owned subsidiary of Creststreet Asset Management Limited (“Creststreet”), a corporation registered as an investment counsel and portfolio management company in Ontario.

#### **Creststreet Resource Fund (III) Limited**

To obtain enhanced liquidity for the Limited Partners, on or about January 15, 2003, the assets of the Partnership will be exchanged for mutual fund shares (“Mutual Fund Shares”) of Creststreet Resource Fund (III) Limited (the “Mutual Fund”), an open-ended mutual fund corporation. Immediately thereafter, the Partnership will be dissolved and the Limited Partners will receive Mutual Fund Shares. The completion of such transaction may be subject to the receipt of regulatory approvals. There can be no assurance that any such approvals will be granted.

This exchange will occur on a “roll-over” basis, will not result in any tax consequences to Limited Partners and, subject to receipt of any required regulatory approval, will allow them to maintain their interest in the investment portfolio with the ability to redeem their shares at any time on or after May 30, 2003. The redemption of the Mutual Fund Shares will generally result in a capital gain. See “Transfer of Partnership Assets and Dissolution”.

The Mutual Fund will be managed by Creststreet. See “The Mutual Fund”.

**PRICE: \$10.00 Per Unit**  
**MINIMUM PURCHASE: 250 Units**

	<u>Price to Public</u>	<u>Agents’ Fee</u>	<u>Net Proceeds to the Partnership<sup>(2)</sup></u>
Per Unit <sup>(1)</sup> .....	\$ 10	\$ 0.675	\$ 9.325
Maximum Offering <sup>(3)</sup> .....	\$ 20,000,000	\$ 1,350,000	\$ 18,650,000
Minimum Offering <sup>(4)</sup> .....	\$ 3,000,000	\$ 202,500	\$ 2,797,500

- (1) The price per Unit was established by the General Partner.
- (2) Before deducting expenses of this Offering estimated by the General Partner to be \$300,000.
- (3) The maximum Offering assumes that 2,000,000 Units are sold.
- (4) The minimum Offering assumes that 300,000 Units are sold.

**These securities are speculative in nature. There is currently no market through which the Units may be sold and purchasers may not be able to resell securities purchased under this prospectus. No market for the Units is expected to develop. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. There is no assurance that an investment in the Partnership will earn a specified rate of return or any return over the life of the Partnership. The Flow-Through Shares may be issued to the Partnership at prices greater than the market prices of ordinary common shares of the respective issuers and will generally be subject to resale restrictions. There can be no assurance that the General Partner will, on behalf of the Partnership, be able to identify a sufficient number of companies willing to issue Flow-Through Shares to permit the Partnership to commit all Available Funds to purchase Flow-Through Shares by December 31, 2001. There is no assurance that an adequate market will exist for securities acquired by the Partnership. The tax benefits resulting from an investment in the Partnership are greatest for a Limited Partner whose income is subject to the highest marginal income tax rate. Investors that propose to finance the subscription price of Units should consult their own tax advisors to ensure that any such borrowing or financing is not treated as a limited recourse financing under the *Income Tax Act (Canada)* (the “*Tax Act*”) which would adversely affect the tax benefits of an investment in the Partnership. Other risk factors associated with an investment in the Partnership include: certain risks inherent in resource operations; Limited Partners could lose their limited liability in certain circumstances; the Partnership and the General Partner are newly established with no previous operating history and the General Partner has nominal assets; and each of the General Partner and Creststreet is significantly dependent on the services of Robert J. Toole, a director and an officer of the General Partner and Creststreet. The enhanced liquidity for Limited Partners described in this Prospectus and dependent on the exchange of the assets of the Partnership for Mutual Fund Shares may not be available if regulatory approvals are required and not obtained. Investors who are not willing to rely on the discretion of the General Partner should not purchase Units. Investors should consult their own professional advisors to assess the income tax, legal and other aspects of the investment. See “Risk Factors”.**

Scotia Capital Inc., BMO Nesbitt Burns Inc., TD Securities Inc., HSBC Securities (Canada) Inc., National Bank Financial Inc., Canaccord Capital Corporation and Raymond James Ltd. (collectively, the “Agents”), as agents, conditionally offer the Units for

sale on a best efforts basis, if, as and when issued and delivered by the General Partner on behalf of the Partnership in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters on behalf of the Partnership, the General Partner and Creststreet by Fasken Martineau DuMoulin LLP and on behalf of the Agents by Fraser Milner Casgrain LLP.

Offers to purchase Units will be received subject to acceptance or rejection in whole or in part and the right is reserved to close the offering books at any time without notice.

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**SUMMARY OF KEY DATES**

November 2, 2001	<i>Initial Closing.</i> Investors purchase Units and pay subscription price (\$10 per Unit).
March, 2002	Limited Partners receive 2001 CEE tax receipt.
January 15, 2003	<i>Dissolution Date.</i> Partnership will be dissolved on or about this date and, subject to prior receipt of regulatory approvals if required, Mutual Fund Shares will be distributed to Limited Partners.
May 15, 2003	Last date to submit notices of redemption for Mutual Fund Shares to be redeemed effective May 29, 2003.  Payment for Mutual Fund Shares subject to notices of redemption received on or before May 15, 2003 will be made on May 30, 2003 based on the May 29, 2003 Net Asset Value of the Mutual Fund.
After May 15, 2003	Payment for Mutual Fund Shares subject to notices of redemption received on or after May 16, 2003 and on or before June 5, 2003 will be made on June 6, 2003 based on the June 5, 2003 Net Asset Value of the Mutual Fund.  Thereafter, payment for Mutual Fund Shares subject to notices of redemption will be made weekly on the day following the next Valuation Date based on the Net Asset Value of the Mutual Fund on such Valuation Date.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements appearing elsewhere in this prospectus. Certain capitalized terms used but not defined in this summary are defined on the face page of this prospectus or in the glossary.*

- Issuer:** Creststreet 2001 (II) Limited Partnership
- Issue Size:** Maximum: \$20,000,000 (2,000,000 Units)  
Minimum: \$3,000,000 (300,000 Units)
- Price:** \$10.00 per Unit
- Minimum Purchase:** \$2,500 (250 Units)
- General Partner:** Creststreet 2001 (II) Management Limited will manage the ongoing business, investment and administrative affairs of the Partnership. The General Partner is a wholly-owned subsidiary of Creststreet, a company registered as an investment counsel and portfolio management company in Ontario. Creststreet's primary business is the management of limited partnerships that invest in flow-through shares.
- Investment Objective:** The General Partner will, on behalf of the Partnership, invest in Flow-Through Shares issued predominantly by Resource Issuers engaged in oil and gas exploration and development in Canada. The Partnership may also invest in Flow-Through Shares issued by Resource Issuers engaged in the development of alternative energy projects and mining exploration and development in Canada. Investments made by the General Partner on behalf of the Partnership will be made having regard to the guidelines described herein (the "Investment Guidelines"). The General Partner intends to invest the net proceeds of the Offering such that Limited Partners will be entitled to claim certain deductions from income for income tax purposes for the 2001 taxation year and may be entitled to certain investment tax credits deductible from tax payable.
- It is the Partnership's intention to invest all Available Funds on or before December 31, 2001. The Partnership may make commitments to one or more Resource Issuers prior to the initial Closing. If any Available Funds have not been invested or committed by the Partnership to be invested by December 31, 2001, those funds shall be distributed to Limited Partners of record on December 31, 2001 by January 31, 2002.
- The Partnership has entered into an agreement with Creststreet 2001 Limited Partnership ("Creststreet 2001") whereby Creststreet 2001 has been granted a right of first refusal to enter into any Flow-through Agreements with Resource Issuers originated by Creststreet. See "The General Partner – Conflict of Interest".
- Investment Strategy:** The General Partner will manage the investment portfolio with a view to: (i) the preservation of capital; and (ii) capital appreciation on the Partnership's investments. The Partnership's investment strategy is to invest in Flow-Through Shares issued by Resource Issuers that: (i) represent good value in relation to the market price and intrinsic value of the Resource Issuer's shares; (ii) have experienced and capable senior management; (iii) have a strong exploration program in place; and (iv) offer potential for future growth. Management of the investment portfolio may involve the sale of Flow-Through Shares held by the Partnership (for example, in the event a take-over bid is made for such shares) and the reinvestment of the net proceeds from any such dispositions in additional Flow-Through Shares

of Resource Issuers.

Management may hedge positions held in the investment portfolio by borrowing common shares of a Resource Issuer whose common shares are held in the investment portfolio and selling them in order to limit the Partnership's exposure to fluctuations in the value of such shares.

**Investment Guidelines:**

The General Partner will be responsible for managing the investment portfolio of the Partnership, including selecting Resource Issuers and entering into Flow-Through Agreements on behalf of the Partnership. The Partnership has developed certain investment policies which form part of the Partnership's overall investment intentions more fully described under "The Partnership-Investment Guidelines". In entering into Flow-Through Agreements with Resource Issuers, the Investment Guidelines that will be considered include the following:

- (a) **Resource Issuers.** The Partnership will invest Available Funds in Flow-Through Shares issued predominantly by Resource Issuers engaged in oil and gas exploration and development in Canada. The Partnership may also invest in Flow-Through Shares issued by Resource Issuers engaged in the development of alternative energy projects and mining exploration and development in Canada. The Partnership may invest up to 1% of Available Funds in Warrants. Such Warrants must be acquired as part of a transaction in which the Partnership enters into a Flow-Through Agreement with the Resource Issuer. Thereafter, to the extent the Partnership disposes of Flow-Through Shares (for example, if a take-over bid is made for such shares), the Partnership may reinvest the net proceeds from any such dispositions in additional Flow-Through Shares of Resource Issuers or to exercise Warrants.
- (b) **Exchange Listing.** The Partnership will invest a minimum of 90% of Available Funds in Flow-Through Shares of Resource Issuers which are listed and posted for trading on the TSE or the Canadian Venture Exchange; provided that at least 50% of the Available Funds will be invested in Flow-Through Shares of Resource Issuers which are listed and posted for trading on the TSE.
- (c) **Market Capitalization.** The Partnership will invest a minimum of 50% of Available Funds in Flow-Through Shares of Resource Issuers whose market capitalization (determined at the time of purchase) exceeds \$50 million.
- (d) **Ontario Reporting Issuers.** The Partnership will invest at least 90% of Available Funds in Resource Issuers that are "reporting issuers" in the Province of Ontario at the date of investment or that undertake to become "reporting issuers" in Ontario within four months of the date of investment.
- (e) **Private Companies.** The Partnership may invest up to 10% of Available Funds in Flow-Through Shares of Resource Issuers whose securities are not publicly traded.
- (f) **Diversification.** The Partnership will not purchase securities of any one issuer if, following such purchase, more than 10% of its Net Asset Value (determined at the time of purchase) would consist of securities of such issuer; provided, however, that the Partnership may invest up to 20% of its Net Asset Value (determined at the time of purchase) in Resource Issuers with a market capitalization of more than \$50 million per issuer (determined at the time of purchase) and may invest up to 30% of its Net Asset Value (determined at the time of purchase) in Resource Issuers with a market capitalization of more than \$100 million (determined at the time of purchase).

- (g) **No Control.** The Partnership will not purchase securities of a reporting issuer for the purpose of exercising control or management over such issuer and will not purchase more than 10% of the voting securities of any Resource Issuer in which it may invest.

**Use of Proceeds:**

The Partnership intends to use the total proceeds from the sale of Units as follows:

	Maximum Offering	Minimum Offering
Total Gross Proceeds to the Partnership .....	\$ 20,000,000	\$3,000,000
Agents' Fee.....	1,350,000	202,500
Expenses of Offering.....	300,000	200,000
Reserve for Ongoing Fees and Expenses .....	250,000	100,000
Available Funds .....	\$ 18,100,000	\$2,497,500

The Partnership will endeavour to use the Available Funds to subscribe for Flow-Through Shares. The Partnership will fund ongoing fees and expenses beyond the amounts reserved from proceeds of the sale of Flow-Through Shares held by the Partnership. See “The Partnership – Investment Objective” and “Use of Proceeds”.

**Allocations and Distributions:**

For each fiscal year of the Partnership, 99.99% of the net income or loss of the Partnership and 100% of any CEE renounced to the Partnership with an effective date in such fiscal year will be allocated pro rata among the Limited Partners who are shown as such on the record of limited partners maintained by the General Partner on the last day of such fiscal year, and 0.01% of the net income or loss of the Partnership will be allocated to the General Partner. On dissolution of the Partnership, 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.

**Management Fee:**

The General Partner has co-ordinated the organization of the Partnership, will work with the Agents in developing and implementing all aspects of the Partnership's communications, marketing and distribution strategies and will manage the ongoing business, investment and administrative affairs of the Partnership. In consideration for these services, the Partnership will pay to the General Partner an annual fee equal to 2% of the Partnership's Net Asset Value, calculated and paid monthly in arrears. See “Fees and Expenses Payable by the Partnership –Management Fee”. None of the General Partner, Creststreet or any of its affiliated or associated companies will earn fees from issuers for the origination of flow-through investments made by the Partnership.

In addition to the foregoing, the General Partner will be entitled to the Performance Bonus on the Dissolution Date in an amount equal to (i) 20% of the amount by which the Net Asset Value per Unit exceeds a threshold increase of 18% for the period from the date of the initial Closing to the Dissolution Date, multiplied by (ii) the number of Units outstanding at the Dissolution Date. The General Partner has agreed that the Performance Bonus, if any, will be paid in Mutual Fund Shares if the Partnership's assets are transferred to the Mutual Fund in exchange for Mutual Fund Shares unless payment in Mutual Fund Shares is not permitted by applicable law.

**Administrative and Operating Expenses:**

The Partnership will pay all of its administrative and operating expenses including: administration expenses, expenses relating to portfolio transactions, taxes, legal and audit fees, Limited Partner reporting costs, printing and mailing costs, costs to be incurred in connection with the Partnership's continuous public filing obligations and third party custodial or transfer agency costs, if any. The General Partner will act as custodian of the investments of the Partnership and as registrar and transfer agent for the Partnership. No additional fee will be payable to the General Partner for

these services; however, it will be entitled to reimbursement for reasonable out-of-pocket expenses related to its performances of these services. The General Partner estimates that the total administrative and operating expenses will be approximately \$100,000 per year.

**Transfer of Partnership Assets to the Mutual Fund and Dissolution of the Partnership:**

To obtain enhanced liquidity for Limited Partners, on or about the Dissolution Date (currently expected to occur on or about January 15, 2003), all assets of the Partnership will be transferred to the Mutual Fund in exchange for Mutual Fund Shares provided that the Mutual Fund will qualify as a mutual fund corporation under the *Tax Act*. The completion of such transaction may require prior regulatory approval. There can be no assurance that any such approval will be granted.

The Partnership will only transfer its assets to the Mutual Fund if the Mutual Fund's acquisition of such assets would be consistent with the Mutual Fund's investment objectives. If necessary, the Mutual Fund will apply to the relevant securities or regulatory authorities to be exempted, for a period of 180 days following the date of transfer of the assets of the Partnership to the Mutual Fund, from certain investment restrictions. There can be no assurance that the requested exemption will be granted. The Partnership will only transfer assets to the Mutual Fund if the transfer would not result in the Mutual Fund contravening any investment restrictions under applicable securities laws for which a regulatory exemption has not been granted. See "Mutual Fund – Objectives of the Mutual Fund".

The transfer of assets will occur on a "roll-over" basis and will not result in any tax consequences to Limited Partners. Upon dissolution of the Partnership, which will occur following such transfer, the Limited Partners will receive their pro rata share of the Mutual Fund Shares after payment of the Performance Bonus (if any) on a tax-deferred basis.

Subject to prior receipt of any necessary regulatory approvals, payment for Mutual Fund Shares subject to notices of redemption received on or before May 15, 2003 will be made on May 30, 2003 based on the May 29, 2003 Net Asset Value of the Mutual Fund and payment for Mutual Fund Shares subject to notices of redemption received on or after May 16, 2003 and on or before June 5, 2003 will be made on June 6, 2003 based on the June 5, 2003 Net Asset Value of the Mutual Fund.

Thereafter, payment for Mutual Fund Shares subject to notices of redemption will be made weekly on the day following the next Valuation Date based on the Net Asset Value of the Mutual Fund on such Valuation Date. See "Transfer of Partnership Assets and Dissolution" and "The Mutual Fund".

**Subscription Procedure:**

A book entry only certificate representing the Units will be issued in registered form to The Canadian Depository for Securities Limited ("CDS") or its nominee.

A subscriber who purchases Units will therefore receive only a customer confirmation from the dealer through whom the Units are purchased.

The acceptance by the General Partner of a subscriber's offer to purchase Units, whether in whole or in part, constitutes a subscription agreement between the subscriber and the Partnership upon the terms and conditions set out in this prospectus and in the partnership agreement. **The subscriber is deemed to make certain representations and warranties pursuant to such subscription agreement.**

The foregoing subscription agreement shall be evidenced by delivery of this prospectus to the subscriber, provided that the subscription has been accepted by the General Partner on behalf of the Partnership.

See “Details of the Offering and Subscription Procedure” and “Plan of Distribution”.

**Federal Income Tax Considerations:**

In general, a taxpayer (other than a principal-business corporation) who is a Limited Partner at the end of a fiscal year of the Partnership may, in computing his income for his taxation year in which the fiscal year of the Partnership ends and subject to the “at-risk” and limited recourse financing rules, deduct an amount equal to 100% of CEE renounced to the Partnership and allocated to him by the Partnership in respect of the fiscal year and his share of the net loss of the Partnership for such fiscal year. **If a taxpayer finances the subscription price of his Units with a borrowing or other indebtedness that is, or is treated as, limited recourse, the deductions that the taxpayer may claim will be reduced.**

Income and capital gains realized by the Partnership will be allocated to Limited Partners. The *Tax Act* deems the cost to the Partnership of any Flow-Through Shares which it acquires to be nil and, therefore, the amount of the capital gain realized by the Partnership on a disposition of Flow-Through Shares generally will equal the proceeds of disposition of the Flow-Through Shares, net of costs of disposition.

If the transfer of the Partnership’s assets to the Mutual Fund is completed, such transfer and the exchange by a Limited Partner of Units for Mutual Fund Shares on dissolution of the Partnership will occur on a “roll-over” basis and will not result in any tax consequence to the Limited Partner. The cost to the Limited Partner of the Mutual Fund Shares received will be equal to the adjusted cost base of the Limited Partner’s Units. Unless the Partnership sells Flow-Through Shares before the dissolution of the Partnership, the adjusted cost base of a Limited Partner’s Units and, therefore, the cost of his Mutual Fund Shares, will be nominal.

A disposition of Units or Mutual Fund Shares by a Limited Partner will generally result in a capital gain.

See “Canadian Federal Income Tax Considerations”.

**Each investor should satisfy himself as to the federal and provincial tax consequences of this investment by obtaining advice from his tax advisor. In particular, an investor who borrows to finance his acquisition of Units should consult his own investment advisor.**

**Tax Shelter Identification:**

The federal and Quebec tax shelter identification numbers in respect of the Partnership are TS 066 951 and QAF-01-00993, respectively. The identification number issued for this tax shelter shall be (i.e. is required to be) included in any income tax return filed by the investor (i.e. Limited Partner). Issuance of the identification number is for administrative purposes only and does not in any way confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter.

**Risk Factors:**

This Offering is speculative. Investors should consider the following risk factors and the additional risk factors outlined under the heading “Risk Factors” before purchasing Units:

- (a) Limited Partners must rely on the discretion of the General Partner in determining the composition of the investment portfolio, in negotiating Flow-Through Agreements, in negotiating the pricing of securities purchased for the Partnership and in disposing of securities. The General Partner will not always review engineering or other technical reports prepared in anticipation of the exploration program being financed by Flow-Through Shares issued to the Partnership;

- (b) there can be no assurance that the conditions to the transfer of the Partnership's assets to the Mutual Fund will be satisfied, in which case the enhanced liquidity offered by such transfer will not be available and the Partnership's assets will be sold and the Partnership dissolved on a taxable basis;
- (c) there can be no assurance that the General Partner will, on behalf of the Partnership, be able to identify a sufficient number of suitable Resource Issuers willing to issue Flow-Through Shares at prices deemed to be acceptable by the General Partner to permit the Partnership to commit all Available Funds to purchase Flow-Through Shares by December 31, 2001. If any Available Funds have not been committed by the Partnership to purchase Flow-Through Shares by December 31, 2001, those funds shall be distributed to the Limited Partners of record on December 31, 2001 by January 31, 2002 and the amount of deductions that Limited Partners will be able to claim for income tax purposes will be correspondingly reduced;
- (d) the Partnership has agreed that Creststreet 2001 Limited Partnership will have priority over the Partnership with respect to investment opportunities until Creststreet 2001 Limited Partnership has fully committed all available investment funds. See "The General Partner - Conflict of Interest";
- (e) Flow-Through Shares may be issued to the Partnership at prices greater than the market prices of such shares and may be subject to resale restrictions. Competition for the purchase of Flow-Through Shares may increase the premium at which Flow-Through Shares are offered for sale to the Partnership;
- (f) if the transfer of the Partnership's assets to the Mutual Fund is completed, many of the securities held by the Mutual Fund, while listed and freely tradeable, may be relatively illiquid and may decline in price if a significant number of securities are offered for sale;
- (g) Resource Issuers may not hold or discover commercial quantities of petroleum, natural gas or minerals, and their profitability may be affected by various factors including, adverse fluctuations in commodity prices, unanticipated depletion of reserves, liability for environmental damage, competition and government regulation;
- (h) the Partnership will invest primarily in securities of Resource Issuers engaged in oil and gas exploration and development, development of alternative energy projects or mining exploration and development, which focus may result in the value of the portfolio being more volatile than portfolios with a more diversified investment focus. The value of the Partnership's portfolio may fluctuate with the underlying market prices for commodities produced by those sectors of the economy;
- (i) the possibility exists that Resource Issuers will not honour their obligations to incur CEE or renounce CEE equal to the subscription price for the Flow-Through Shares to be issued by them which would result in the reassessment by the CCRA of deductions from income or investment tax credits previously claimed by Limited Partners;
- (j) there can be no assurance that the income tax laws in the various jurisdictions of Canada, or the interpretation thereof, will not be changed in a manner which will fundamentally alter the tax consequences to Limited Partners of holding or disposing of Units or Mutual Fund Shares including

on exchanging Units for Mutual Fund Shares on dissolution of the Partnership;

- (k) in any fiscal year of the Partnership, the possibility exists that Limited Partners will receive allocations of income and capital gains without receiving cash distributions from the Partnership in such year sufficient to satisfy their tax liability with respect to such allocations;
- (l) the Partnership and the General Partner are newly established with no previous operating history and the General Partner has nominal assets;
- (m) each of the General Partner and the Manager is significantly dependent on the services of Robert J. Toole, a director and an officer of the General Partner and the Manager. The loss of Mr. Toole from the General Partner or from the Manager may have a material adverse effect on the management and business of the Partnership or the Mutual Fund, respectively;
- (n) the General Partner and its Affiliates (including the Manager) and their respective directors and officers may engage in the promotion, management or investment management of any other fund, partnership or other investment vehicle which invests primarily in flow-through shares or in other securities of Resource Issuers and certain conflicts may arise from time to time in the management of such funds or vehicles and in determining appropriate investment opportunities;
- (o) limited liability of Limited Partners may be lost under certain circumstances and may be unavailable under the laws of certain jurisdictions; and
- (p) there is currently no market through which the Units of the Partnership may be sold and purchasers may not be able to resell Units purchased under this prospectus. No market for the Units is expected to develop.

See “Risk Factors” and “The General Partner – Conflict of Interest”.

### SELECTED FINANCIAL ASPECTS

The tables below illustrate certain financial aspects for a Limited Partner who is an individual other than a trust who has invested \$1,000 in the Partnership and whose income is subject to the highest marginal income tax rate after giving effect to all applicable deductions. **These figures are for illustrative purposes only and are not intended as a forecast of future events or a representation regarding the future value of Units. There is no assurance that such figures will in fact be realized.**

Table I shows that the majority of tax deductions (approximately 91%) will be realized in the 2001 tax year with the balance being received over the subsequent five years.

**Table I**

**Maximum Deductions per \$1,000 Investment Assuming the Maximum Offering:**

	<u>2001</u>	<u>2002 and beyond</u>	<u>Total</u>
Canadian Exploration Expense.....	\$905	\$ —	\$ 905
Other Deductions.....	<u>7</u>	<u>88</u>	<u>95</u>
	<u>\$912</u>	<u>\$ 88</u>	<u>\$1,000</u>

Table II shows the total tax savings available in each province on a \$1,000 investment in the Partnership. The tax savings are calculated by multiplying the total estimated income tax deductions for each year by the assumed highest marginal tax rate for that year. An investor's money at risk is calculated by deducting his tax savings from his \$1,000 investment. The break-even proceeds of disposition is the value that an investor would need to receive so that, after paying capital gains tax, his money at risk would be returned.

**Table II**

**Highest Marginal Tax Rate**

	<u>B.C.</u>	<u>Alta.</u>	<u>Sask.</u>	<u>Man.</u>	<u>Ont.</u>	<u>Que.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>P.E.I.</u>	<u>NF.</u>
<b>2001</b>	45.70%	39.00%	45.00%	46.40%	46.41%	48.72%	47.34%	46.84%	47.37%	48.64%
<b>2002 and beyond</b>	43.70%	39.00%	44.50%	46.40%	46.41%	48.22%	47.34%	46.84%	47.37%	48.64%

**Break-even Calculation**

<b>Investment</b>	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
<b>Less: Tax Savings</b>	(455)	(390)	(450)	(464)	(464)	(487)	(473)	(468)	(474)	(486)
<b>Money at Risk</b>	<u>\$545</u>	<u>\$610</u>	<u>\$550</u>	<u>\$536</u>	<u>\$536</u>	<u>\$513</u>	<u>\$527</u>	<u>\$532</u>	<u>\$526</u>	<u>\$514</u>
<b>Break-even Proceeds of Disposition</b>	\$697	\$758	\$708	\$698	\$698	\$676	\$690	\$694	\$690	\$679

**The above tables were prepared by the General Partner and are not based on an independent opinion rendered by an accountant or lawyer. However, the derivation of the tables (and the related notes and assumptions) is consistent with the contents of the tax opinion provided under the heading "Canadian Federal Income Tax**

**Considerations". The calculations are based on the estimates and assumptions set forth in the notes below and the actual tax savings, money at risk and break-even proceeds of disposition may be different than shown above. Subscribers should be aware that these calculations are based on estimates and assumptions which cannot be represented to be complete or accurate in all respects.**

Notes and Assumptions:

- (1) The highest marginal tax rates used are based on current federal and provincial rates and existing proposals for 2001 and 2002. It is assumed that the highest marginal tax rates for beyond 2002 will be the same as those for 2002. Future federal and provincial budgets may modify these rates and, consequently, the tax savings.
- (2) Assumes that the proceeds of the issue, after deducting the Agents' fee, expenses of the issue, administrative costs and management fees, are expended on CEE by Resource Issuers which will be renounced to the Partnership with an effective date in 2001.
- (3) The calculations assume that the Limited Partner is not liable for the alternative minimum tax (see "Canadian Federal Income Tax Considerations – Alternative Minimum Tax").
- (4) The calculations assume that recourse for any financing by a Limited Partner of the subscription price for Units is not limited and is not deemed to be limited (see "Canadian Federal Income Tax Considerations – Computation of Income of Limited Partners").
- (5) The calculations assume that no CEE qualifying as "flow-through mining expenditures" eligible for a 15% federal investment tax credit or provincial tax credit are renounced by Resource Issuers to the Partnership.
- (6) The calculations do not take into account the time value of money. Any present value calculation should take into account the timing of cash flows, the subscriber's present and future tax position and any change in the market value of the portfolio of Flow-Through Shares held by the Partnership.

## GLOSSARY

*When used in this prospectus, the following terms have the following meanings ascribed thereto:*

“**Affiliate**” and “**Associate**” have the meanings ascribed thereto in the *Securities Act* (Ontario);

“**Auditors**” means KPMG LLP;

“**Available Funds**” means all funds available after deducting from the total proceeds of the issue of Units pursuant to this prospectus the Agents’ fee, the expenses of the issue and a reserve required to fund the ongoing fees and expenses of the Partnership;

“**BCA**” means the *Canada Business Corporations Act*;

“**CCRA**” means the Canada Customs and Revenue Agency;

“**CEE**” means “Canadian exploration expense” as defined in subsection 66.1(6) of the *Tax Act*, which includes:

- (a) certain expenses incurred for the purpose of exploring for petroleum or natural gas in Canada (including certain drilling expenses);
- (b) certain expenses incurred for the purpose of determining the existence, location, extent or quality of a mineral resource in Canada;
- (c) certain expenses incurred for the purpose of bringing a new mine in a mineral resource in Canada into production in reasonable commercial quantities; and
- (d) certain expenses incurred in respect of certain alternative energy projects.

“**Closing**” means each closing of the offering of Units pursuant to this prospectus. No such closing shall take place after December 31, 2001;

“**CRCE**” means “Canadian renewable and conservation expense” as defined in subsection 66.1(6) of the *Tax Act*;

“**Creststreet**” means Creststreet Asset Management Limited;

“**Dissolution Date**” means the date on which the Partnership dissolves which, subject to earlier termination as provided in the Partnership Agreement, shall be January 15, 2003 or such later date as the General Partner determines in accordance with the Partnership Agreement, but in any event no later than September 30, 2003 or such later date as the Limited Partners may determine by extraordinary resolution;

“**Flow-Through Agreement**” means a flow-through share subscription agreement between the Partnership and a Resource Issuer pursuant to which the Partnership will subscribe for Flow-Through Shares and the Resource Issuer will agree to incur and renounce to the Partnership CEE in an amount equal to the subscription price for the Flow-Through Shares;

“**Flow-Through Shares**” means common shares in the capital of Resource Issuers which are “flow-through shares” as defined in subsection 66(15) of the *Tax Act* and which entitle the Partnership to a renunciation of CEE;

“**General Partner**” means Creststreet 2001 (II) Management Limited;

“**High Quality Liquid Investments**” means high-quality money market instruments which are accorded the highest rating category by either Standard & Poor’s (“A-1”) or Dominion Bond Rating Service (“R-1”), interest-bearing

accounts of Canadian chartered banks or Canadian trust companies with assets in excess of \$15 billion or securities issued or guaranteed by the Government of Canada or by the government of any province of Canada or agency thereof;

“**Investment Guidelines**” means those guidelines described under the heading “The Partnership – Investment Guidelines”;

“**Limited Partners**” means holders of Units whose names and other prescribed information appear on the record of limited partners maintained pursuant to the *Limited Partnerships Act* (Ontario);

“**liquidity**” means the ability of Limited Partners to dispose of their investment, either through the sale of their Units in the Partnership or the redemption of their Mutual Fund Shares, if applicable;

“**Manager**” means Creststreet Asset Management Limited;

“**market capitalization**” of a Resource Issuer means the market value per share multiplied by the number of shares outstanding in such Resource Issuer after giving effect to the maximum number of shares issuable to the Partnership under the Flow-Through Agreement with such Resource Issuer;

“**Mutual Fund**” means Creststreet Resource Fund (III) Limited, a corporation which is a “mutual fund” as that term is defined in the *Securities Act* (Ontario) and into which the assets of the Partnership will be transferred on the Dissolution Date, as contemplated by this prospectus;

“**Mutual Fund Shares**” means mutual fund shares of the Mutual Fund;

“**Net Asset Value**” and “**Net Asset Value per Unit**” have the meanings ascribed to those terms under “Valuation of Investments – Net Asset Value of the Partnership”;

“**OBCA**” means the *Business Corporations Act* (Ontario);

“**Partners**” means, collectively, the Limited Partners and the General Partner;

“**Partnership**” means Creststreet 2001 (II) Limited Partnership;

“**Partnership Agreement**” means the amended and restated partnership agreement among the General Partner, the initial limited partner and the persons who from time to time are entered into the record of limited partners, substantially in the form attached hereto;

“**Performance Bonus**” means a performance bonus payable by the Partnership to the General Partner in an amount equal to (i) 20% of the amount by which the Net Asset Value per Unit exceeds a threshold increase of 18% for the period from the date of the initial Closing to the Dissolution Date, multiplied by (ii) the number of Units outstanding at the Dissolution Date;

“**Promoter**” means, as the case may be, either Creststreet or the General Partner as described under the heading “Promoters”;

“**Resource Issuer**” means a company whose principal business is oil and gas exploration and development, mining exploration and development, generation of energy through alternative means or the development of projects for alternative energy generation and which is a “principal-business corporation” as defined in subsection 66(15) of the *Tax Act*;

“**Tax Act**” means the *Income Tax Act* (Canada);

“*TSE*” means The Toronto Stock Exchange;

“*Valuation Date*” means (i) in respect of the Partnership, the last business day of each month, and (ii) in respect of the Mutual Fund, each Thursday or, in the event the TSE is not open for business on any such day, the first day thereafter the TSE is open; and

“*Warrants*” means common share purchase warrants that are acquired in connection with an investment in Flow-Through Shares.

## **ELIGIBILITY FOR INVESTMENT**

### **Units**

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Partnership, and Fraser Milner Casgrain LLP, counsel to the Agents, the Units are not qualified investments under the *Tax Act* for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans or registered education savings plans and, in order to avoid adverse tax consequences, should not be acquired by such plans.

Units will constitute “foreign property” to registered pension plans, registered investments and other taxpayers liable to pay tax under Part XI of the *Tax Act*.

### **Mutual Fund Shares**

In the opinion of Fasken Martineau DuMoulin LLP and Fraser Milner Casgrain LLP, if the Mutual Fund is a mutual fund corporation under the *Tax Act*, the Mutual Fund Shares will be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans under the provisions of the *Tax Act* in effect at the date hereof. The Mutual Fund has undertaken to restrict its investments in “foreign property” so that the Mutual Fund Shares will not constitute “foreign property” to such tax-deferred plans, registered pension plans or registered investments.

## **THE PARTNERSHIP**

The Partnership was formed pursuant to the provisions of the *Limited Partnerships Act* (Ontario) on September 12, 2001. The General Partner was incorporated under the provisions of the OBCA on September 12, 2001. The principal place of business of the Partnership and the registered office of the General Partner is Suite 2320, 130 Adelaide Street West, Toronto, Ontario M5H 3P5.

The initial limited partner of the Partnership is Creststreet Asset Management Limited, an Affiliate of the General Partner. The General Partner does not have any subsidiary corporations.

### **Investment Objective**

The Partnership’s investment objective is to invest in Flow-Through Shares of Resource Issuers with good investment prospects at attractive prices in relation to the market price of the Resource Issuer’s common shares. Flow-Through Shares are common shares subscribed for from the treasury of a Resource Issuer under an agreement which provides that, in addition to issuing common shares, the Resource Issuer agrees to “flow-through” certain tax deductions equal to the purchase price of the Flow-Through Shares. Flow-Through Shares are typically purchased at a premium to the market price of the Resource Issuer’s common shares as compensation for the benefit of tax deductions. They are usually subject to a resale restriction of one year as they are typically issued on a private placement basis. Flow-Through Shares are considered an attractive means of financing Canadian exploration expenditures and alternative energy projects for Resource Issuers who have significant tax deductions available to them.

The Partnership will use the Available Funds to subscribe for Flow-Through Shares pursuant to Flow-Through Agreements to be entered into with Resource Issuers which will consist predominantly of Resource Issuers engaged in oil and gas exploration and development. The Partnership may also invest in Flow-Through Shares of Resource Issuers engaged in the development of alternative energy projects and mining exploration and development in Canada. Under the terms of each Flow-Through Agreement, the Partnership will subscribe for Flow-Through Shares of the Resource Issuer issued from treasury of the Resource Issuer and the Resource Issuer will incur and renounce

to the Partnership, in an amount equal to the subscription price of the Flow-Through Shares, expenditures in respect of resource exploration and development or alternative energy projects which qualify as CEE which may be renounced to the Partnership. In certain cases, Resource Issuers will agree to issue Warrants in connection with an investment in Flow-Through Shares.

The Canadian government has put in place incentives whereby certain qualifying expenditures in the development of renewable energy sources such as wind, solar and geothermal power, small scale hydro-electric and specified waste fuel and co-generation projects may qualify as Canadian renewable and conservation expense ("CRCE") and be renounced as CEE to subscribers of flow-through shares. The Partnership may selectively invest in Flow-Through Shares of Resource Issuers incurring CRCE qualifying expenditures.

It is the Partnership's intention to invest all Available Funds on or before December 31, 2001. The Partnership may make commitments to one or more Resource Issuers prior to the initial Closing. Any Available Funds not committed by the Partnership to purchase Flow-Through Shares or Warrants on or before December 31, 2001 shall be returned to the Limited Partners of record on December 31, 2001 on a pro rata basis by January 31, 2002.

The Partnership has entered into an agreement with Creststreet 2001 Limited Partnership whereby Creststreet 2001 Limited Partnership has been granted a right of first refusal to enter into any Flow-through Agreements with Resource Issuers originated by Creststreet. See "The General Partner – Conflict of Interest".

### **Investment Strategy**

The General Partner will manage the investment portfolio with a view to (i) the preservation of capital; and (ii) capital appreciation on the Partnership's investments. Investments made by the General Partner will be made having regard to the Partnership's Investment Guidelines. The General Partner will be responsible for managing the investment portfolio of the Partnership including selecting Resource Issuers and entering into Flow-Through Agreements on behalf of the Partnership in accordance with the investment strategy set forth below. The General Partner may also hedge positions held in the investment portfolio by borrowing common shares of a Resource Issuer whose common shares are held in the investment portfolio and selling them in order to limit the Partnership's exposure to fluctuations in the value of such shares. The Partnership's investment strategy is to invest in Flow-Through Shares issued by Resource Issuers that: (i) represent good value in relation to the market price and intrinsic value of the Resource Issuer's shares; (ii) have experienced and capable senior management; (iii) have a strong exploration program or alternative energy project in place; and (iv) offer potential for future growth. The General Partner's assessment of the Resource Issuers in such areas is necessarily subjective and is based on the experience and expertise of its officers and directors. The General Partner will review publicly available information regarding Resource Issuers and will rely on the completeness and accuracy thereof. The General Partner may, but need not, review or rely upon engineering reports, which, if available, may or may not be independent, regarding the exploration program or energy project of a particular Resource Issuer.

The General Partner, on behalf of the Partnership, may sell Flow-Through Shares or Warrants prior to dissolution of the Partnership if the General Partner is of the opinion that it is in the best interests of the Partnership to do so. This may occur, for example, if a Resource Issuer in which the Partnership holds Flow-Through Shares or Warrants becomes subject to a take-over bid. Any net cash balances of the Partnership arising from the sale of Flow-Through Shares which occurs after 2001 (net of a reserve for fees and expenses), unless reinvested in additional Flow-Through Shares or shares of Resource Issuers acquired on the exercise of Warrants, will be invested in High Quality Liquid Investments.

For each fiscal year of the Partnership, 99.99% of the net income and loss of the Partnership and 100% of any CEE renounced by Resource Issuers to the Partnership with an effective date in such fiscal year will be allocated pro rata to Limited Partners who are shown as such on the record of Limited Partners maintained by the General Partner on the last day of such fiscal year. See "Summary of the Partnership Agreement – Net Income and Loss" and "Summary of the Partnership Agreement – Allocation of CEE". The Partnership will make such filings in respect of such allocations as are required by the *Tax Act*. Limited Partners will be entitled to claim deductions from income for

income tax purposes and may be entitled to certain investment tax credits deductible from tax payable as described under “Canadian Federal Income Tax Considerations”.

In the unlikely event that the Partnership has entered into a Flow-Through Agreement with a Resource Issuer and the Resource Issuer does not or is unable to incur sufficient expenditures to enable it to issue the maximum number of Flow-Through Shares issuable to the Partnership pursuant to the Flow-Through Agreement, the General Partner may use the funds which it would otherwise have used for such Flow-Through Shares in a manner which it determines is in the best interests of the Partnership, which may include: investing all or any portion of such funds to purchase common shares issued by such Resource Issuer which do not constitute Flow-Through Shares; investing all or any portion of such funds in additional Flow-Through Shares of other Resource Issuers; investing all or any portion of such funds in High Quality Liquid Investments; or distributing all or any portion of such funds to Limited Partners.

On dissolution of the Partnership, Limited Partners are entitled to 99.99% of the net assets (after payment of the Performance Bonus, if any) of the Partnership and the General Partner is entitled to 0.01% of such assets.

### **Investment Guidelines**

In entering into Flow-Through Agreements with Resource Issuers on behalf of the Partnership, the Investment Guidelines that will be considered by the General Partner include those described below. For purposes of the guidelines listed below, all percentage limitations apply only immediately after a transaction and any subsequent change in any applicable percentage resulting from changing values or changing market capitalization will not require elimination of any security from the Partnership’s portfolio. These Investment Guidelines provide as follows:

- (a) **Resource Issuers.** The Partnership will invest Available Funds in Flow-Through Shares issued predominantly by Resource Issuers engaged in oil and gas exploration and development in Canada. The Partnership may also invest in Flow-Through Shares issued by Resource Issuers engaged in the development of alternative energy projects and in mining exploration and development in Canada. The Partnership may also invest up to 1% of Available Funds in Warrants. Such Warrants must be acquired as part of a transaction in which the Partnership enters into a Flow-Through Agreement with the Resource Issuer. To the extent the Partnership disposes of Flow-Through Shares, the Partnership may reinvest the net proceeds from any such dispositions in additional Flow-Through Shares of Resource Issuers.
- (b) **Exchange Listing.** The Partnership will invest a minimum of 90% of Available Funds in common shares of Resource Issuers which are listed and posted for trading on the TSE or the Canadian Venture Exchange; provided that at least 50% of the Available Funds will be invested in Flow-Through Shares of Resource Issuers which are listed and posted for trading on the TSE.
- (c) **Market Capitalization.** The Partnership will invest a minimum of 50% of Available Funds in common shares of Resource Issuers whose market capitalization (determined at the time of purchase) exceeds \$50 million.
- (d) **Diversification.** The Partnership will not purchase securities of any one issuer if, following such purchase, more than 10% of the Partnership’s Net Asset Value (determined at the time of purchase) would consist of securities of such issuer; provided, however, that the Partnership may invest up to 20% of its Net Asset Value (determined at the time of purchase) in Resource Issuers with a market capitalization of more than \$50 million per issuer (determined at the time of purchase) and may invest up to 30% of its Net Asset Value (determined at the time of purchase) in Resource Issuers with a market capitalization of more than \$100 million per issuer (determined at the time of purchase).
- (e) **Borrowing.** The Partnership may not borrow money.

- (f) **No Other Undertaking.** The Partnership will not engage in any undertaking other than the investment of the Partnership's assets with regard to the Partnership's investment objective, investment strategy and Investment Guidelines.
- (g) **Purchasing Securities.** The Partnership will not purchase securities other than Flow-Through Shares other than through normal market facilities unless the purchase price therefor approximates or is less than the prevailing market price or is negotiated or established on an arm's length basis from the Partnership and the General Partner.
- (h) **Fixed Price.** The Partnership will not purchase any security which may by its terms require the Partnership to make a contribution in addition to the payment of the purchase price provided that this restriction shall not apply to the purchase of securities which are paid for on an instalment basis where the total purchase price and the amount of all such instalments is fixed at the time the initial instalment is paid.
- (i) **No Material Interest.** The Partnership will not purchase securities from, sell securities to, or otherwise contract with the General Partner or Creststreet or any of their respective Affiliates, any officer, director or shareholder of any of them, any person, trust, firm or corporation managed by the General Partner or Creststreet or any of their respective Affiliates or any firm or corporation in which any officer, director or shareholder of the General Partner or Creststreet may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any purchase or sale of securities, any such transaction is effected through normal market facilities, is not pre-arranged and the purchase price approximates the prevailing market price. If completed, the restriction will not apply to the sale of Partnership assets to the Mutual Fund in advance of the dissolution of the Partnership.
- (j) **No Commodities.** The Partnership will not purchase or sell commodities.
- (k) **No Mutual Funds.** The Partnership will not purchase the securities of any mutual fund (except, if completed, as part of the exchange transaction with the Mutual Fund described under "Transfer of Partnership Assets and Dissolution").
- (l) **No Guarantees.** The Partnership will not guarantee the securities or obligations of any person.
- (m) **No Real Estate.** The Partnership will not purchase or sell real estate or interests therein.
- (n) **No Lending.** The Partnership will not lend money. For purposes of this restriction, investments in High Quality Liquid Investments are not considered lending.
- (o) **No Control.** The Partnership will not purchase securities of a reporting issuer for the purpose of exercising control or management over such issuer and will not purchase more than 10% of the voting securities of any Resource Issuer in which it may invest.
- (p) **Ontario Reporting Issuers.** The Partnership will invest at least 90% of Available Funds in Resource Issuers that are "reporting issuers" in the Province of Ontario at the date of investment or that undertake to become "reporting issuers" in Ontario within four months of the date of investment.
- (q) **Private Companies.** The Partnership may invest up to 10% of Available Funds in Flow-Through Shares of Resource Issuers whose securities are not publicly traded.
- (r) **No Derivatives.** The Partnership will not purchase or sell derivatives.
- (s) **Restriction on Underwriting.** The Partnership will not act as an underwriter except to the extent that the Partnership may be deemed to be an underwriter in connection with the sale of securities in its investment portfolio.

- (t) **No Short Sales.** The Partnership will not make short sales of securities other than for hedging purposes against existing positions held by the Partnership.
- (u) **No Mortgages.** The Partnership will not purchase mortgages.
- (v) **Related Party Transactions.** The Partnership shall not knowingly make an investment in any class of securities of any issuer, other than those issued or guaranteed by the Government of Canada or by any agency thereof or by the government of any province of Canada or by any agency thereof:
  - (a) of which any partner, director, officer or employee of the General Partner or Creststreet or any Affiliate or Associate of any of the foregoing is an officer or director, provided that this prohibition shall not apply where any such person does not:
    - (i) participate in the formulation of investment decisions made on behalf of the Partnership;
    - (ii) have access to the investment decision-making process of the Partnership prior to the implementation of investment decisions made on behalf of the Partnership; and
    - (iii) influence (other than through research, statistical and other reports generally available to clients) the investment decisions made on behalf of the Partnership; or
  - (b) in which a partner, director, officer or employee of the General Partner or Creststreet or any Affiliate or Associate of any of the foregoing has a material interest (which for these purposes includes beneficial ownership of more than 10% of the voting securities of the issuer).

#### **TRANSFER OF PARTNERSHIP ASSETS AND DISSOLUTION**

On the Dissolution Date, which is currently expected to be on or about January 15, 2003, all assets of the Partnership will be transferred to the Mutual Fund in exchange for Mutual Fund Shares pursuant to an agreement dated as of October 30, 2001 between the Partnership and the Mutual Fund ("Transfer Agreement"). The completion of such transaction may be subject to the receipt of regulatory approvals. There can be no assurance that such approvals will be received. Appropriate elections under applicable income tax legislation will be made so that the transfer will occur on a "roll-over" basis and will not result in any tax consequence to the Limited Partners. Assuming such transfer is completed, the Partnership will receive Mutual Fund Shares having the same aggregate Net Asset Value as the aggregate Net Asset Value of the Partnership (disregarding the liability to pay the Performance Bonus, if any, in Mutual Fund Shares) determined on the same basis as the Net Asset Value of the Mutual Fund. See "The Mutual Fund – Net Asset Value Per Mutual Fund Share". Following the transfer of assets to the Mutual Fund and the payment in Mutual Fund Shares of the Performance Bonus (if any) to the General Partner, the Partnership will be dissolved and upon dissolution, the Limited Partners and the General Partner will receive their pro rata interest in the remaining Mutual Fund Shares on a tax-deferred basis. If the Partnership has assets in respect of which elections cannot be made relating to the transfer of such assets to the Mutual Fund, the Partnership Agreement provides that such assets will be distributed, before the transfer of all other Partnership assets to the Mutual Fund as to 99.99% to the Limited Partners and as to 0.01% to the General Partner and will be held by the General Partner as agent on behalf of the Limited Partners. Following the dissolution of the Partnership, the General Partner, subject to prior receipt of any necessary regulatory approvals, will transfer such assets to the Mutual Fund in exchange for Mutual Fund Shares and distribute such Mutual Fund Shares as to 99.99% to the Limited Partners and as to 0.01% to the General Partner.

The Partnership will only transfer its assets to the Mutual Fund if the Mutual Fund's acquisition of such assets would be consistent with the Mutual Fund's investment objectives and provided that the Mutual Fund will qualify as a mutual fund corporation under the *Tax Act*. If necessary, the Mutual Fund will apply to the relevant securities or regulatory authorities to be exempted, for a period of 180 days following the date of transfer of the assets of the

Partnership to the Mutual Fund, from certain investment restrictions. There can be no assurance that the requested exemption will be granted. The Partnership will only transfer assets to the Mutual Fund if the transfer would not result in the Mutual Fund contravening any investment restrictions under applicable securities laws for which an exemption has not been granted. See “Mutual Fund – Objectives of the Mutual Fund”.

Mutual Fund Shares will be redeemable by the holders thereof at the Net Asset Value per Mutual Fund Share. Subject to prior receipt of any necessary regulatory approvals, payment for Mutual Fund Shares subject to notices of redemption received on or before May 15, 2003 will be made on May 30, 2003 based on the May 29, 2003 Net Asset Value of the Mutual Fund and payment for Mutual Fund Shares subject to notices of redemption received on or after May 16, 2003 and on or before June 5, 2003 will be made on June 6, 2003 based on the June 5, 2003 Net Asset Value of the Mutual Fund. Thereafter, payment for Mutual Fund Shares subject to notices of redemption will be made weekly on the day following the next Valuation Date based on the Net Asset Value of the Mutual Fund on such Valuation Date.

The Mutual Fund will use its best efforts to qualify as a mutual fund corporation under the *Tax Act* immediately following such transfer and the dissolution of the Partnership. Provided that any necessary regulatory approvals for the distribution of the Mutual Fund Shares to the Limited Partners is granted and there are at least 150 Limited Partners who are not insiders of the Mutual Fund and each of whom is entitled to receive at least 100 Mutual Fund Shares having an aggregate fair market value of at least \$500 in exchange for his Units on dissolution of the Partnership, it is expected that the Mutual Fund should so qualify.

In the unlikely event that it is not possible to transfer the assets of the Partnership to the Mutual Fund on the basis described herein because the Mutual Fund cannot qualify as a mutual fund corporation or otherwise, the General Partner intends to liquidate the Partnership’s assets prior to the Dissolution Date and to distribute the net proceeds arising from such liquidation, after payment or provision for the debts and obligations of the Partnership, as to 99.99% to Limited Partners of record as at the Dissolution Date and as to 0.01% to the General Partner.

See “Summary of the Partnership Agreement – Transfer of Partnership Assets to the Mutual Fund and Dissolution of the Partnership” and “Canadian Federal Income Tax Considerations”.

## **THE GENERAL PARTNER**

### **Creststreet 2001 (II) Management Limited**

The General Partner was incorporated to assist with the organization of the Partnership and, thereafter, to manage the Partnership. The management of the business of the Partnership is the sole business of the General Partner. The General Partner is a wholly-owned subsidiary of Creststreet, a corporation registered as an investment counsel and portfolio management company in the province of Ontario. Creststreet’s primary business is the management of limited partnerships that invest in Flow-Through Shares.

The General Partner has developed and adopted the investment objective, investment strategy and Investment Guidelines for the Partnership. The General Partner has co-ordinated the organization of the Partnership, will work with the Agents in developing and implementing all aspects of the Partnership’s communications, marketing and distribution strategies and will manage the ongoing business, investment and administrative affairs of the Partnership. The General Partner will identify, examine and screen investment opportunities, structure and negotiate prospective investments, make investments for the Partnership in Resource Issuers, monitor the performance of the Partnership’s investments and determine the timing, terms and method of disposing of investments. The General Partner will, at all times, act on a basis which is fair and reasonable to the Partnership, act honestly and in good faith with a view to the best interests of the Partnership and, in connection therewith, exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The General Partner shall not be liable in any way for any default, failure or defect in any of the securities comprising the investment portfolio of the Partnership if it has satisfied the duties and the standard of care, diligence and skill set forth above. The General Partner will incur liability, however, in cases of willful misconduct, bad faith or gross

negligence. See “Summary of the Partnership Agreement – The General Partner”, “Fees and Expenses Payable by the Partnership – Management Fee” and “The Partnership”.

Partnership funds shall not be commingled with the General Partner’s funds.

### Management of the General Partner

The name, municipality of residence, office and principal occupation of each of the directors and senior officers of the General Partner are set out below:

<u>Name and Municipality of Residence</u>	<u>Position with the General Partner</u>	<u>Principal Occupation</u>
ROBERT J. TOOLE ..... Toronto, Ontario	President, Chief Executive Officer and Director	President, Chief Executive Officer and Director of Creststreet
JOHN P. A. BUDRESKI..... Oakville, Ontario	Director	Managing Director, Canadian Capital Structuring Group, Scotia Capital Inc.
LARRY J. MACDONALD..... Calgary, Alberta	Director	Chairman and Chief Executive Officer, Pointwest Energy Inc.
GORDON J. BOGDEN..... Toronto, Ontario	Director	Managing Director, Beacon Group Advisors Inc.
DONNA R. MCLEAN..... Toronto, Ontario	Chief Financial Officer and Secretary-Treasurer	Secretary-Treasurer of Creststreet

Biographies of each director and senior officer, including his or her principal occupations for the last five years, are set forth below:

**Robert J. Toole** is the President of Creststreet. Prior to forming Creststreet Resource Management Limited in October 1999, Mr. Toole was Head of the Resource Group of the Middlefield Group, a manager of investment funds and assets on behalf of clients which include major Canadian corporations, Canadian and international financial institutions and high net worth individuals. Prior to November, 1998 Mr. Toole was Vice President Finance, Chief Financial Officer and Director of Borneo Gold Corporation, a junior gold exploration company. Prior to October, 1996, Mr. Toole was a Vice President of the Resource Finance Group of the Middlefield Group and a Vice President of Middlefield International Limited, the international merchant banking affiliate of the Middlefield Group. Mr. Toole holds a Bachelor of Commerce (Honours) degree from Queen’s University, is a member of the Canadian Institute of Chartered Accountants and is registered as an investment counsel and portfolio manager in the province of Ontario.

**John P.A. Budreski** is a Managing Director in the Canadian Capital Structuring Group of Scotia Capital Inc. and has held various other positions within this group since February 1998. Mr. Budreski was the head of Scotia’s Institutional Equity Sales and Trading Division for the United States from May, 1996 to February, 1998. Prior to this, he held similar responsibilities in New York for RBC Dominion Securities Corp. from March, 1994 to May, 1996. Mr. Budreski was a Petroleum Engineer for five years with Dome Petroleum Ltd. He holds a Bachelor of Engineering degree from the Technical University of Nova Scotia and an MBA from the University of Calgary.

**Larry J. Macdonald** is Chairman and Chief Executive Officer of Pointwest Energy Inc. and from September 1999 to May 2000 was the Chairman and Chief Executive Officer of Westpoint Energy Inc., a small independent oil & gas producer which was sold to Alberta Energy Company. Prior to April, 1999, Mr. Macdonald was President and Chief Operating Officer of Anderson Exploration Ltd. a senior independent natural gas producer. Prior to joining Anderson Exploration Ltd. Mr. Macdonald was President of Columbia Gas Development of Canada, Limited which was sold to Anderson Exploration Ltd. in 1992. Prior to joining Columbia Gas Development Mr. Macdonald held positions with

Voyager Energy Ltd., Inverness Petroleum Ltd., AMAX Petroleum of Canada Limited, Placer CEGO Petroleum Ltd. and PanCanadian Petroleum Ltd. Mr. Macdonald holds a Bachelor of Science degree in Geology from the University of Alberta and is Vice Chair of the Southern Alberta Institute of Technology and Past Chair of the United Way of Calgary and Area.

**Gordon J. Bogden** is a Managing Director of Beacon Group Advisors Inc., an independent mergers and acquisitions advisory and research firm that services the mining, metals and fertilizer sectors. Prior to forming Beacon in January 2001, Mr. Bogden was a Director of Investment Banking at Newcrest Capital Inc. from November 1999 to December 2000, before it was sold to TD Securities Inc. He was also a Managing Director of NM Rothschild & Sons Canada Limited from June 1997 to October 1999, where he was responsible for coverage of the North American mining sector. Before Rothschild, Mr. Bogden was a Managing Director of Investment Banking with CIBC Wood Gundy Securities Inc. from January 1990 to May 1997. He was one of the co-founders of the Wood Gundy Mining Group. Mr. Bogden also worked for nine years as a professional engineer and geophysicist having co-founded Quantech Consulting Inc., which provided contract geophysical and mineral exploration services to the mining sector around the world. He holds a Bachelor of Applied Science in Geology from Queen's University and is a member of the Professional Engineers of Ontario.

**Donna R. McLean** is Secretary-Treasurer of Creststreet. Prior to joining Creststreet in March, 2000, Ms. McLean served, since 1985, as Treasurer and Vice-President, Finance of Denbridge Capital Corporation, an investment management company. Pursuant to her activities with Denbridge Capital Corporation, Ms. McLean served as Secretary and/or Treasurer for several publicly-traded companies. She has also served as a Director and/or Treasurer for a number of charitable and non-profit organizations. Ms. McLean holds a Bachelor of Arts degree from Queen's University and is a finalist in the Certified General Accountants program.

Directors of the General Partner who are not also officers of the General Partner will be remunerated for their services as such. Such fees will be paid by the General Partner and will not be an expense of the Partnership.

### **Management Experience**

The principal investment strategist of the General Partner will be Robert J. Toole and, as such, he will be responsible for developing and refining the investment strategy for the Partnership's investment portfolio. Mr. Toole has extensive experience in the management of flow-through share limited partnerships. In his career since 1988, he has been involved in the creation, marketing, investment and administration of 11 flow-through share limited partnerships which raised and invested over \$200 million in flow-through shares of primarily Canadian oil & gas exploration and development companies.

Mr. Toole was formerly Head of the Resource Group at a Canadian merchant banking firm in Toronto where he oversaw the origination, analysis and negotiation of flow-through share investment opportunities for flow-through limited partnerships and was also extensively involved in formulating marketing strategies and investor presentations for the marketing of flow-through share limited partnership offerings to Canadian investors. Earlier in his career, Mr. Toole participated in the design, implementation and documentation of administrative systems to manage their flow-through fund business.

The General Partner expects to utilize Mr. Toole's extensive contacts in the Canadian resource sector as well as contacts in the investment dealer and investment management communities to identify flow-through share investment opportunities consistent with the Partnership's investment objective, strategy and guidelines.

### **Conflict of Interest**

The General Partner will not engage in any business other than the management of the business of the Partnership. The services of the officers and directors of the General Partner are not exclusive to the General Partner. The Partnership has entered into an agreement with Creststreet and the General Partner which provides that, prior to the date that the Partnership has committed all the Available Funds (or they have been returned to Limited Partners in the circumstances described herein), none of Creststreet, the General Partner, their Affiliates or their respective

officers will engage in the management or investment management of any other fund, partnership or other legal entity which invests primarily in flow-through shares (other than Creststreet 2000 Limited Partnership (“Creststreet 2000”) and Creststreet 2001 Limited Partnership (“Creststreet 2001”)) unless such fund, partnership or other legal entity has granted a right of first refusal to the Partnership with respect to any and all potential investments in flow-through shares of Resource Issuers giving rise to CEE by that fund, partnership or other legal entity.

The Partnership has entered into an agreement with Creststreet 2001 whereby Creststreet 2001 has been granted a right of first refusal to enter into any Flow-through Agreements with Resource Issuers originated by Creststreet. As of the date hereof, approximately \$7.2 million of the net proceeds of Creststreet 2001 remain to be committed. See “Risk Factors”.

### **PRIOR PARTNERSHIPS**

The General Partner is a wholly-owned subsidiary of Creststreet. Creststreet was formed in 2000. Its primary business is the management of limited partnerships that invest in Flow-Through Shares.

#### **Creststreet 2000 Limited Partnership**

In December 2000, Creststreet completed its initial flow-through offering through Creststreet 2000, raising \$10,000,000 at an issue price of \$10 per unit. The net proceeds of the Creststreet 2000 offering were committed to purchase Flow-Through Shares of the following Resource Issuers prior to the end of 2000: Canadian Superior Energy Inc., Compton Petroleum Corporation, Devlan Exploration Ltd., Elk Point Resources Inc., Geomaque Explorations Ltd., Ketch Energy Ltd., Liberty Oil & Gas Ltd., Magin Energy Inc., Promax Energy Inc., Richland Petroleum Corporation, Seventh Energy Limited, Tikal Resources Ltd. and True Energy Inc.

The net asset value per unit of Creststreet 2000 on October 29, 2001 was \$8.77. An investor in Creststreet 2000 who was an individual resident in Ontario subject to the highest marginal tax rate would have had an after-tax total return (not annualized) of 29.3% for the period from the initial investment to October 29, 2001.

#### **Creststreet 2001 Limited Partnership**

In June 2001, Creststreet completed its second flow-through offering through Creststreet 2001, raising \$17,786,510 at \$10 per unit. To date, Creststreet 2001 has entered into Flow-through Agreements with the following companies: Canadian Hydro Developers Inc., Case Resources Inc., Compton Petroleum Corporation, Energy North Inc., Hope Bay Gold Corp., Miramar Mining Corp., Temple Exploration Inc., Diaz Resources Ltd., Ketch Energy Ltd. and Zapata Energy Corporation. Approximately \$4.9 million of the net proceeds of Creststreet 2001 remain to be committed. Creststreet has previously entered into an agreement with Creststreet 2001 and Creststreet 2001 Management Limited whereby Creststreet 2001 has been granted a right of first refusal to enter into any Flow-through Agreements with Resource Issuers originated by Creststreet.

The net asset value per unit of Creststreet 2001 on October 29, 2001 was \$7.42. An investor in Creststreet 2001 who was an individual resident in Ontario subject to the highest marginal tax rate would have had an after-tax total return (not annualized) of 6.3% for the period from the initial investment to October 29, 2001.

The following chart summarizes the performance figures noted in the above paragraphs. Past returns of the prior partnerships are not indicative of how this Offering will perform in the future.

<u>Fund</u>	<u>Gross Proceeds</u>	<u>Net Asset Value</u> <sup>(1)</sup>	<u>After-tax Total Return</u> <sup>(2)(3)</sup>
Creststreet 2000	\$10,000,000	\$ 8.77	29.3%
Creststreet 2001	\$17,786,500	\$ 7.24	6.3%

Notes and Assumptions:

- (1) As at October 29, 2001.
- (2) Assuming an investor who was an individual resident in Ontario and who was subject to the highest marginal tax rate for his 2000 taxation year.
- (3) Figures are not annualized.

## VALUATION OF INVESTMENTS

### Valuation of Assets

The General Partner will, on each Valuation Date, calculate the value of the Partnership's assets for which there exists a published market on the basis of quoted prices in such market. For this purpose, a published market means any market on which such securities are traded if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation. In the event that the Partnership holds investments in Resource Issuers for which no published market exists, the General Partner will, on each Valuation Date, value those assets at cost unless a different fair market value is determined by the General Partner.

**The process of valuing investments for which no published market exists is based on inherent uncertainties. The resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.**

### Net Asset Value of the Partnership

The net asset value of the Partnership (the "Net Asset Value") will be calculated by the General Partner on each Valuation Date by subtracting the aggregate amount of the Partnership's liabilities from the aggregate amount of the Partnership's assets. The Partnership's assets will be valued in accordance with the following principles:

- (a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash dividends received (or declared to holders of record on a date before the date as of which the Net Asset Value is being determined and to be received) and interest accrued and not yet received, shall be deemed to be the full amount thereof, provided that: (i) the value of any security which is a debt obligation which, at the time of acquisition, had a remaining term to maturity of one year or less shall be the amount paid to acquire the obligation plus the amount of any interest accrued on such obligation since the time of acquisition; (ii) interest accrued will include amortization over the remaining term to maturity of any discount or premium from the face value of an obligation at the time of its acquisition, and (iii) if the General Partner has determined that any such deposit, bill, demand note or account receivable is not worth the full amount thereof, the value thereof shall be deemed to be such value as the General Partner determines to be the fair value thereof;
- (b) the value of any security which is listed or traded upon a stock exchange shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price, (unless in the opinion of the General Partner such value does not reflect the value thereof and in which case the latest offer price or bid price will be used as determined by the General Partner), as at the Valuation Date on which the Net Asset Value is being determined, all as reported by any means in common use;
- (c) any market price reported in currency other than Canadian dollars shall be translated into Canadian currency at the prevailing rate of exchange, as determined by the General Partner, at the Valuation Date;

- (d) the value of any securities traded over-the-counter will be priced at the average of the latest bid and ask prices quoted by a major dealer in such securities unless a different fair market value is otherwise determined by the General Partner;
- (e) except as otherwise provided, assets for which no published market exists will be valued at cost unless a different fair market value is determined by the General Partner;
- (f) the value of any restricted securities (including securities subject to any hold period) shall be the lesser of:
  - (A) the value thereof based on reported quotations in common use; and
  - (B) that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Partnership's acquisition cost was of the market value of such securities at the time of acquisition, provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restrictions will be lifted is known;
- (g) the value of any security or property or other assets to which, in the opinion of the General Partner, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair value thereof determined in good faith in such manner as the General Partner from time to time adopts.

The Net Asset Value per Unit is the amount obtained by dividing the Net Asset Value as of a particular Valuation Date by the total number of Units outstanding on that date. The Partnership will make available to the financial press for publication the Net Asset Value per Unit.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

**Tax considerations ordinarily make the Units offered hereunder most suitable for those investors subject to the highest marginal income tax rate. Regardless of any tax benefits that may be obtained, a decision to purchase Units should be based primarily on an appraisal of the merits of the investment as such and on an investor's ability to bear possible loss. Investors acquiring Units with a view to obtaining tax advantages should obtain independent tax advice from a tax adviser who is knowledgeable in the area of income tax law.**

### Introduction

In the opinion of Fasken Martineau DuMoulin LLP and Fraser Milner Casgrain LLP, the following is, as of the date hereof, a summary of the principal Canadian federal income tax consequences pursuant to the *Tax Act* for a prospective purchaser who acquires Units pursuant to this prospectus. This summary is applicable only to prospective purchasers who are resident in Canada, who will hold their Units and Mutual Fund Shares as capital property and who pay their subscription price in full when due. Provided that a prospective purchaser does not hold Units or Mutual Fund Shares in the course of carrying on a business and has not acquired Units or Mutual Fund Shares as an adventure in the nature of trade, the Units and Mutual Fund Shares will generally be considered to be capital property to him. Except as otherwise indicated, this summary assumes that recourse for any borrowing or other financing by a Limited Partner of the subscription price for Units is not limited and is not deemed to be limited within the meaning of the *Tax Act*. This summary also assumes that each partner will at all relevant times deal at arm's length, for purposes of the *Tax Act*, with each of the Resource Issuers with which the Partnership has entered into a Flow-Through Agreement. This summary is not applicable to taxpayers that are financial institutions as defined in subsection 142.2(1) of the *Tax Act*, that are "principal-business corporations" within the meaning of subsection 66(15) of the *Tax Act* or whose business includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons.

The income tax consequences to a prospective purchaser of Units will vary depending on a number of factors including whether his Units and Mutual Fund Shares are characterized as capital property, the province or territory in which he resides, carries on business or has a permanent establishment, the amount that would be his taxable income but for his interest in the Partnership or his Mutual Fund Shares, and the legal characterization of the purchaser as an individual, corporation or trust.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser of Units. It is impractical to comment on all aspects of federal income tax laws which may have relevance to any person (individual, trust or corporation) who acquires Units. Accordingly, each prospective purchaser of Units should obtain independent advice from a tax adviser who is knowledgeable in the area of income tax law regarding the income tax consequences of investing in the Partnership based on the purchaser's own particular circumstances.**

This summary is based on the current provisions of the *Tax Act*, the regulations thereunder ("Regulations") and counsel's understanding of the current administrative practices of the CCRA. The summary also takes into account all specific proposals to amend the *Tax Act* and Regulations publicly announced by or on behalf of the Minister of Finance prior to the date hereof (collectively, the "Tax Proposals"). This summary does not otherwise take into account or anticipate any changes in laws whether by judicial, governmental or legislative decision or action nor does it take into account provincial, territorial or foreign income tax legislation or considerations. There is no certainty that the Tax Proposals will be enacted in the form proposed, if at all.

### **Highlights**

These comments must be read in conjunction with the detailed summary of the income tax consequences which follows. In brief, a taxpayer who is a Limited Partner at the end of a fiscal year of the Partnership may deduct in computing his income for his taxation year in which the fiscal year of the Partnership ends:

- (a) an amount equal to 100% of CEE renounced to the Partnership and allocated to him by the Partnership in respect of the fiscal year of the Partnership; and
- (b) his pro rata share of any losses of the Partnership incurred in the fiscal year of the Partnership without taking into account the CEE referred to above.

If the taxpayer is an individual and the Partnership allocates to the taxpayer certain CEE in respect of mining exploration, the taxpayer may deduct as an investment tax credit an amount equal to 15% of such CEE in computing tax payable for such taxation year. The investment tax credit so claimed must be deducted in calculating his cumulative CEE account at the beginning of the following taxation year and, if the taxpayer does not incur sufficient additional CEE in such following taxation year, the taxpayer will be required to include such negative amount in income.

### **Canadian Exploration Expense**

Provided that certain conditions in the *Tax Act* are fulfilled, the Partnership will be deemed to incur CEE renounced to the Partnership by Resource Issuers pursuant to Flow-Through Agreements on the effective date of the renunciation. Provided that certain further conditions in the *Tax Act* are fulfilled, certain CEE incurred or to be incurred in 2002 may be renounced effective December 31, 2001 provided that the renunciation is made in January, February or March of 2002. The Flow-Through Agreements under which Available Funds are committed will permit a Resource Issuer, where the applicable conditions are satisfied, to incur CEE at any time up to December 31, 2002 and to renounce such CEE to the Partnership with an effective date of December 31, 2001.

Each Flow-Through Agreement under which Available Funds are committed will contain covenants and representations of the Resource Issuer to expend the full amount committed by the Partnership (excluding any

consideration for Warrants) on CEE and to renounce such CEE to the Partnership with an effective date of not later than December 31, 2001.

If CEE renounced in January, February or March of 2002 effective December 31, 2001 is not, in fact, incurred on or before December 31, 2002, the Partnership will have its CEE reduced accordingly as of December 31, 2001. There will be a corresponding reduction in the CEE allocated to Limited Partners as of December 31, 2001. However, none of the Limited Partners will be charged interest on any unpaid tax arising as a result of such reduction for the period before May, 2003.

The Partnership will enter into Flow-Through Agreements under which the subscription price for Flow-Through Shares is paid to the Resource Issuer, and the Flow-Through Shares are issued, before the Resource Issuer has incurred CEE in an amount equal to the subscription price. Such Flow-Through Agreements will provide that, if the Resource Issuer fails to incur and renounce CEE equal to the subscription price for the Flow-Through Shares, the Limited Partners will be entitled to be indemnified for any additional tax payable as a result of such failure of the Resource Issuer (an "Indemnity Payment").

If a Limited Partner receives an Indemnity Payment, it is the CCRA's position that such Indemnity Payment would be included in calculating the Limited Partner's income but the Limited Partner may make an election under subsection 12(2.2) of the *Tax Act* to exclude it.

If the Partnership sells Flow-Through Shares, it may use all or part of the sale proceeds to subscribe for additional Flow-Through Shares. Each Flow-Through Agreement entered into by the Partnership in that event will provide that the Resource Issuer will expend the full amount committed by the Partnership on CEE and renounce such CEE to the Partnership with an effective date of not later than December 31, 2002. Such CEE, if any, will be allocated to Limited Partners at December 31, 2002.

A taxpayer does not deduct directly any CEE renounced to the Partnership and allocated to him in respect of a fiscal year of the Partnership but adds such CEE to his cumulative Canadian exploration expense ("CCEE") account.

A Limited Partner's share of CEE incurred by the Partnership in a fiscal year is considered for these purposes to be limited to his "at-risk amount" in respect of the Partnership at the end of the fiscal year. If his share of CEE is so limited, any excess will be added to his share, as otherwise determined, of the CEE incurred by the Partnership in the immediately following fiscal year.

A Limited Partner may deduct in computing his income from all sources for a particular taxation year, such amount as he may claim not exceeding 100% of his CCEE account at the end of that taxation year. CCEE not deducted may generally be carried forward indefinitely. A Limited Partner's CCEE account is reduced by deductions claimed in prior years, by his share of any amount that the Partnership received or is entitled to receive as assistance in respect of CEE incurred, or that can reasonably be related to Canadian exploration activities, and by any investment tax credit for flow-through mining expenditures deducted in prior years. If, at the end of a taxation year, the reductions in calculating the Limited Partner's CCEE account exceed the balance thereof at the beginning of the year and additions thereto during the year, the excess must be included in computing the Limited Partner's income for that year and the amount of the Limited Partner's CCEE account at the end of the year will be nil.

The sale or other disposition of Units will not result in the reduction of any Limited Partner's CCEE account and the sale by the Partnership of any Flow-Through Shares will not result in a reduction in any Limited Partner's CCEE account.

### **Investment Tax Credits**

If a Resource Issuer renounces certain CEE incurred in mining exploration to the Partnership with an effective date in a fiscal year of the Partnership, the share thereof of a Limited Partner who is an individual (other than a trust) will be a "flow-through mining expenditure" of the Limited Partner for the taxation year of the Limited Partner that

includes the end of such fiscal year. The Limited Partner will be entitled to a non-refundable investment tax credit equal to 15% of the amount by which such flow-through mining expenditure for a taxation year exceeds any government assistance or non-government assistance in respect of the CEE included in computing the Limited Partner's flow-through mining expenditure that, at the time of filing the Limited Partner's tax return for the taxation year, the Limited Partner has received, is entitled to receive or can reasonably be expected to receive. The investment tax credit may be deducted in accordance with the detailed rules in the *Tax Act* against tax payable under the *Tax Act* in the taxation year in which the flow-through mining expenditure is incurred or carried back three years and forward ten years. An amount equal to the tax credit claimed in a taxation year will be deducted from the Limited Partner's CCEE account at the beginning of the following taxation year and, as stated above, if the Limited Partner's CCEE account is negative at the end of such following taxation year, the amount must be included in computing income in such following taxation year.

### **Computation of Income of Limited Partners**

The Partnership is not itself a taxable entity. However, each Limited Partner will be required to include in computing his income or loss for tax purposes for a taxation year, subject to the "at-risk" rules, his pro rata share of the income or loss for each fiscal year of the Partnership ending in, or at the end of, that taxation year, whether or not he has received or will receive a distribution from the Partnership. The fiscal year of the Partnership ends on December 31 in each calendar year and a fiscal year of the Partnership will end upon the dissolution of the Partnership.

Each Limited Partner will generally be required to file an income tax return reporting his share of the income or loss of the Partnership. While the Partnership will provide the Limited Partners with information required for income tax purposes pertaining to their investment in Units, the Partnership will not prepare or file income tax returns on behalf of any Limited Partner. Each person who is a member of the Partnership in a year will generally be required to file an information return on or before the last day of March in the following year in respect of the activities of the Partnership or, where the Partnership is dissolved, within 90 days of the dissolution. A return made by any partner will be deemed to have been made by each member of the Partnership. Under the Partnership Agreement, the General Partner is required to file the necessary return.

The income or loss of the Partnership will be computed as if the Partnership were a separate person resident in Canada without taking into account any deduction in respect of, among other things, CEE. Any CEE renounced to the Partnership will be allocated, in accordance with the Partnership Agreement and the *Tax Act*, to those persons who are Limited Partners of the Partnership at the end of the fiscal year of the Partnership which includes the effective date on which the CEE is renounced and each such Limited Partner will be entitled to deduct directly, and not as part of the income or loss of the Partnership, in accordance with the provisions of the *Tax Act*, an amount in respect of such CEE. The income of the Partnership will include the taxable portion of any capital gain that it realizes on a disposition of Flow-Through Shares or on the disposition of Mutual Fund Shares delivered to the General Partner in payment of the Performance Bonus, if any. The *Tax Act* deems the cost to the Partnership of any Flow-Through Shares which it acquires to be nil and, therefore, the amount of such capital gain generally will equal the proceeds of disposition of the Flow-Through Shares, net of costs of disposition. The taxable portion of a capital gain realized on a disposition of Flow-Through Shares is one-half of the capital gain.

The costs associated with the organization of the Partnership are not fully deductible either by the Partnership or the Limited Partners. Organization expenses incurred by the Partnership are eligible capital expenditures, three-quarters of which may be deducted by the Partnership at the rate of 7% per year on a declining balance basis subject to proration for fiscal periods that are less than 12 months.

Expenses incurred by the Partnership in respect of this Offering, including expenses of issue and Agents' fees, will not be fully deductible by the Partnership in the year incurred but 20% thereof will be deductible in the year incurred subject to proration for the short fiscal period in 2001, 20% will be deductible in each of the four subsequent years, and any remaining amount will be deductible in the sixth year. The Partnership will not be entitled to deduct any amount in respect of such expenses in the fiscal year ending on its dissolution. After dissolution of the

Partnership, Limited Partners will be entitled to deduct, at the same rate, their pro rata share of any such expenses that were not deductible by the Partnership. The adjusted cost base of a Limited Partner's Units will be reduced on dissolution of the Partnership by his share of such expenses. To the extent that they are reasonable, management fees payable to the General Partner will be deductible in the year in which the services to which they relate are rendered. The General Partner believes that the management fees payable to the General Partner are reasonable within the meaning of the *Tax Act*.

Subject to the "at-risk" rules, a Limited Partner's share of the business losses of the Partnership for any fiscal year may be applied against his income from any other source to reduce net income for the relevant taxation year and, to the extent it exceeds other income for that year, generally may be carried back three years and forward seven years and applied against taxable income of such other years.

The *Tax Act* provides that, notwithstanding the income or loss allocation provisions of the Partnership Agreement, any losses of the Partnership from a business or property allocated to a Limited Partner in respect of a fiscal year of the Partnership ending in a taxation year are deductible by such Limited Partner in computing his income for the taxation year only to the extent that his "at-risk amount" in respect of the Partnership at the end of the fiscal year exceeds, *inter alia*, the Limited Partner's share of any CEE incurred by the Partnership in the fiscal year.

Based on the manner in which the Partnership will operate and be financed as indicated in this prospectus and on the assumptions that a Limited Partner pays the full subscription amount for his Units and that recourse for any associated borrowing or other financing of the subscription price of the Units is not limited and is not deemed to be limited, the "at-risk" rules should generally not limit a Limited Partner's deduction of his share of the Partnership's losses or limit the share of CEE incurred by the Partnership which is allocated to him. For these purposes, the *Tax Act* provides that recourse for a borrowing or other financing is generally deemed to be limited unless:

- (a) *bona fide* arrangements, evidenced in writing, are made, at the time the indebtedness arises, for repayment of the indebtedness and all interest thereon within a reasonable period not exceeding ten years; and
- (b) interest is payable, at least annually, at a rate equal to or greater than the lesser of the prescribed rate of interest under the *Tax Act* in effect at the time the indebtedness arose, and the prescribed rate of interest applicable from time to time during the term of the indebtedness, and such interest is paid by the Limited Partner in respect of the indebtedness not later than 60 days after the end of each taxation year of the Limited Partner.

**Prospective purchasers who propose to finance the acquisition of their Units should consult with their own advisers.**

If a Limited Partner finances the acquisition of Units with a borrowing or other financing for which recourse is or is deemed to be limited, the CEE or other expenses incurred by the Partnership may be reduced by the amount of such financing. The Partnership Agreement provides that, where CEE of the Partnership is so reduced, the amount of CEE that would otherwise be allocated to the Limited Partner who incurs the limited recourse financing shall be reduced by the amount of the reduction. Where the reduction of other expenses reduces the loss of the Partnership, the Partnership Agreement provides that such reduction shall first reduce the amount of the loss that would otherwise be allocated to the Limited Partner who incurs the limited recourse financing.

### **Income Tax Withholdings and Instalments**

Limited Partners who are employees and are required to have income tax withheld at source from their employment income by their employer may prepare a submission to their District Office of the CCRA requesting a reduction in such withholding at source by their employer, which request may be granted at the discretion of the CCRA. In this way, Limited Partners may be able to obtain the tax benefits of the investment in 2001.

Limited Partners who are required to pay income tax on an instalment basis may take into account their share, subject to the “at-risk” rules, of CEE and any loss of the Partnership in determining their instalment remittances.

### **Disposition of Units in the Partnership**

The cost to a Limited Partner of his Units will be the subscription price paid for such Units. The adjusted cost base of his Units at any time will be reduced by his share of CEE and any losses of the Partnership allocated to him for fiscal periods ending before that time (in each case after taking into account the “at-risk” rules) and by amounts distributed to him before such time. The adjusted cost base of a Limited Partner’s Units at any time will be increased by any income of the Partnership allocated to him in respect of such Units, including the full amount of any capital gain realized by the Partnership, for fiscal periods ending before that time. The adjusted cost base of a Limited Partner’s Units will be reduced on dissolution of the Partnership by issue expenses of the Partnership that are deductible by the Limited Partner as described above under “Computation of Income of Limited Partners”.

If a Limited Partner’s adjusted cost base of his Units is negative at the end of a taxation year, the amount by which it is negative will be deemed to be a capital gain realized by the Limited Partner in that taxation year and the Limited Partner’s adjusted cost base of his Units will be increased by the amount of the deemed gain. The General Partner anticipates that the adjusted cost base of original Limited Partners will not be a negative amount at the end of any taxation year in which such Limited Partners hold Units.

Where a Limited Partner disposes of a Unit, including on the dissolution of the Partnership, he will realize a capital gain (or capital loss) to the extent that his proceeds of disposition exceed (or are less than) the adjusted cost base of the Unit immediately before the disposition and any reasonable costs of disposition. One-half of a capital gain (the “taxable capital gain”) will be included in computing income and one-half of a capital loss (the “allowable capital loss”) may be deducted against taxable capital gains. A Limited Partner will be entitled to deduct against such taxable capital gain any allowable capital losses for the year and net capital losses from preceding years and the three following years in accordance with the detailed rules in the *Tax Act*. Similarly, any allowable capital loss realized on the disposition of a Unit that cannot be deducted against taxable capital gains of the year can be carried back three years and forward indefinitely and deducted against taxable capital gains in accordance with the detailed rules in the *Tax Act*.

A Limited Partner that is a “Canadian-controlled private corporation” (as defined in the *Tax Act*) throughout a taxation year may be liable to pay an additional refundable tax of 6 2/3% on its “aggregate investment income” for the year, which is defined to include taxable capital gains.

A Limited Partner who is considering a disposition of Units during a fiscal period of the Partnership should obtain tax advice before doing so since only a person who is a Limited Partner at the end of the fiscal period of the Partnership is entitled to be allocated a pro rata share of the Partnership’s income or loss and CEE incurred in such year.

### **Transfer of the Partnership’s Assets to the Mutual Fund**

Provided that the conditions for the transfer of the Partnership’s assets have been met, the General Partner will transfer to the Mutual Fund all of the assets of the Partnership in consideration for Mutual Fund Shares. The General Partner, on behalf of all partners of the Partnership, will elect pursuant to the *Tax Act* so that the Partnership will be considered to have transferred each asset to the Mutual Fund for proceeds of disposition equal to the cost amount of the asset to the Partnership for the purposes of the *Tax Act*. Consequently, no amount will be included in the income of any Limited Partner as a result of the transfer of the assets to the Mutual Fund. Such elected amounts will generally constitute the cost to the Partnership of the Mutual Fund Shares acquired in consideration of the transferred assets.

As described in the Partnership Agreement, if the Partnership holds property in respect of which no election may be made (“Non-Qualifying Property”), such property will be distributed, before the transfer of all other Partnership property to the Mutual Fund, as to 99.99% among the Limited Partners and as to 0.01% to the General Partner and will be held by the General Partner, as agent on behalf of the Limited Partners. The Partnership will be considered to have disposed of each Non-Qualifying Property for fair market value and any income, loss, capital gain or capital loss will be taken into account in determining the income of the Partnership for its fiscal year ending on its dissolution.

The Partnership will be dissolved within 60 days after the transfer of the Partnership assets to the Mutual Fund. On dissolution of the Partnership in accordance with the Partnership Agreement, pursuant to the *Tax Act*, each Limited Partner will be deemed to dispose of his Units for proceeds of disposition equal to their adjusted cost base immediately before the dissolution and will receive his share of the assets of the Partnership which will then consist of Mutual Fund Shares, excluding any Mutual Fund Shares delivered to the General Partner in payment of the Performance Bonus. The cost to a Limited Partner of his Mutual Fund Shares will generally be equal to the adjusted cost base to him of his Units immediately before the dissolution of the Partnership. The General Partner will transfer any Non-Qualifying Property distributed to it as agent for the Limited Partners to the Mutual Fund in exchange for Mutual Fund Shares having a net asset value equal to the value of such Non-Qualifying Property. The Mutual Fund Shares so acquired by a Limited Partner will have a cost equal to the value of the Limited Partner’s share of such Non-Qualifying Property and the averaging rules in the *Tax Act* will apply for the purpose of determining the adjusted cost base of each Mutual Fund Share held by the Limited Partner.

### **Tax Status of the Mutual Fund**

It is assumed that the Mutual Fund will become a “mutual fund corporation” as defined under the *Tax Act* immediately following the dissolution of the Partnership and will thereafter continuously qualify as a “mutual fund corporation” and as a “financial intermediary corporation” under the *Tax Act*. See “The Mutual Fund”. The Mutual Fund will not qualify as an “investment corporation” under the *Tax Act*. All income of the Mutual Fund, including taxable capital gains (net of allowable capital losses) realized by the Mutual Fund, will be subject to tax at normal corporate rates. Taxes payable by the Mutual Fund on realized capital gains for taxation years throughout which the Mutual Fund is a mutual fund corporation will be refundable on a formula basis when Mutual Fund Shares are redeemed or when the Mutual Fund pays dividends which it elects to pay out of realized but undistributed capital gains. With respect to taxable dividends received by the Mutual Fund from taxable Canadian corporations in taxation years throughout which the Mutual Fund is a mutual fund corporation, the Mutual Fund will generally be subject to tax of 33 1/3% under Part IV of the *Tax Act*, which tax will be refunded when sufficient taxable dividends are paid by the Mutual Fund to shareholders.

### **Taxation of Shareholders of the Mutual Fund**

A mutual fund corporation may pay dividends (“Ordinary Dividends”) which it does not elect to pay out of capital gains or may pay dividends (“Capital Gains Dividends”) in respect of which it makes an election to pay the dividend out of capital gains. Dividends reinvested in additional Mutual Fund Shares will be considered to be received by the shareholder for tax purposes.

Ordinary Dividends received by an individual on Mutual Fund Shares will be included in computing the individual’s income for purposes of the *Tax Act* and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends paid by taxable Canadian corporations.

Ordinary Dividends received by a corporation on Mutual Fund Shares will be included in computing the corporation’s income for purposes of the *Tax Act*. A corporation, other than a “specified financial institution” (as defined in the *Tax Act*), will be entitled to deduct such dividends in computing its taxable income. However, a specified financial institution will be entitled to deduct Ordinary Dividends received on Mutual Fund Shares in computing its taxable income only if it did not acquire such shares in the ordinary course of its business.

A shareholder that is a “private corporation” (as defined in the *Tax Act*) or any other corporation resident in Canada and controlled, whether by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay the 33 1/3% refundable tax under Part IV of the *Tax Act* on Ordinary Dividends received on Mutual Fund Shares to the extent that such dividends are deductible in computing the shareholder’s taxable income.

The Mutual Fund may also make distributions to shareholders of Capital Gains Dividends representing capital gains realized in taxation years throughout which the Mutual Fund is a mutual fund corporation. Such Capital Gains Dividends received in a taxation year by a shareholder will be treated as realized capital gains of the shareholder for the year, subject to the general rules relating to the taxation of capital gains.

An actual or deemed disposition of a Mutual Fund Share by a shareholder, including a redemption of such share, may result in a capital gain (or capital loss) to the extent that the proceeds of disposition of the share, exceed (or are less than) the adjusted cost base of the share immediately before the disposition and any reasonable costs of disposition.

Flow-Through Shares held by the Partnership will have an adjusted cost base of nil for income tax purposes. Assuming that no Flow-Through Shares are disposed of by the Partnership before the transfer of the Partnership’s assets to the Mutual Fund and that there is no Non-Qualifying Property, the transfer of the Partnership’s assets to the Mutual Fund and the subsequent dissolution of the Partnership will result in the Limited Partners who acquired their Units pursuant to this offering and who hold such Units as at the date of the dissolution of the Partnership, acquiring the Mutual Fund Shares at a nominal cost. Consequently, a subsequent redemption or other disposition of his Mutual Fund Shares will result in the holder thereof realizing substantially all of the proceeds of disposition as a capital gain.

#### **Dissolution of the Partnership if the Partnership’s Assets are not Transferred to the Mutual Fund**

If the conditions for the transfer of the Partnership’s assets to the Mutual Fund are not met, the Partnership will dispose of its property, including Flow-Through Shares, and on dissolution will distribute cash to the Partners. Any gain or loss realized by the Partnership on the disposition of its assets in its final fiscal year, including any capital gain realized on the disposition of Flow-Through Shares, will be reflected in the income or loss of the Partnership in its final fiscal year. Each Limited Partner will be required to take into account in the computation of the Limited Partner’s income, the Limited Partner’s share of the Partnership’s income, loss, capital gains and capital losses for its final fiscal year in the taxation year in which the dissolution occurs. A Limited Partner’s share of the Partnership’s income, loss, capital gains and capital losses for its final fiscal year should also be reflected in adjustments to the adjusted cost base of his Units. Confirmation from the CCRA that this is the correct result may be sought at the appropriate time. On dissolution of the Partnership, a Limited Partner will be considered to have disposed of his Units for proceeds of disposition equal to the amount of cash received on dissolution.

#### **Alternative Minimum Tax**

The *Tax Act* requires that individuals (including certain trusts) compute an alternative minimum tax determined by reference to the amount by which the taxpayer’s “adjusted taxable income” for the year exceeds his basic exemption which, in the case of an individual (other than certain trusts), is \$40,000. In computing his adjusted taxable income, a taxpayer must include, among other things, all taxable dividends (without application of the gross-up), and 80% of net capital gains. Various deductions and credits will be denied including amounts in respect of CEE and any losses of the Partnership. A federal tax rate of 16% is applied to the amount subject to the minimum tax, from which the individual’s “basic minimum tax credit for the year” is deducted. Included in the basic minimum tax credit are certain specified personal and other credits available to an individual under the *Tax Act* as deductions from tax payable for the year but not the investment tax credit. Generally, if the minimum tax so calculated exceeds the tax otherwise payable under the *Tax Act*, the minimum tax will be payable.

Whether and the extent to which an individual Limited Partner's tax liability will be increased as a result of the application of the alternative minimum tax rules will depend on the amount of his income, the source from which it is derived, and the nature and amount of any deductions and credits he claims.

Any "additional tax" (as determined under the *Tax Act*) payable by an individual for a year as a result of the application of the alternative minimum tax rules will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the alternative minimum tax, be his tax otherwise payable for the year.

### **Tax Shelter**

The federal and Quebec tax shelter identification numbers in respect of the Partnership are TS 066 951 and QAF-01-00993, respectively. The identification number issued for this tax shelter shall be (i.e., is required to be) included in any income tax return filed by the investor (i.e., Limited Partner). Issuance of the identification number is for administrative purposes only and does not in any way confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter.

The General Partner will file all necessary tax shelter information returns and, where applicable, provide each Limited Partner with copies thereof.

## **FEES AND EXPENSES PAYABLE BY THE PARTNERSHIP**

### **Initial Expenses**

The expenses of this Offering (including the costs of creating and organizing the Partnership, the costs of printing and preparing the prospectus and \$30,000 in respect of initial expenses incurred by Creststreet in relation to the prospectus prior to the formation of the Partnership), legal expenses of the Partnership, marketing expenses and legal and other reasonable out-of-pocket expenses incurred by the Agents and other incidental expenses) are estimated to be \$300,000. In addition, the Agents' fees will be paid to the Agents from the gross proceeds as described under "Plan of Distribution".

### **Management Fee**

The General Partner has co-ordinated the organization of the Partnership, will work with the Agents in developing and implementing all aspects of the Partnership's communications, marketing and distribution strategies and will manage the ongoing business, investment and administrative affairs of the Partnership. In consideration for these services and pursuant to the terms of the Partnership Agreement, the Partnership will pay to the General Partner an annual fee equal to 2% of the Net Asset Value. This fee will be calculated and paid monthly in arrears based on the Net Asset Value at the end of the preceding month. None of the General Partner, Creststreet or any of its affiliated or associated companies will earn fees from issuers for the origination of flow-through investments made by the Partnership.

In addition to the foregoing, the General Partner will be entitled to the Performance Bonus as of the Dissolution Date in an amount equal to (i) 20% of the amount by which the Net Asset Value per Unit of the Partnership increases in excess of a threshold increase of 18% from the date of the initial Closing to the Dissolution Date, multiplied by (ii) the number of Units outstanding at the Dissolution Date. The Performance Bonus will be determined by calculating the Net Asset Value per Unit on the Dissolution Date without taking the Performance Bonus into consideration and excluding the effect of distributions, if any, to Partners and comparing such number to \$10. The General Partner has agreed that the Performance Bonus, if any, will be paid in Mutual Fund Shares if the Partnership's assets are

transferred to the Mutual Fund in exchange for Mutual Fund Shares unless payment in Mutual Fund Shares is not permitted under applicable law.

**Operating Expenses**

The Partnership will pay for all expenses incurred in connection with the operation and administration of the Partnership. It is expected that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to Limited Partners; (b) fees payable to the auditors and legal advisors of the Partnership; (c) taxes and ongoing regulatory filing fees; (d) any reasonable out-of-pocket expenses incurred by the General Partner or its agents in connection with their ongoing obligations to the Partnership; (e) expenses relating to portfolio transactions; and (f) any expenditures which may be incurred in connection with the dissolution of the Partnership and the exchange of the assets of the Partnership for Mutual Fund Shares. The General Partner estimates that these costs will be approximately \$100,000 per year. The General Partner will act as custodian of the investments of the Partnership and as registrar and transfer agent for the Partnership. No additional fee will be payable to the General Partner for these services; however, it will be entitled to reimbursement for reasonable out-of-pocket expenses related to its performances of these services. If the General Partner determines, in its sole discretion, to appoint a custodian and/or registrar and transfer agent for the Partnership, the fees and expenses of such appointees will be borne by the Partnership.

**INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS**

The General Partner is a wholly-owned subsidiary of Creststreet. Some directors and officers of Creststreet also are directors and/or officers of the General Partner and the Mutual Fund. See “The General Partner – Management of the General Partner”.

The General Partner and the Manager will be entitled to receive a fee related to the Net Asset Value of the Partnership or the Mutual Fund, as the case may be. See “Fees and Expenses Payable by the Partnership – Management Fee” and “The Mutual Fund – Investment Manager”. The General Partner is also entitled to receive 0.01% of any net income or assets allocated to the Partners. See “Summary of the Partnership Agreement – Units” and “Summary of the Partnership Agreement – Net Income and Loss”.

**USE OF PROCEEDS**

The Partnership intends to use the total proceeds from the sale of Units approximately as follows:

	<u>Maximum</u> <u>Offering</u>	<u>Minimum</u> <u>Offering</u>
Total gross proceeds to the Partnership .....	\$20,000,000	\$3,000,000
Agents’ fee.....	1,350,000	202,500
Expenses of Offering.....	300,000	200,000
Reserve for Ongoing Fees and Expenses .....	<u>250,000</u>	<u>100,000</u>
Available Funds .....	<u>\$ 18,100,000</u>	<u>\$2,497,500</u>

The Partnership will endeavour to use the Available Funds to subscribe for Flow-Through Shares. The Partnership will fund ongoing fees and expenses beyond the amounts reserved from proceeds of the sale of Flow-Through Shares held by the Partnership. See “The Partnership – The Investment”, “Fees and Expenses Payable by the Partnership” and “Details of the Offering and Subscription Procedure”.

The proceeds from the issue of the Units at any particular Closing will, at such Closing, be paid to the Partnership, deposited in its bank account and managed on behalf of the Partnership by the General Partner. Pending the investment of Available Funds in Resource Issuers, all such funds will be invested in High Quality Liquid Investments. Interest earned by the Partnership from time to time after the Closing on funds of the Partnership will

accrue to the benefit of the Partnership. Interest accruing to the benefit of the Partnership prior to December 31, 2001 will form part of the Available Funds to be invested with regard to the Investment Guidelines and interest accruing thereafter may be used to pay Partnership expenses or for other investments in Flow-Through Shares.

In the event that any Available Funds have not been invested or committed to be invested in Flow-Through Shares by December 31, 2001, the Partnership will distribute these funds to the Limited Partners of record on December 31, 2001, on a pro rata basis, no later than January 31, 2002. Pending the distribution of uninvested Available Funds to the Limited Partners, those funds will be invested by the General Partner in High Quality Liquid Investments.

The Partnership will advance funds to Resource Issuers only under Flow-Through Agreements in substantially the form described below. Where Available Funds have been committed to a Resource Issuer and such Resource Issuer does not or is unable to incur sufficient expenditures to enable it to issue the maximum number of Flow-Through Shares issuable to the Partnership pursuant to the Flow-Through Agreement, the Partnership may, in certain circumstances, use any portion or all of the committed but unexpended Available Funds to purchase common shares issued by such Resource Issuer which would not constitute Flow-Through Shares. See “The Partnership – Investment Strategy”.

### **FLOW-THROUGH AGREEMENTS**

The General Partner, on behalf of the Partnership, will enter into Flow-Through Agreements with Resource Issuers as required to expend the Available Funds. Each Flow-Through Agreement will set forth, among other things:

- (a) the pricing and plan of distribution of the Flow-Through Shares and any Warrants to be purchased by the Partnership;
- (b) the information to be transmitted by the Resource Issuer to the Partnership; and
- (c) the undertakings, representations, warranties and covenants of the Resource Issuer.

Pursuant to the terms of the Flow-Through Agreements, Resource Issuers are obligated to incur exploration and development expenditures or expenses in respect of certain alternative energy projects that qualify as CEE. The General Partner may release the subscription price for Flow-Through Shares to Resource Issuers prior to the Resource Issuer incurring such expenditures and expenses provided the Flow-Through Agreement contains a covenant that the Resource Issuer shall indemnify each Limited Partner for an amount equal to the tax payable by the Limited Partner under the *Tax Act* and the laws of a province as a consequence of (i) the failure of the Resource Issuer to renounce CEE to the Partnership equal to the subscription price of the Flow-Through Shares, or (ii) a reduction pursuant to subsection 66(12.73) of the *Tax Act* of an amount purported to be renounced to the Partnership in respect of the Flow-Through Shares. In all cases the Resource Issuers will be obligated to incur CEE and renounce CEE to the Partnership and will be liable to the Partnership if they fail to satisfy such obligations.

The Partnership will endeavour to subscribe for Flow-Through Shares on or before December 31, 2001 having an aggregate subscription price equal to the Available Funds in contemplation of the Resource Issuers incurring and renouncing CEE in an amount equal to the subscription price of the Flow-Through Shares to the Partnership, with an effective date no later than December 31, 2001. Where Available Funds have been committed to a Resource Issuer and such Resource Issuer does not or is unable to incur sufficient CEE to enable it to issue the maximum number of Flow-Through Shares to the Partnership pursuant to the Flow-Through Agreement, the Partnership may, in certain circumstances, use any portion or all of the committed but unexpended Available Funds to purchase common shares issued by that Resource Issuer which would not constitute Flow-Through Shares. See “The Partnership – Investment Strategy”. The General Partner will not enter into Flow-Through Agreements under which Available Funds are committed which contemplate that CEE will be incurred after December 31, 2002 or which contemplate that CEE will be renounced with an effective date later than December 31, 2001. See “Risk Factors – Tax-Related”. The

Flow-Through Agreements will include rights of termination in favour of the Partnership and the Resource Issuers that may be exercised in specified circumstances.

## **DETAILS OF THE OFFERING AND SUBSCRIPTION PROCEDURE**

### **Sale of Units**

The Offering consists of a maximum of 2,000,000 Units and a minimum of 300,000 Units at a price of \$10.00 per Unit. The minimum purchase per investor is 250 Units. An investor whose offer to purchase is accepted by the General Partner will become a Limited Partner upon the entering of his name and other prescribed information in the record of Limited Partners on or as soon as possible after Closing.

The acceptance of an offer to purchase, whether by allotment in whole or in part, by the General Partner shall constitute a subscription agreement between the subscriber and the Partnership upon the terms and conditions set out in this prospectus and in the Partnership Agreement, whereby the subscriber, among other things:

- (a) irrevocably authorizes and directs the Agents to provide certain information to the General Partner, including such subscriber's full name, residential address, telephone number, social insurance, business or corporation account number, as the case may be, and the name and registered representative number of the representative of the Agent responsible for such subscription and covenants to provide such information to the Agents;
- (b) acknowledges that he is bound by the terms of the Partnership Agreement and is liable for all obligations of a Limited Partner;
- (c) makes the representations and warranties, including without limitation, representations and warranties as to his residency and limited recourse financing, set out in the Partnership Agreement;
- (d) is deemed to represent and warrant that, unless such subscriber has provided written notice to the General Partner prior to the date of acceptance of its subscription to the contrary, it is not a "financial institution" as that term is defined in subsection 142.2(1) of the *Tax Act*; and
- (e) irrevocably nominates, constitutes and appoints the General Partner as his true and lawful attorney with the full power and authority as set out in the Partnership Agreement.

The Partnership Agreement includes representations, warranties and covenants on the part of the subscriber that he is not a "non-resident" for purposes of the *Tax Act*, that he will maintain such status and, if he is not a "financial institution" at the date of acceptance of his subscription, that he will continue not to be a "financial institution" during such time as Units are held by him, that he is not a partnership and that payment of the subscription price for such Limited Partner's Units was not financed through a borrowing or other indebtedness for which recourse is or is deemed to be limited within the meaning of the *Tax Act*.

The foregoing subscription agreement shall be evidenced by delivery of this prospectus to the subscriber, provided that the subscription has been accepted by the General Partner on behalf of the Partnership.

A subscriber whose subscription is accepted by the General Partner will become a Limited Partner of the Partnership upon the amendment of the record of limited partners maintained by the General Partner. If a subscription is withdrawn or is not accepted by the General Partner, all documents will be returned to the subscriber within 15 days following such withdrawal or rejection.

A certificate evidencing the Units will be issued to The Canadian Depository for Securities Limited ("CDS") or its nominee on the Closing date. CDS requires that any Units registered in the book-based system be represented in the form of a fully registered global certificate held by, or on behalf of, CDS as custodian of such certificate for CDS

participants (the “CDS Participants”) and registered in the name of CDS. CDS Participants include securities brokers and dealers, banks and trust companies. Under the Partnership Agreement each Limited Partner acknowledges and agrees that CDS is acting as his nominee for this purpose and acknowledges and consents to these arrangements. An investor who purchases Units will therefore receive only a customer confirmation from the registered dealer who is a CDS participant and through whom the Units are purchased. If CDS notifies the Partnership that it is unwilling or unable to continue as depository in connection with such global certificate, or if at any time CDS ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Partnership is unable to locate a qualified successor, or if the General Partner elects to terminate the book-based system, the General Partner shall make appropriate arrangements either to replace CDS or to replace the book-based system in an orderly fashion.

If requested by a Limited Partner and consented to by the General Partner, the General Partner shall issue, or cause the registrar and transfer agent of the Units (if not the General Partner) to issue, to that Limited Partner, at the expense of the Partnership, a certificate, indicating that such Limited Partner is the owner of the number of Units set out thereon. In that event, a new global certificate will be issued to and in the name of CDS reflecting the reduction in the number of Units represented by the certificate held by CDS.

The name in which a global certificate is issued is for the convenience of the book-based system only and shall have no bearing on the identity of the Limited Partners.

All distributions will be made to the registered holders of any certificates issued by the Partnership as contemplated above. Accordingly, distributions will be made by the Partnership to CDS in respect of Units represented by the global certificate held by CDS. Any such distributions will be forwarded by CDS to the applicable CDS Participants and, thereafter, to the Limited Partners whose Units are represented by that global certificate.

The ability of a holder of a Unit to pledge its Unit or take action with respect thereto (other than through a CDS Participant) may be limited due to the lack of physical certificates and the rights of the Partnership under the Partnership Agreement.

## **PLAN OF DISTRIBUTION**

### **The Offering**

Pursuant to an agency agreement (“Agency Agreement”) dated October 30, 2001 among the Agents, the Partnership, the General Partner, the Mutual Fund and Creststreet, the Agents have agreed to form and manage a selling group consisting of registered dealers to offer Units for sale to the public in each province and territory in Canada in which a receipt is issued for the (final) prospectus, on a best efforts basis if, as and when issued by the Partnership, in accordance with the terms and conditions of the Agency Agreement. The Units will be offered, subject to a minimum purchase of 250 Units, at a price of \$10.00 per Unit payable on the Closing. The price per Unit was established by the General Partner. The Offering of the Units will take place during the period commencing on the date a receipt is issued for the (final) prospectus by the securities regulatory authority in the first province to issue such a receipt and ending at the close of business on the day prior to the final Closing. It is expected that, provided that the subscriptions are received for the minimum number of Units, the initial Closing of the issue of Units will take place on or about November 2, 2001. If less than the maximum number of Units is subscribed for at the initial Closing, subsequent Closings may be held on or before December 31, 2001. The Partnership will pay to the Agents a sales commission equal to 6.75% of the selling price for each Unit sold to an investor.

The General Partner, on behalf of the Partnership, reserves the right to accept or reject any subscription in whole or in part. An investor whose subscription has been accepted by the General Partner will become a Limited Partner upon the amendment of the record of limited partners maintained by the General Partner to include their name and other information prescribed by the *Limited Partnerships Act* (Ontario).

While the Agents have agreed to use their best efforts to sell the Units, they are not obliged to purchase any Units which are not sold. The obligations of the Agents under the Agency Agreement may be terminated, and the

Agents may withdraw all subscriptions on behalf of investors, at the Agents' discretion, on the basis of their assessment of the state of the financial markets or upon the occurrence of certain stated events including any material adverse change in the business, personnel or financial condition of the General Partner or the Partnership. Some or all of the Agents may, from time to time, be involved in raising money for Resource Issuers and the Partnership may or may not commit funds in connection with any such transaction. The Agents may earn fees on such transactions.

In the Agency Agreement, the Partnership, the General Partner, the Mutual Fund and Creststreet have agreed to jointly and severally indemnify the Agents upon the occurrence of certain events.

It is not expected that any subscription proceeds will be received by the Agents until subscriptions for the minimum Offering are received and the other closing conditions of this Offering have been satisfied. However, to the extent that such subscription proceeds are received prior to such time, they will be held by the Agents in trust in a segregated account until subscriptions for the minimum Offering are received and the other closing conditions of this Offering have been satisfied. If the minimum Offering is not subscribed for by the earlier of (a) December 31, 2001 and (b) the date that is 60 days from the date of issuance by the first securities regulatory authority to issue a receipt for the (final) prospectus, subscription proceeds received, together with interest, if any, accrued thereon will be returned, without deduction, to the subscribers.

This Offering will close if:

- (a) all contracts described under "Material Contracts" have been executed and delivered to the Partnership and Fasken Martineau DuMoulin LLP has opined that such contracts are valid and subsisting;
- (b) all conditions specified in the Agency Agreement for the closing have been satisfied or waived, and the Agents have not exercised any right to terminate the Offering; and
- (c) on the date of the initial Closing of the Offering, subscriptions for at least 300,000 Units are accepted by the General Partner.

#### **THE MUTUAL FUND**

The Mutual Fund is a corporation incorporated under the CBCA by articles of incorporation dated September 12, 2001. The registered office and principal place of business of the Mutual Fund is Suite 2320, 130 Adelaide Street West, Toronto, Ontario M5H 3P5. Creststreet Asset Management Limited is the Manager.

The Mutual Fund has not carried on any business since its incorporation. The Mutual Fund will not carry on any business until the transfer to the Mutual Fund of all of the remaining assets of the Partnership pursuant to the Transfer Agreement, other than executing the Management Agreement (as defined below), the Custodian Agreement (as defined below), the Transfer Agreement and other incidental matters. Provided that the Mutual Fund is eligible to become a mutual fund corporation for purposes of the *Tax Act* and subject to the prior receipt of any necessary regulatory approvals, all assets of the Partnership will be transferred to the Mutual Fund in exchange for Mutual Fund Shares on or about January 15, 2003. Such transfer will be made only if it would not be inconsistent with the Mutual Fund's investment objectives and only if the Mutual Fund, after completion of such transfer, would not otherwise contravene any applicable investment restrictions. There can be no assurance that any such regulatory approvals would be granted.

Mutual Fund Shares will be redeemable by the holders thereof at their Net Asset Value. Payment for Mutual Fund Shares subject to notices of redemption received on or before May 15, 2003 will be made on May 30, 2003 based on the May 29, 2003 Net Asset Value of the Mutual Fund and payment for Mutual Fund Shares subject to notices of redemption received on or after May 16, 2003 and on or before June 5, 2003 will be made on June 6, 2003 based on the June 5, 2003 Net Asset Value of the Mutual Fund, subject to the prior receipt of any necessary regulatory approvals. Thereafter, payment for Mutual Fund Shares subject to notices of redemption will be made weekly on the day

following the next Valuation Date based on the Net Asset Value of the Mutual Fund on such Valuation Date. See “Transfer of Partnership Assets and Dissolution”.

### **Objectives of the Mutual Fund**

The principal objective of the Mutual Fund will be to provide Limited Partners, upon receipt of Mutual Fund Shares, with enhanced liquidity through their ability to have the Mutual Fund Shares redeemed and to provide the potential for long term growth of capital and, to a lesser extent, production of income. The Mutual Fund will hold and dispose of Flow-Through Shares and other common shares acquired by the Mutual Fund from the Partnership and invest the net proceeds of such dispositions and any cash on hand in a diversified portfolio consisting principally of equity securities of Canadian issuers, which may include securities of other mutual funds managed by the Manager or Affiliates of the Manager. Although the Mutual Fund intends to continue to invest significantly in equity securities of Resource Issuers, the Mutual Fund intends to diversify in its equity portfolio through investments in equity securities of non-resource issuers. The Mutual Fund will invest only in debt securities having a minimum rating of A by Dominion Bond Rating Service or Standard & Poor’s. See “Investment Strategy and Restrictions”. The Mutual Fund will restrict its investments in foreign property within the limits prescribed under the *Tax Act* so that the Mutual Fund Shares will not constitute foreign property.

### **Investment Manager**

Although the board of directors of the Mutual Fund is responsible for its overall direction, the Manager has been retained by the Mutual Fund, pursuant to a management agreement (“Management Agreement”) dated as of October 30, 2001 between the Manager and the Mutual Fund, to provide investment advisory and administrative services and facilities to the Mutual Fund. In consideration for such services, the Manager will be paid a monthly fee equal to 1/12 of 2% of the average Net Asset Value of the Mutual Fund for such month. See “Net Asset Value Per Mutual Fund Share”. In addition to the fee payable to the Manager, the Mutual Fund will be responsible for all expenses of the Mutual Fund (other than expenses of incorporation or fees to any other advisor of the Mutual Fund, which are payable by the Manager) including administration and operation expenses, audit and legal fees, registrar and transfer fees, banking and custodianship fees, expenses associated with reporting to shareholders, filing fees, printing and mailing expenses, brokerage fees, taxes payable by the Mutual Fund and interest on borrowings, if any, of the Mutual Fund. In addition to the management fee, the Mutual Fund will pay to the Manager, on a quarterly basis, a service fee (the “Service Fee”) in an amount not exceeding 0.5% of the Net Asset Value of the Mutual Fund on an annual basis. The Manager will, in turn, pay a service fee to dealers based on the total Net Asset Value of the Mutual Fund Shares held by their clients equal, in the aggregate, to the Service Fee. Any change in the basis of the calculation of management fees and other expenses which could result in an increase in charges to the Mutual Fund will not be made except with the requisite shareholder and prior regulatory approvals.

The Manager has no obligation to the Mutual Fund other than to render services under the Management Agreement honestly and in good faith and in the best interests of the Mutual Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Management Agreement expires on May 31, 2008 but is renewed automatically for additional five-year terms unless notice of termination is given by either party. The Management Agreement will be terminated on the insolvency or bankruptcy of the Manager and, until May 31, 2008, may be terminated by the Mutual Fund on 90 days’ written notice to the Manager with the approval of the shareholders of the Mutual Fund by ordinary resolution (as defined in the CBCA) in the case of default by the Manager or by special resolution (as defined in the CBCA) in any other case. After May 31, 2008, the agreement may be terminated on 90 days’ notice by either the Manager or the Mutual Fund.

The Manager intends to appoint a duly qualified custodian (“Custodian”) as custodian of the Mutual Fund to hold portfolio securities of the Mutual Fund pursuant to an agreement (“Custodian Agreement”) between the Mutual Fund and the Custodian to be entered into prior to the transfer to the Mutual Fund of the assets of the Partnership.

A statement of portfolio transactions of the Mutual Fund will be provided to holders of the Mutual Fund Shares without charge upon receipt of a written request addressed to the Manager at its registered office.

### **Directors and Officers of the Mutual Fund**

The names, municipalities of residence, offices held with the Mutual Fund and principal occupations of the directors and officers of the Mutual Fund are as follows:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Office</u></b>	<b><u>Principal Occupation</u></b>
ROBERT J. TOOLE .....	President, Chief Executive Officer and Director	President, Chief Executive Officer and a Director of Creststreet
Toronto, Ontario		
JOHN P. A. BUDRESKI.....	Director	Managing Director, Canadian Capital Structuring Group, Scotia Capital Inc.
Oakville, Ontario		
LARRY J. MACDONALD.....	Director	Chairman and Chief Executive Officer, Pointwest Energy Inc.
Calgary, Alberta		
GORDON J. BOGDEN.....	Director	Managing Director, Beacon Group Advisors Inc.
Toronto, Ontario		
DONNA R. MCLEAN.....	Chief Financial Officer and Secretary-Treasurer	Secretary-Treasurer of Creststreet
Toronto, Ontario		

Biographies of each director and senior officer, including his or her principal occupations for the last five years, are set forth under “The General Partner – Management of the General Partner”.

The Mutual Fund presently has no intention of paying any remuneration to its directors and officers.

### **Directors and Officers of the Manager**

The names, municipalities of residence, offices held with the Manager and principal occupations of the directors and officers of the Manager are as follows:

<b><u>Name and Municipality of Residence</u></b>	<b><u>Office</u></b>	<b><u>Principal Occupation</u></b>
ROBERT J. TOOLE .....	President, Chief Executive Officer and Director	President, Chief Executive Officer and a Director of Creststreet
Toronto, Ontario		
JOHN P. A. BUDRESKI.....	Director	Managing Director, Canadian Capital Structuring Group, Scotia Capital Inc.
Oakville, Ontario		
LARRY J. MACDONALD.....	Director	Chairman and Chief Executive Officer, Pointwest Energy Inc.
Calgary, Alberta		
GORDON J. BOGDEN.....	Director	Managing Director, Beacon Group Advisors Inc.
Toronto, Ontario		
DONNA R. MCLEAN.....	Chief Financial Officer and Secretary-Treasurer	Secretary-Treasurer of Creststreet
Toronto, Ontario		

Biographies of each director and senior officer, including his or her principal occupations for the last five years, are set forth under “The General Partner – Management of the General Partner”.

### **Investment Strategy and Restrictions**

It is currently the Mutual Fund’s intention to follow the standard investment restrictions and practices set forth in National Instrument 81-102 – Mutual Funds which standard investment restrictions and practices will be provided to Shareholders by the Mutual Fund upon request to the Manager.

Notwithstanding the foregoing, if necessary, the Mutual Fund will apply to the relevant securities or regulatory authorities to be exempted, for a period of 180 days following the date of the transfer of assets of the Partnership to the Mutual Fund, with respect to securities acquired from the Partnership, from investment restrictions which prohibit the Mutual Fund from investing in securities of any issuer if, after giving effect to such an investment, the Mutual Fund would own more than 10% of any class of securities of such issuer, other than securities issued or guaranteed as to principal and interest by the Government of Canada or any province thereof or investing more than 10% of the Net Asset Value of the Mutual Fund in securities of any one issuer, other than securities issued or guaranteed as to principal and interest by the Government of Canada or any province thereof. The Mutual Fund will not issue securities to the public, except any securities issued on the reinvestment of dividends, during such 180 day period. There can be no assurance that the requested exemption will be granted by the relevant securities or regulatory authorities.

### **Fundamental Changes**

A meeting of the shareholders of the Mutual Fund must be convened to consider and approve (a) a change in the basis of the calculation of the fees or of other expenses that are charged to the Mutual Fund that could result in an increase in charges to the Mutual Fund; (b) a change of the manager of the Mutual Fund (other than to an Affiliate of the Manager); (c) any change in the fundamental investment objectives of the Mutual Fund; (d) any change of auditors; (e) any decrease in the frequency of calculation of Net Asset Value; or (f) any other matter which is required by the constating documents of the Mutual Fund or by the laws applicable to the Mutual Fund or by any agreement to be submitted to a vote of the shareholders of the Mutual Fund. Unless a greater majority is required by the laws applicable to the Mutual Fund or by any applicable agreement, the approval of the shareholders of the Mutual Fund shall be deemed to be given if expressed by a resolution passed at a meeting or meetings of the shareholders of the Mutual Fund duly called and held for the purpose of considering the same by at least a majority of the votes cast.

### **Description of Shares**

The authorized capital of the Mutual Fund consists of one common share and an unlimited number of special shares designated as Mutual Fund Shares, none of which have been issued. The Mutual Fund currently has no intention of issuing Mutual Fund Shares except in connection with the dissolution of the Partnership and the reinvestment of dividends paid to holders of Mutual Fund Shares. Certificates representing the Mutual Fund Shares will be issued only on the request in writing of a shareholder to the Manager.

The Mutual Fund Shares and the common share of the Mutual Fund have equal rights and privileges except that the common share is not redeemable at the option of the holder while any Mutual Fund Shares are outstanding. Each Mutual Fund Share and the common share of the Mutual Fund is entitled to one vote per share and to participate equally with respect to any and all payments made to shareholders of the Mutual Fund whether by way of dividends or by way of distribution of capital (other than payments made on redemption). A fractional Mutual Fund Share carries the rights and privileges and is subject to the restrictions and conditions applicable to whole Mutual Fund Shares in the proportion which it bears to one Mutual Fund Share. The common share and the Mutual Fund Shares

are fully paid and non-assessable when issued. The holders of Mutual Fund Shares are entitled to require the Mutual Fund to redeem all or any of their Mutual Fund Shares. See “Redemption of Mutual Fund Shares”.

The rights, privileges, restrictions and conditions attached to the Mutual Fund Shares and the common share may be modified, amended or varied by articles of amendment, the application for which must be authorized by a special resolution passed at a meeting of the holders of the Mutual Fund Shares and the common share duly called for considering the same, by the affirmative vote of the holders of not less than 66 $\frac{2}{3}$ % of all the outstanding shares represented and voted at such meeting in addition to such other vote as may be required by the CBCA. Neither the holders of Mutual Fund Shares nor the holder of the common share is entitled to a separate vote with respect to any amendment of the articles of the Mutual Fund to effect an exchange, reclassification or cancellation of all or part of the shares of that class or to create a new class of shares equal to or superior to the shares of that class.

### **Net Asset Value Per Mutual Fund Share**

The Net Asset Value per Mutual Fund Share at any particular time will be the quotient obtained by dividing the Net Asset Value of the Mutual Fund by the total number of Mutual Fund Shares and common shares outstanding at such time. The Net Asset Value of the Mutual Fund shall equal the market value of its assets less its liabilities. The market value of the assets of the Mutual Fund on any given date shall be determined by reference to the following principles:

- (a) the value of any security which is listed on a stock exchange will be the closing sale price on such date or, if there is no sale price, the average of the closing bid and the closing asked prices on such date, all as reported by any report in common use or authorized by such stock exchange;
- (b) the value of any security which is traded on an over-the-counter market will be the average of the closing bid and the closing asked prices on such date, all as reported by the financial press;
- (c) the value of any share or unit of a mutual fund will be the net asset value for such share or unit on such date, after deduction of any applicable redemption fee;
- (d) the value of any security in respect of which there is a resale restriction shall be discounted by the same rate as was applicable at the time of purchase of such security until such restriction is lifted, such rate to be determined by the Manager, provided however, that the discount may be tapered on the basis determined by the Manager where the restriction is to be lifted on a specific date; and
- (e) the value of any security or other asset for which a market quotation is not readily available will be its market value on such date as determined by the Manager.

Subject to prior receipt of any necessary regulatory approvals, the Manager may declare a suspension of the determination of the Net Asset Value per Mutual Fund Share for the whole or part of any period:

- (a) during which normal trading is suspended on a stock exchange within or outside Canada on which securities are listed which represent more than 50% by value of the total assets of the Mutual Fund, without allowance for liabilities; or
- (b) for any period during which the Manager determines that conditions exist which render impractical the sale of assets of the Mutual Fund or which impair the ability of the Manager to determine the value of the assets of the Mutual Fund.

Provided that the determination of the Net Asset Value per Mutual Fund Share has not been suspended, there will be a valuation of the assets of the Mutual Fund as at the market close on each Valuation Date or, in the event that the TSE is not open for business on any such day, the first day thereafter on which the TSE is open for business.

### **Redemption of Mutual Fund Shares**

A shareholder may require the Mutual Fund to redeem his Mutual Fund Shares by delivering to the Mutual Fund or to the Manager a request in writing that a specified number of Mutual Fund Shares be redeemed and, if a share certificate has been issued representing the Mutual Fund Shares to be redeemed, the certificate duly endorsed by the registered shareholder with his signature guaranteed by a Canadian chartered bank, a trust company or an investment dealer acceptable to the Manager.

Subject to the prior receipt of all necessary regulatory approvals, payment for Mutual Fund Shares subject to notices of redemption received on or before May 15, 2003 will be made on May 30, 2003 based on the May 29, 2003 Net Asset Value of the Mutual Fund and payment for Mutual Fund Shares subject to notices of redemption received on or after May 16, 2003 and on or before June 5, 2003 will be made on June 6, 2003 based on the June 5, 2003 Net Asset Value of the Mutual Fund. There can be no assurance that such approvals, if required, will be granted. Thereafter, payment for Mutual Fund Shares subject to notices of redemption will be made weekly on the day following the next Valuation Date based on the Net Asset Value of the Mutual Fund on such Valuation Date.

Except if redemptions have been suspended (which may only occur when (i) normal trading is suspended on a stock exchange within or outside Canada on which securities are listed which represent more than 50% by value of the total assets of the Mutual Fund, without allowance for liabilities, and only if those securities are not traded on any other stock exchange that represents a reasonable practical alternative to the Mutual Fund or, (ii) with the consent of the Ontario Securities Commission, if required, for any period during which the Manager determines that conditions exist which render impractical the sale of assets of the Mutual Fund or which impair the ability of the Manager to determine the value of the assets of the Mutual Fund), payment of the redemption price for Mutual Fund Shares tendered for redemption will be made, upon the direction of the Mutual Fund, by the registrar and transfer agent of the Mutual Fund in Canadian currency, as set forth in the preceding paragraph.

In case of suspension of the right of redemption, a shareholder may either withdraw his redemption request by notice in writing to the Mutual Fund or the Manager or receive payment based on the Net Asset Value per Mutual Fund Share determined on the next Valuation Date following the termination of the suspension.

**There are no redemption fees or charges payable at the time of redemption of Mutual Fund Shares.**

### **Dividends and Reinvestments**

The Mutual Fund intends, in each year, to the extent permitted by law, to pay dividends to holders of Mutual Fund Shares in amounts sufficient to recover any taxes refundable to the Mutual Fund. The record date with respect to any such dividend will be the same as the payment date.

Unless the shareholder otherwise instructs the Manager by notice in writing at its address at Suite 2320, 130 Adelaide Street West, Toronto, Ontario M5H 3P5 or such other address of which the Manager may advise the holder of Mutual Fund Shares, any cash dividend will be automatically reinvested, without charge, in additional Mutual Fund Shares at the Net Asset Value per Mutual Fund Share determined on the date of payment of the dividend. The Manager will take all such steps as may be necessary to permit the sale and subsequent transfer of such additional Mutual Fund Shares in compliance with the requirements of all applicable securities legislation, free of any resale restrictions.

### **Reporting to Shareholders**

The Manager will provide shareholders of the Mutual Fund with regular interim and annual reports setting forth the operation of the Mutual Fund and details of, and changes in, the Mutual Fund's investment portfolio in compliance with the requirements of all applicable securities legislation.

### **Future Continuous Distribution**

The Mutual Fund does not intend to issue securities to the public other than Mutual Fund Shares. Subsequent to the disposition by the Mutual Fund of all Flow-Through Shares and other securities and assets acquired by it from the Partnership and upon complying with applicable securities legislation, the Mutual Fund may, but has no present intention to, commence offering Mutual Fund Shares for sale on a continuous basis at a subscription price equal to the Net Asset Value per Mutual Fund Share on the Valuation Date next following the date of receipt of a subscription.

### **SUMMARY OF THE PARTNERSHIP AGREEMENT**

The following is a summary of the Partnership Agreement which is incorporated herein by reference. **This summary is not intended to be complete and each investor should carefully review the form of the Partnership Agreement attached to, and forming part of, this prospectus.**

The rights and obligations of the Limited Partners and the General Partner are governed by the laws of the Province of Ontario and the Partnership Agreement.

Each investor shall submit an offer to purchase Units to one of the Agents, in form and content satisfactory to such Agent. An investor whose offer to purchase has been accepted by the General Partner will become a Limited Partner upon the amendment of the record of limited partners maintained by the General Partner. At or as soon as possible after the initial Closing of the issue of Units, the interest of the initial limited partner will be redeemed by the Partnership in the amount of its capital contribution of \$10.00.

### **Units**

To become a Limited Partner, an investor must acquire 250 or more Units in the Partnership. Fractional Units will not be issued. An investor who purchases Units is deemed to enter into a subscription agreement with the Partnership and, among other things, is hereby deemed to give certain representations, warranties and covenants as set forth in the Partnership Agreement and to grant the power of attorney to the General Partner as set out in the Partnership Agreement. See "Details of the Offering and Subscription Procedure – Sale of Units." The Partnership Agreement includes representations, warranties and covenants on the part of the investor that he is not a "non-resident" for the purposes of the *Tax Act*, that he will maintain such status during such time as the Units are held by him, that he is not a partnership and that payment of the subscription price of his Units was not financed with indebtedness for which recourse is, or is deemed to be, limited for the purposes of the *Tax Act*. See "Allocation of CEE" and "Limited Recourse Financings". The General Partner may require those Limited Partners who are non-residents of Canada for the purposes of the *Tax Act* or a partnership to sell their Units to residents of Canada. In addition, if the General Partner becomes aware that owners of 45% or more of the Units then outstanding are, or may be, financial institutions or that such a situation is imminent, the General Partner may send notice to certain of these Limited Partners requiring them to sell their Units or a portion thereof within a specified period of not less than 15 days. If a Limited Partner fails to comply with any such a request, the General Partner shall have the right to sell such Limited Partner's Units or to purchase the same on behalf of the Partnership at fair value as determined by an independent third party selected by the General Partner, whose determination will be final and binding and not subject to review or appeal.

Each Unit entitles the holder to the same rights and obligations as a holder of any other Unit and no Limited Partner is entitled to any privilege, priority or preference in relation to any other Limited Partner. Each Limited Partner

is entitled to one vote for each Unit held. See “Meetings”. On dissolution, the Limited Partners of record holding the then outstanding Units are entitled to receive 99.99% of the assets of the Partnership remaining after payment of debts, liabilities and liquidation expenses of the Partnership. It is expected that such assets will consist of Mutual Fund Shares. See “Transfer of Partnership Assets and Dissolution”.

### **Fees and Expenses**

The Partnership shall pay: (a) to the General Partner the fees described under “Fees and Expenses Payable by the Partnership – Management Fee”; (b) to the Agents a sales commission equal to 6.75% of the selling price for each Unit for which subscriptions are accepted by the General Partner; and (c) the expenses of this Offering payable by it as provided in the Agency Agreement.

In addition, the Partnership will pay for all of its expenses incurred in connection with the operation and administration of the Partnership. It is anticipated that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to Limited Partners; (b) fees payable to the auditors and legal advisors of the Partnership; (c) taxes and ongoing regulatory filing fees; (d) any reasonable out-of-pocket expenses incurred by the General Partner or its agents in connection with their ongoing obligations to the Partnership; (e) expenses relating to portfolio transactions; and (f) any expenses which may be incurred in connection with the dissolution of the Partnership and the exchange of the assets of the Partnership for Mutual Fund Shares. The General Partner will act as custodian of the investments of the Partnership and as registrar and transfer agent for the Partnership. No additional fee will be payable to the General Partner for these services; however, it will be entitled to reimbursement for reasonable out-of-pocket expenses related to its performances of these services. If the General Partner determines, in its sole discretion, to appoint a custodian and/or registrar and transfer agent for the Partnership, the fees and expenses of such appointees will be borne by the Partnership.

### **Net Income and Loss**

The Partnership will allocate pro rata among the Limited Partners of record on the last day of each fiscal year 99.99% of the net income or loss of the Partnership for such fiscal year and on dissolution. The Partnership will make such filings in respect of such allocations as are required by the *Tax Act* or any other taxation or other legislation or laws of like import of Canada or of any province or jurisdiction. Limited Partners will be entitled to claim certain deductions from income for income tax purposes or from tax payable as described under “Canadian Federal Income Tax Considerations”.

### **Allocation of CEE**

Subject to the reduction in the allocation of the proportionate share of CEE to Limited Partners who have financed the acquisition of Units with indebtedness for which recourse is or is deemed to be limited for the purposes of the *Tax Act* (see “Limited Recourse Financings”), the Partnership will allocate to each Limited Partner of record on the last day of each fiscal year his proportionate share of 100% of the CEE renounced to it by Resource Issuers with an effective date in such fiscal year and will make such filings in respect of such allocations as are required by the *Tax Act*.

### **Distributions**

Except for the return of Available Funds which are not expended or committed to acquire Flow-Through Shares by December 31, 2001 (see “The Partnership – Investment Strategy”), the Partnership does not expect to make, but is not precluded from making, cash distributions to partners prior to the dissolution of the Partnership.

### **Functions and Powers of the General Partner**

The General Partner has exclusive authority to manage the operations and affairs of the Partnership, to make all decisions regarding the business of the Partnership and to bind the Partnership. The General Partner may, pursuant to the terms of the Partnership Agreement, delegate certain of its powers to third parties without, however, releasing the General Partner from its obligations. The General Partner is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and to exercise the care, diligence and skill of a reasonably prudent and qualified manager. Among other restrictions imposed on the General Partner, it may not dissolve the Partnership nor wind up the Partnership's affairs except in accordance with the provisions of the Partnership Agreement.

The General Partner shall have the power to make on behalf of the Partnership and each Limited Partner, in respect of such Limited Partner's interest in the Partnership, any and all elections, determinations or designations under the *Tax Act* or any other taxation or other legislation or laws of like import of Canada or of any province or jurisdiction. The General Partner shall file, on behalf of the General Partner and the Limited Partners, any information return required to be filed in respect of the activities of the Partnership under the *Tax Act* or any other taxation or other legislation or laws of like import of Canada or of any province or jurisdiction.

### **Accounting and Reporting**

The Partnership's fiscal year will be the calendar year. A copy of the audited financial statements of the Partnership will be mailed by the General Partner to each Limited Partner within 140 days following the end of each fiscal year. Within 60 days following March 31, June 30 and September 30 of each year, an unaudited statement of financial position, income statement, statement of changes in net assets and schedule of investments for the Partnership as at and for the period then ended and the corresponding period of the preceding year will be forwarded by the General Partner to the Limited Partners. Each statement will be accompanied by a narrative report describing the affairs and operations of the Partnership.

In addition, the General Partner shall, by March 31 of each year and within 60 days of the date of dissolution of the Partnership, forward to each Limited Partner of record on December 31 of the preceding year or on the date of dissolution, as the case may be, information in a suitable form to enable the Limited Partner to complete his income tax reporting relating to his interest in the Partnership.

The General Partner will ensure that the Partnership complies with all other reporting and administrative requirements.

The General Partner shall keep adequate books and records reflecting the activities of the Partnership. A Limited Partner or his or her duly authorized representative shall have the right to examine the books and records of the Partnership during normal business hours at the offices of the General Partner. Notwithstanding the foregoing, a Limited Partner shall not have access to any information which, in the opinion of the General Partner, should be kept confidential in the interests of the Partnership.

### **Limited Recourse Financings**

Under the *Tax Act*, if a Limited Partner finances the acquisition of Units with indebtedness for which recourse is limited, or is deemed to be limited, the CEE or other expenses incurred by the Partnership may be reduced by the amount of such indebtedness. The Partnership Agreement provides that where CEE of the Partnership is so reduced the amount of CEE that would otherwise be allocated to the Limited Partner who incurs the limited recourse indebtedness shall be reduced by the amount of the reduction. Where the reduction of other expenses reduces the loss of the Partnership, the Partnership Agreement provides that such reduction shall first reduce the amount of the loss that would otherwise be allocated to the Limited Partner who incurs the limited recourse indebtedness.

For the purposes of the *Tax Act*, recourse for a borrowing or other indebtedness is generally deemed to be limited unless:

- (a) *bona fide* arrangements, evidenced in writing, are made, at the time the indebtedness arises, for repayment of the indebtedness and all interest thereon within a reasonable period not exceeding ten years; and
- (b) interest is payable, at least annually, at a rate equal to or greater than the lesser of the prescribed rate of interest under the *Tax Act* in effect at the time the indebtedness arose, and the prescribed rate of interest applicable from time to time during the term of the indebtedness, and such interest is paid by the Limited Partner in respect of the indebtedness not later than 60 days after the end of each taxation year of the Limited Partner.

**Investors that propose to borrow or otherwise finance the subscription price of Units should consult their own advisors to ensure that any such borrowing or financing is not treated as a limited recourse financing under the *Tax Act*.**

### **Limited Liability**

The Partnership was formed in order for Limited Partners to benefit from liability limited to the extent of their capital contributions to the Partnership together with their pro rata share of the undistributed income of the Partnership. Limited Partners may lose the protection of limited liability by taking part in the control of the business of the Partnership and may be liable to third parties as a result of false or misleading statements in the public filings made pursuant to the *Limited Partnerships Act* (Ontario). Limited Partners may also lose the protection of limited liability if the Partnership carries on business in a province or territory of Canada which does not recognize the limited liability conferred under the *Limited Partnerships Act* (Ontario).

The General Partner will indemnify the Limited Partners against any costs, damages, liability or loss incurred by a Limited Partner that result from such Limited Partner not having limited liability, except where the lack or loss of limited liability is caused by some action of such Limited Partner or a change in any applicable legislation. **However, the General Partner has nominal assets. Consequently, it is unlikely that the General Partner will have sufficient assets to satisfy any claims pursuant to this indemnity.**

In all cases other than the possible loss of limited liability, no Limited Partner will be obligated to pay any additional assessment on or with respect to the Units held or purchased by him; however, the Limited Partners and the General Partner may be bound to return to the Partnership such part of any amount distributed to them as may be necessary to restore the capital of the Partnership to its existing amount before such distribution if, as a result of such distribution, the capital of the Partnership is reduced and the Partnership is unable to pay its debts as they become due.

### **Transfer of Partnership Assets to the Mutual Fund and Dissolution of the Partnership**

Creststreet will use its best effort to qualify the Mutual Fund as a mutual fund corporation for the purposes of the *Tax Act*. The Partnership Agreement provides that, provided the Mutual Fund may qualify as a mutual fund corporation and the Mutual Fund may acquire the assets of the Partnership under applicable securities laws, the General Partner will be irrevocably authorized to transfer the assets of the Partnership to the Mutual Fund in exchange for Mutual Fund Shares of the Mutual Fund on or about the Dissolution Date and to file the appropriate elections under applicable income tax legislation to effect the transfer on a tax-deferred basis. The Partnership will receive Mutual Fund Shares having the same aggregate Net Asset Value as the aggregate Net Asset Value of the Partnership (disregarding the liability to pay the Performance Bonus, if any, in Mutual Fund Shares) determined on the same basis as the Net Asset Value of the Mutual Fund. The completion of such transaction may require prior regulatory approval. There can be no assurance that any such approval will be granted. Following the transfer of

assets to the Mutual Fund and payment in Mutual Fund Shares of the Performance Bonus, if any, to the General Partner, the General Partner is irrevocably authorized to implement the dissolution of the Partnership and upon dissolution, the Limited Partners and the General Partner will receive their pro rata interest in the remaining Mutual Fund Shares on a tax-deferred basis, which Mutual Fund Shares will be redeemable by the holders thereof. See “Transfer of Partnership Assets and Dissolution”.

The General Partner may, in its sole discretion and upon not less than 30 days’ prior written notice to the Limited Partners, extend the date for the dissolution of the Partnership to a date no later than September 30, 2003 if the General Partner determines that it would be in the best interests of the Limited Partners to do so. In addition, the Limited Partners may extend the date of dissolution by extraordinary resolution.

### **Transfers of Units**

Only whole Units are transferable. A Limited Partner may transfer all or part of his Units by delivering to the General Partner a form of transfer, substantially in the form annexed as Schedule “B” to the Partnership Agreement, or such other form as is acceptable to the General Partner, duly executed by the Limited Partner, as transferor, and the transferee. The transferee, by executing the transfer, agrees to be bound by the Partnership Agreement as a Limited Partner as if the transferee had personally executed the Partnership Agreement. Transferees who execute the transfer thereby represent and warrant that they are not “non-residents” within the meaning of the *Tax Act* and covenant to maintain such status during such time as the Units are held by them. A transferee executing the transfer also thereby represents and warrants that he is not a partnership and that his acquisition of the Units from the transferor was not financed with a borrowing or other indebtedness for which recourse is, or is deemed to be, limited for the purposes of the *Tax Act*, ratifies and confirms the power of attorney given to the General Partner in Article XIX of the Partnership Agreement and, unless he provides written notice to the contrary to the General Partner with the delivery of such executed transfer form, is deemed to represent and warrant that he is not a “financial institution” within the meaning of subsection 142.2(1) of the *Tax Act* and to covenant that he will not become a “financial institution” while he holds Units.

The General Partner may accept or reject a transfer, in its sole discretion and will deny the transfer of Units to a “non-resident” for the purposes of the *Tax Act*, to a partnership, or to a transferee who has financed the acquisition of the Units with a borrowing or other indebtedness for which recourse is, or is deemed to be, limited for the purposes of the *Tax Act*. The General Partner reserves the right to sell any Units held by a “non-resident” or “financial institution” or partnership appearing from time to time on the record of Limited Partners or to purchase the same on behalf of the Partnership at fair value.

Pursuant to the provisions of the Partnership Agreement, when the transferee has been registered as a Limited Partner in accordance with the Partnership Agreement, the transferee of Units shall become a party to the Partnership Agreement and shall be subject to the obligations and entitled to the rights of a Limited Partner under the Partnership Agreement. A transferor of Units will remain liable to reimburse the Partnership for any amounts distributed to him by the Partnership which may be necessary to restore the capital of the Partnership to the amount existing immediately prior to such distribution, if the distribution resulted in a reduction of the capital of the Partnership and the incapacity of the Partnership to pay its debts as they became due.

There is no market through which the Units may be sold and none is expected to develop. Limited Partners may find it difficult or impossible to sell their Units.

### **Meetings**

The General Partner may at any time convene a meeting of the partners of the Partnership and will be required to convene a meeting on receipt of a request in writing of Limited Partners holding, in aggregate, 25% or more of the Units then outstanding. Each Limited Partner is entitled to one vote for each Unit held. The General Partner is entitled to one vote in its capacity as General Partner. A quorum consists of two or more Limited Partners present in person or

by proxy and representing not less than 10% of the Units then outstanding in the case of an ordinary resolution and 50% of the Units then outstanding in the case of an extraordinary resolution. If a quorum is not present at any meeting within thirty minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Limited Partners, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days nor more than 21 days later, selected by the General Partner and notice will be given to the Limited Partners of such adjourned meeting. The Limited Partners present at any adjourned meeting will constitute a quorum. The General Partner in respect of any Units which may be held by it from time to time, insiders of the Partnership (as such expression is defined in the *Securities Act* (Ontario)), affiliates of the General Partner and any director or officer of such persons, who hold Units shall not be entitled to vote on any extraordinary resolution to be adopted by the Limited Partners.

### **Amendments**

The Partnership Agreement may only be amended with the consent of the Limited Partners given by extraordinary resolution passed by holders of not less than 66 2/3% of the Units voting thereon. However, unless all of the Limited Partners consent thereto, no amendment can be made to the Partnership Agreement which would have the effect of reducing the interest in the Partnership of any Limited Partner, changing in any manner the allocation of income or loss for tax purposes, changing the liability of any Limited Partner, allowing any Limited Partner to participate in the control or management of the business of the Partnership, changing the right of a Limited Partner or the General Partner to vote at any meeting or changing the Partnership from a limited partnership to a general partnership. In addition, no amendment can be made to the Partnership Agreement which would have the effect of reducing the fees payable to the General Partner or its share of the net income or assets of the Partnership unless the General Partner, in its sole discretion, consents thereto.

Notwithstanding the foregoing, the General Partner is entitled to make certain amendments to the Partnership Agreement without the consent of the Limited Partners for the purpose of adding any provisions which, in the opinion of counsel to the Partnership, are for the protection or benefit of the Limited Partners or the Partnership, for the purpose of curing an ambiguity or for the purpose of supplementing any provision which may be defective or inconsistent with another provision or required by law. Such amendments may be made only if they do not and will not, in the opinion of the General Partner, materially adversely affect the rights of any Limited Partner.

### **Removal of General Partner**

The General Partner may not be removed other than by an extraordinary resolution of the Limited Partners in circumstances where the General Partner is in breach or default of its obligations under the Partnership Agreement and, if capable of being cured, such breach or default has not been cured within 20 business days notice of such breach to the General Partner, or if the General Partner becomes bankrupt or insolvent. A quorum for a meeting called for the purposes of removing the General Partner shall consist of two or more Limited Partners present in person or by proxy and representing not less than 50% of the Units outstanding. A new General Partner may be appointed by ordinary resolution.

### **Power of Attorney**

The Partnership Agreement includes an irrevocable power of attorney which authorizes the General Partner on behalf of the Limited Partners, among other things, to receive certain documents as agent for the Limited Partners and to execute the Partnership Agreement, any amendments to the Partnership Agreement and all instruments necessary to reflect the transfer of the assets of the Partnership to the Mutual Fund and the dissolution of the Partnership, as well as any elections, determinations or designations under the *Tax Act* or taxation legislation of any province or other jurisdiction with respect to the affairs of the Partnership or a Limited Partner's interest in the Partnership including, without limitation, elections under subsection 85(2) of the *Tax Act* and the corresponding provisions of applicable provincial legislation in respect of the transfer of Partnership assets to the Mutual Fund. **By purchasing Units, each investor acknowledges and agrees that he has given such power of attorney and will ratify any and all**

**actions taken by the General Partner pursuant to such power of attorney.** The power of attorney shall survive any dissolution or termination of the Partnership.

## **RISK FACTORS**

### **General**

**This is a speculative offering. There is no assurance of a positive return on a Limited Partner's original investment. Investors should consider the following risk factors before purchasing Units:**

- (a) Limited Partners must rely on the discretion of the General Partner in entering into any Flow-Through Agreements with Resource Issuers, in determining (in accordance with applicable investment strategy and Investment Guidelines) the composition of the portfolio of securities of Resource Issuers to be owned by the Partnership and in determining whether to dispose of securities (including Flow-Through Shares) owned by the Partnership. The General Partner will not always review engineering or other technical reports prepared in anticipation of the exploration program or alternative energy project being financed by Flow-Through Shares issued to the Partnership.
- (b) There can be no assurance that the conditions to the transfer of the Partnership's assets to the Mutual Fund will be satisfied in which case the enhanced liquidity feature offered by such transfer will not be available and the Partnership's assets will be sold and the Partnership dissolved on a taxable basis.
- (c) Flow-Through Shares may be issued to the Partnership at prices greater than the market prices of common shares which do not permit CEE to be renounced in favour of the holders and Limited Partners must rely on the discretion of the General Partner in negotiating the pricing of such securities. Competition for the purchase of Flow-Through Shares may increase the premium at which Flow-Through Shares are offered for sale to the Partnership. Flow-Through Shares may be subject to resale restrictions.
- (d) The Partnership has agreed that Creststreet 2001 will have priority over the Partnership with respect to investment opportunities until Creststreet 2001 has fully committed all available investment funds. See "The General Partner - Conflict of Interest".
- (e) There can be no assurance that the General Partner will, on behalf of the Partnership, be able to identify a sufficient number of suitable Resource Issuers willing to issue Flow-Through Shares at prices deemed to be acceptable by the General Partner to permit the Partnership to commit all Available Funds to purchase Flow-Through Shares by December 31, 2001. As at the date hereof, the Partnership has not entered into any Flow-Through Agreements or selected any Resource Issuers in which to invest. If any Available Funds have not been committed by the Partnership to purchase Flow-Through Shares or Warrants on or before December 31, 2001, those funds will be distributed to the Limited Partners of record on December 31, 2001, on a pro rata basis, no later than January 31, 2002. If uncommitted funds are returned in this manner, Limited Partners will not be entitled to claim all of the anticipated deductions from income for income tax purposes.
- (f) The value of Units will vary in accordance with the value of the securities acquired by the Partnership and in some cases the value of securities owned by the Partnership may be affected by such factors as investor demand, resale restrictions, general market trends or regulatory restrictions. Fluctuations in the market values of such securities may occur for a number of reasons beyond the control of the General Partner or the Partnership and there is no assurance that an adequate market will exist for securities acquired by the Partnership. The investment involves a

high degree of risk and should only be considered by persons who can afford a loss of their investment.

- (g) If the transfer of the Partnership's assets to the Mutual Fund is completed, many of the securities held by the Mutual Fund, while listed and freely tradeable, may be relatively illiquid and may decline in price if a significant number of securities are offered for sale.
- (h) Resource Issuers may not hold or discover commercial quantities of petroleum, natural gas or minerals and their profitability (and correspondingly the value of investments held by the Partnership in such Resource Issuers) may be affected by various factors, including adverse fluctuations in commodity prices, unanticipated depletion of reserves, liability for environmental damage, competition and government regulation.
- (i) Because the Partnership will invest in securities predominantly of Resource Issuers engaged in oil and gas exploration and development, the Net Asset Value may be more volatile than portfolios with a more diversified investment focus. The value of the Partnership's portfolio may fluctuate with underlying market prices for commodities produced by those sectors of the economy.
- (j) The Partnership and the General Partner are newly established with no previous operating history.
- (k) While the General Partner has agreed to indemnify the Limited Partners in certain circumstances, the General Partner has nominal assets and it is unlikely that it will have sufficient assets to satisfy any claims pursuant to such indemnity.
- (l) Each of the General Partner and the Manager is significantly dependent on the services of Robert J. Toole, a director and officer of the General Partner and the Manager. The loss of Mr. Toole from the General Partner or from the Manager may have a material adverse effect on the management and business of the Partnership or the Mutual Fund, respectively.
- (m) The General Partner and the Manager and their respective Affiliates, directors and officers may engage in the promotion, management or investment management of any other fund, partnership or other investment vehicle including those which invest primarily in flow-through shares or in other securities of Resource Issuers and certain conflicts may arise from time to time in the management of such funds or vehicles and in determining appropriate investment opportunities. Although none of the directors or officers of the General Partner, the Mutual Fund or the Manager will devote his full time to the business and affairs of the Partnership or the General Partner on the one hand, or the Mutual Fund or the Manager on the other, each will devote as much time as is necessary for the management of the business and affairs of the General Partner and the Partnership or the Mutual Fund and the Manager.
- (n) Limited Partners may lose their limited liability in certain circumstances, including by taking part in the control of the business of the Partnership. The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province but carrying on business in another province or territory have not been authoritatively established. If limited liability is lost, there is a risk that Limited Partners may be liable beyond their contribution and share of undistributed net income of the Partnership in the event of judgment on a claim in an amount exceeding the sum of the net assets of the General Partner and the net assets of the Partnership.
- (o) Limited Partners remain liable to return to the Partnership such part of any amount distributed to them as may be necessary to restore the capital of the Partnership to the amount existing before such distribution if, as a result of any such distribution, the capital of the Partnership is reduced and the Partnership is unable to pay its debts as they become due.

- (p) There is currently no market through which the Units may be sold and none is expected to develop. Purchasers may not be able to resell securities purchased under this prospectus. The Partnership will endeavour to provide Limited Partners with enhanced liquidity for their Units by qualifying the Mutual Fund as a mutual fund corporation and exchanging the assets of the Partnership for Mutual Fund Shares. The completion of this transaction may be subject to prior regulatory approval. There can be no assurance that such arrangement will be successful or that such regulatory approval will be granted. The Mutual Fund is not intended to offer investors a complete investment program. Additionally, the Mutual Fund may not be a reporting issuer under applicable securities laws and transfers of the Mutual Fund Shares may therefore be restricted under such laws. There will be no public market for the Mutual Fund Shares, but the Mutual Fund Shares will be redeemable by the holders thereof. See “Transfer of Partnership Assets and Dissolution”.

### **Tax-Related**

Units are most suitable for an investor whose income is subject to the highest marginal income tax rate. Federal or provincial income tax legislation may be amended, or their interpretation changed, so as to alter fundamentally the tax consequences of holding or disposing of Units or Mutual Fund Shares.

There is a risk that Resource Issuers will not incur and renounce CEE in an aggregate amount equal to the Available Funds which may adversely affect the return on a Limited Partner’s investment in the Units. Under certain Flow-Through Agreements, the subscription price for Flow-Through Shares may be released before CEE has been incurred and renounced. There is a risk under such Flow-Through Agreements that the Resource Issuer will not incur CEE in an amount equal to the subscription price for such shares; however, the Resource Issuer will agree to indemnify each Limited Partner for the additional tax payable by the Limited Partner in such circumstances. There is a further risk that the expenditures incurred by the Resource Issuers and purportedly renounced to the Partnership may not qualify as CEE, which may adversely affect the return on a Limited Partner’s investment in the Units.

If the Partnership sells Flow-Through Shares, it will realize a capital gain substantially equal to the sale proceeds because the Flow-Through Shares have a nil cost for tax purposes. There is therefore a possibility that Limited Partners will receive allocations of income (including taxable capital gains) from the Partnership without receiving a corresponding cash distribution to satisfy any resulting tax liability.

There may be disagreements with the CCRA with respect to certain tax consequences of an investment in Units of the Partnership. The alternative minimum tax could limit tax benefits available to Limited Partners.

If a Limited Partner finances the subscription price of his Units with a borrowing or other indebtedness that is, or is deemed under the *Tax Act* to be, a limited recourse financing, the tax benefits of the investment to the Limited Partner will be adversely affected. See “Canadian Federal Income Tax Considerations”.

### **MATERIAL CONTRACTS**

Material contracts which have been entered into by the Partnership since its formation, other than contracts entered into in the ordinary course of business, are as follows:

- (a) the Partnership Agreement between the General Partner, Creststreet as initial limited partner and the Limited Partners referred to under “Summary of the Partnership Agreement”, the form of which is attached to this prospectus;
- (b) the Agency Agreement made among the Partnership, the General Partner, the Mutual Fund, Creststreet and the Agents and referred to under “Plan of Distribution”;
- (c) the agreement including the right of first refusal referred to under “The General Partner – Conflict of Interest”;

- (d) the agreement made among the Partnership and Creststreet 2001 pursuant to which the Partnership agreed to make available to Creststreet 2001, on a first refusal basis, all investment opportunities made available to the Partnership; and
- (e) the Transfer Agreement made between the Partnership and the Mutual Fund and referred to under “Transfer of Assets of the Partnership and Dissolution”.

Material contracts which have been entered into or will, prior to the initial Closing of this Offering, be entered into by the Mutual Fund since its formation, other than contracts entered into in the ordinary course of business, are as follows:

- (a) the Management Agreement made between the Manager and the Mutual Fund and referred to under “The Mutual Fund – Investment Manager”; and
- (b) the Transfer Agreement made among the Partnership and the Mutual Fund and referred to under “Transfer of Assets of the Partnership and Dissolution”.

Copies of the contracts referred to above, once executed, may be inspected during normal business hours at the offices of Creststreet at Suite 2320, 130 Adelaide Street West, Toronto, Ontario M5H 3P5 throughout the period of distribution and for 30 days thereafter.

#### **PROMOTERS**

Creststreet and the General Partner may be considered as promoters of the Partnership by reason of their initiative in forming and establishing the Partnership and taking the steps necessary for the public distribution of the Units. The promoters will not receive any benefits, directly or indirectly, from the issuance of Units offered hereunder other than as described under “Fees and Expenses Payable by the Partnership” and “Interest of Management in Material Transactions”.

#### **LEGAL PROCEEDINGS**

There are no legal proceedings material to the Partnership, the General Partner or Creststreet. Neither the Partnership, the General Partner nor Creststreet know of any threatened legal proceedings against any of them or of any basis on which legal proceedings may be commenced against them.

#### **LEGAL MATTERS**

Legal matters in connection with the Offering of the Units will be passed upon on behalf of the Partnership, the General Partner and Creststreet by Fasken Martineau DuMoulin LLP and on behalf of the Agents by Fraser Milner Casgrain LLP.

#### **AUDITORS, TRANSFER AGENT, REGISTRAR AND CUSTODIAN**

The auditors of the Partnership and the General Partner are KPMG LLP located at Suite 3300, Commerce Court West, P.O. Box 31, Station Commerce Court, Toronto, Ontario M5L 1B2.

The General Partner will act as transfer agent and registrar and custodian for the Partnership at its principal office in Toronto. Creststreet will act as the initial transfer agent and registrar for the Mutual Fund at its principal office in Toronto. The assets of the Mutual Fund will be held by a duly appointed custodian pursuant to a custodian

agreement in the form required by securities regulatory authorities to be entered into prior to the transfer to the Mutual Fund of the assets of the Partnership.

#### **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt, or deemed receipt, of a prospectus and any amendment. In certain provinces and territories, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, but such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of his province. The purchaser should refer to any applicable provisions of the securities legislation of his province or territory for the particulars of these rights or consult with a legal advisor.

**CRESTSTREET 2001 (II) LIMITED PARTNERSHIP BALANCE SHEET**

**AUDITORS' REPORT**

To the Directors of  
CRESTSTREET 2001 (II) MANAGEMENT LIMITED,  
in its capacity as general partner of Creststreet 2001 (II) Limited Partnership:

We have audited the balance sheet of Creststreet 2001 (II) Limited Partnership (a limited partnership) as at September 28, 2001. This balance sheet is the responsibility of the general partner of the Creststreet 2001 (II) Limited Partnership. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation.

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Limited Partnership as at September 28, 2001 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada

October 30, 2001

(Signed) KPMG LLP

Chartered Accountants

**CRESTSTREET 2001 (II) LIMITED PARTNERSHIP**

**BALANCE SHEET AS AT September 28, 2001**

**ASSETS**

CASH .....	<u>\$10</u>
<b>PARTNER'S CAPITAL</b>	
INITIAL LIMITED PARTNER .....	<u>\$10</u>
Issued and fully paid Partnership Unit at \$10	

See accompanying notes to the balance sheet.

Approved by the Board of Directors of Creststreet 2001 (II) Management Limited, as General Partner:

(Signed) ROBERT J. TOOLE

(Signed) JOHN P.A. BUDRESKI

Director

Director

**NOTES TO BALANCE SHEET**

**1. Formation of Partnership**

Creststreet 2001 (II) Limited Partnership (the "Partnership") was formed as a limited partnership under the laws of the Province of Ontario on September 12, 2001. The Partnership intends to invest predominantly in flow-through shares of resource companies consistent with its investment objective, strategies and guidelines. The objective of the Partnership is (i) the preservation of capital and (ii) capital appreciation primarily through investment in flow-through shares of oil and gas corporations operating in Canada.

The General Partner of the Partnership is Creststreet 2001 (II) Management Limited ("General Partner") which is a promoter of the Partnership in connection with the Offering of units of the Partnership.

Under its limited partnership agreement dated as of September 12, 2001, the Partnership will be dissolved on or about January 15, 2003.

**2. Payments to General Partner**

The General Partner will be entitled to an annual fee of 2.0% of the net asset value of the Partnership and to a 0.01% beneficial interest in the Partnership. In addition, the General Partner will be entitled to a performance bonus on the Partnership's dissolution date in an amount equal to (i) 20% of the amount by which the net asset value per unit exceeds a threshold increase of 18% for the period from the date of the initial closing of the offering of Partnership units to the Partnership's dissolution date, multiplied by (ii) the number of units outstanding at the dissolution date. The General Partner has agreed that the performance bonus, if any, will be paid in shares of Creststreet Resource Fund (III) Limited if the Partnership's assets are transferred to such mutual fund in exchange for mutual fund shares.

In addition, the General Partner is reimbursed for reasonable costs incurred by it in acting as registrar and transfer agent and in attending to the administration of the Partnership.

**3. Sale of Units**

On October 30, 2001, the Partnership entered into an agency agreement for the issuance and sale of up to \$20,000,000 in units of the Partnership before deduction of Agents' commissions and issue costs on a best efforts basis pursuant to a prospectus dated October 30, 2001.

**CRESTSTREET 2001 (II) MANAGEMENT LIMITED BALANCE SHEET**

**AUDITORS' REPORT**

To the Directors of  
CRESTSTREET 2001 (II) MANAGEMENT LIMITED:

We have audited the balance sheet of Creststreet 2001 (II) Management Limited (an Ontario corporation) as at September 28, 2001. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation.

In our opinion, this balance sheet presents fairly, in all material respects, the financial position of the Company as at September 28, 2001 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada

October 30, 2001

(Signed) KPMG LLP

Chartered Accountants

**CRESTSTREET 2001 (II) MANAGEMENT LIMITED**

**BALANCE SHEET AS AT SEPTEMBER 28, 2001**

**ASSETS**

CASH .....	\$1
<b>SHAREHOLDER'S EQUITY</b>	
<b>CAPITAL STOCK:</b>	
Authorized –	
Unlimited number of common shares	
Issued and fully paid –	
100 common shares .....	\$1

See accompanying notes to the balance sheet.

Approved on behalf of the Board:

(Signed) ROBERT J. TOOLE

(Signed) JOHN P.A. BUDRESKI

Director

Director

**NOTES TO BALANCE SHEET**

**1. Incorporation**

Creststreet 2001 (II) Management Limited (the “Company”) was incorporated on September 12, 2001 under the provisions of the *Business Corporations Act* (Ontario).

**2. Material Transactions**

The Company is the general partner of Creststreet 2001 (II) Limited Partnership (the “Partnership”) and will receive an annual fee of 2.0% of the net asset value of the Partnership and has a 0.01% beneficial interest in the Partnership. In addition, the Company will be entitled to a performance bonus on the Partnership’s dissolution date in an amount equal to (i) 20% of the amount by which the net asset value per unit exceeds a threshold increase of 18% for the period from the date of the initial closing of the offering of Partnership units to the Partnership’s dissolution date, multiplied by (ii) the number of units outstanding at the dissolution date. The Company has agreed that the performance bonus, if any, will be paid in shares of Creststreet Resource Fund (III) Limited if the Partnership’s assets are transferred to such mutual fund in exchange for mutual fund shares.

On October 30, 2001, the Company, on its own behalf, and as general partner of the Partnership, entered into an agency agreement for the issuance and sale of up to \$20,000,000 in units of the Partnership before deduction of agents’ commissions and issue costs on a best efforts basis pursuant to a prospectus dated October 30, 2001.

**CERTIFICATES OF THE PARTNERSHIP  
AND THE PROMOTERS**

Dated: October 30, 2001

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland) by section 13 of the *Security Frauds Prevention Act* (New Brunswick), by section 22 of the *Securities Act* (Yukon), by section 28 of the *Securities Act* (Northwest Territories) and by section 28 of the *Securities Act* (Nunavut) and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

(Signed) ROBERT J. TOOLE  
Chief Executive Officer  
of the General Partner

(Signed) DONNA R. MCLEAN  
Chief Financial Officer  
of the General Partner

On Behalf of the Board of Directors of  
Creststreet 2001 (II) Management Limited

(Signed) JOHN P.A. BUDRESKI  
Director

(Signed) GORDON J. BOGDEN  
Director

The Promoters

Creststreet 2001 (II) Management Limited, as Promoter

By: (Signed) ROBERT J. TOOLE  
Chief Executive Officer

Creststreet Asset Management Limited, as Promoter

By: (Signed) ROBERT J. TOOLE  
Chief Executive Officer

**CERTIFICATE OF THE AGENTS**

Dated: October 30, 2001

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each province and territory of Canada, and does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

SCOTIA CAPITAL INC.

(Signed) BRIAN D. MCCHESENEY

BMO NESBITT BURNS INC.

(Signed) JOHN MANNING

TD SECURITIES INC.

(Signed) J. DAVID BEATTIE

HSBC SECURITIES (CANADA) INC.

NATIONAL BANK FINANCIAL INC.

(Signed) R. STEPHEN PEACOCK

(Signed) JULIAN J. DIN

CANACCORD CAPITAL CORPORATION

RAYMOND JAMES LTD.

(Signed) DOUGLAS A. DOIRON

(Signed) JAMES R. E. COULTER

The following includes the names of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of:

SCOTIA CAPITAL INC.: a wholly-owned subsidiary of a Canadian chartered bank.

BMO NESBITT BURNS INC.: a wholly-owned subsidiary of BMO Nesbitt Burns Corporation Limited, an indirect majority-owned subsidiary of a Canadian chartered bank.

TD SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank.

HSBC SECURITIES (CANADA) INC.: a wholly-owned subsidiary of a Canadian chartered bank.

NATIONAL BANK FINANCIAL INC.: an indirect wholly-owned subsidiary of a Canadian chartered bank.

CANACCORD CAPITAL CORPORATION: Peter M. Brown (through the MacLachlan Investments Corporation) and Michael G. Greenwood (directly and through 728541 Alberta Ltd.) Their interests are held indirectly through Canaccord Investment Ltd. and Canaccord Holdings Ltd.

RAYMOND JAMES LTD.: a wholly-owned, indirect subsidiary of Raymond James Financial, Inc.

**CRESTSTREET 2001 (II) LIMITED PARTNERSHIP**

**AMENDED AND RESTATED**

**LIMITED PARTNERSHIP AGREEMENT**

**DATED AS OF OCTOBER 30, 2001**

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AMENDED AND RESTATED MEMORANDUM OF AGREEMENT made as of October 30, 2001.

BETWEEN:

CRESTSTREET 2001 (II) MANAGEMENT LIMITED,  
a corporation duly incorporated under the laws of Ontario and having its principal place of  
business in Toronto, in the Province of Ontario,

(hereinafter referred to as the "General Partner"),

OF THE FIRST PART,

- and -

CRESTSTREET ASSET MANAGEMENT LIMITED,  
a corporation incorporated under the laws of Canada and having its principal place of business in  
Toronto, in the Province of Ontario,

(hereinafter referred to as the "Initial Limited Partner"),

- and -

Each party who, from time to time, becomes a limited partner in accordance with the terms of this  
Agreement,

(hereinafter individually referred to as a "Limited Partner" and collectively referred to as the  
"Limited Partners"),

OF THE SECOND PART.

WHEREAS pursuant to an agreement (the "Initial Agreement") dated as of September 12, 2001, the General  
Partner and the Initial Limited Partner entered into a limited partnership agreement relating to a partnership under the  
firm name and style of "Creststreet 2001 (II) Limited Partnership" (the "Partnership") in respect of which a Declaration  
was duly filed and recorded on September 12, 2001 registering the Partnership as a limited partnership under the laws  
of the Province of Ontario;

AND WHEREAS the General Partner intends to sell Units to investors pursuant to the Prospectus and to admit  
as Limited Partners those investors whose subscriptions are accepted by the General Partner;

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties  
hereto agree as follows:

## ARTICLE I

### FORMATION OF PARTNERSHIP

1.1 The Initial Agreement is hereby amended and restated in its entirety by this Agreement. The General  
Partner hereby represents and warrants that the Partnership commenced on September 12, 2001, that the Partnership  
has filed a Declaration as a limited partnership under the *Limited Partnerships Act* (Ontario), that such Declaration  
has not been withdrawn as of the date hereof and that the Partnership continues as a limited partnership under the  
*Limited Partnerships Act* (Ontario) as of the date hereof.

## ARTICLE II

### NAME, REGISTERED OFFICE AND DURATION OF THE PARTNERSHIP

2.1 The name of the Partnership shall be “Creststreet 2001 (II) Limited Partnership” or such other name or names as the General Partner may from time to time deem appropriate to comply with the laws of the jurisdictions in which the Partnership may carry on business. The Partnership may also use the French form of such name. If the General Partner changes the name of the Partnership, it will give notice of the new name to the Limited Partners within 30 days of the name change becoming effective.

2.2 The registered office of the Partnership shall be located at Suite 2320, 130 Adelaide Street West, Toronto, Ontario M5H 3P5. The Partnership shall have the right to change its registered office, on the condition that it be to a place situated within the Province of Ontario, after having given notice to that effect to the Limited Partners.

2.3 The Partnership shall pursue its activities until on or about January 15, 2003, unless it is dissolved before that date or the term of the Partnership is extended in accordance with the terms of this Agreement. Notwithstanding any other provision of this Agreement, the General Partner may, in its sole discretion upon not less than 30 days’ prior written notice to the Limited Partners, extend the Dissolution Date to a date not later than September 30, 2003 if the General Partner determines that it would be in the best interests of the Limited Partners to do so.

## ARTICLE III

### INTERPRETATION

3.1 Where used in this Agreement or any amendment hereto, the following terms shall, unless the context otherwise requires, have the following meanings, respectively:

“**Affiliate**” of a company means any company which would be deemed to be an affiliate of such company pursuant to subsection 1(2) of the *Securities Act* (Ontario) as it exists on the date of this Agreement;

“**Agents**” means, collectively, Scotia Capital Inc., BMO Nesbitt Burns Inc., TD Securities Inc., HSBC Securities (Canada) Inc., National Bank Financial Inc., Canaccord Capital Corporation and Raymond James Ltd.;

“**Associate**” has the meaning set forth in subsection 1(1) of the *Securities Act* (Ontario) as it exists on the date of this Agreement;

“**Available Funds**” means the total proceeds of the issue of Units pursuant to the Prospectus less the Agents’ fee, expenses of issue and a reserve established by the General Partner required to fund the ongoing fees and expenses of the Partnership;

“**Canadian Exploration Expense**” or “**CEE**” means expenses of the nature referred to in paragraphs (a), (b), (d), (f), (g) or (g.1) of the definition of “Canadian exploration expense” in subsection 66.1(6) of the *Tax Act* and shall include expenses that are “Canadian development expense” as defined in subsection 66.2(5) of the *Tax Act* if such Canadian development expense would be deemed to be Canadian exploration expense of the Partnership when renounced to the Partnership pursuant to subsections 66(12.601) and 66(12.61) of the *Tax Act*;

“**CDS**” means The Canadian Depository for Securities Limited, or its nominee which as at the date hereof is “CDS & Co.”, or a successor thereto;

“**CDS Participants**” shall have the meaning set out in Section 11.4;

“**Certificate**” means a certificate of ownership of Units issued in accordance with Section 11.4 hereof;

“**Closing**” means each closing of the offering of Units in the Partnership pursuant to the Prospectus. No such Closing shall take place after December 31, 2001;

“**Closing Date**” means the date of Closing;

“**Declaration**” means the declaration filed under the *Limited Partnerships Act* (Ontario) establishing the Partnership as a limited partnership, as from time to time amended;

“**Dissolution Date**” means, the date on which the Partnership is dissolved which, subject to earlier dissolution on the terms set forth herein, shall be January 15, 2003 or such later date as determined by extraordinary resolution of the Limited Partners or a date not later than September 30, 2003 at the discretion of the General Partner provided the General Partner gives notice to the Limited Partners of the General Partner’s extension thereof in accordance with Section 10.1;

“**Extraordinary Resolution**” means a resolution passed by 66 2/3% or more of the votes cast at a duly constituted meeting, or an adjournment thereof, of the Limited Partners called for the purpose of considering such resolution, or, alternatively, a written resolution signed in one or more counterparts by Limited Partners holding 66 2/3% or more of the Units outstanding entitled to vote on such resolution at a meeting;

“**Flow-Through Agreement**” means a flow-through share subscription agreement to be entered into between the Partnership and a Resource Issuer pursuant to which the Partnership will subscribe for Flow-Through Shares and the Resource Issuer will agree to incur and renounce to the Partnership CEE in an amount equal to the subscription price for the Flow-Through Shares;

“**Flow-Through Shares**” means shares which are “flow-through shares” as defined in subsection 66(15) of the *Tax Act* and which entitle the holder thereof to a renunciation of CEE;

“**General Partner**” means Creststreet 2001 (II) Management Limited or any other party who may become the General Partner of the Partnership in place of or in substitution for Creststreet 2001 (II) Management Limited, from time to time, in each case until such General Partner ceases to be the General Partner of the Partnership under the terms of this Agreement;

“**High-Quality Liquid Investments**” mean high-quality money market instruments which are accorded the highest rating category by either of Standard & Poor’s (“A-1”) or Dominion Bond Rating Service (“R-1”), interest-bearing accounts of Canadian chartered banks or Canadian trust companies with assets in excess of \$15 billion or securities issued or guaranteed by the Government of Canada or by the government of any province of Canada or agency thereof;

“**Initial Limited Partner**” means Creststreet Asset Management Limited;

“**Limited Partner**” means any registered owner of at least one Unit whose name appears on the current record of the Partnership’s limited partners as maintained by the General Partner pursuant to subsection 4(1) of the *Limited Partnerships Act* (Ontario) and, where the context requires, the Initial Limited Partner;

“**Mutual Fund**” means Creststreet Resource Fund (III) Limited, a corporation incorporated under the laws of Canada;

“**Net Asset Value**” of the Partnership on any date will be calculated by the General Partner by subtracting the aggregate amount of the Partnership’s liabilities from the aggregate of the Partnership’s assets on that date. The Partnership’s assets will be valued as follows:

- (a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash dividends received (or declared to holders of record on a date before the date as of which the Net Asset Value is being determined and to be received) and interest accrued and not yet received, shall be deemed to be the full amount thereof, provided that: (i) the value of any security which is a debt obligation which, at the time of acquisition, had a remaining term to maturity of one year or less shall be the amount paid to acquire the obligation plus the amount of any interest accrued on such obligation since the time of acquisition; (ii) interest accrued will include amortization over the remaining term to maturity of any discount or premium from the face value of an obligation at the time of its acquisition, and (iii) if the General Partner has determined that any such deposit, bill, demand note or account receivable is not worth the full amount thereof, the value thereof shall be deemed to be such value as the General Partner determines to be the fair value thereof;
- (b) the value of any security which is listed or traded upon a stock exchange shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the General Partner such value does not reflect the value thereof and in which case the latest offer price or bid price will be used as determined by the General Partner), as at the Valuation Date on which the Net Asset Value is being determined, all as reported by any means in common use;
- (c) any market price reported in currency other than Canadian dollars shall be translated into Canadian currency at the prevailing rate of exchange, as determined by the General Partner, at the Valuation Date;
- (d) the value of any securities traded over-the-counter will be priced at the average of the latest bid and ask prices quoted by a major dealer in such securities unless a different fair market value is otherwise determined by the General Partner;
- (e) except as otherwise provided, assets for which no published market exists will be valued at cost unless a different fair market value is determined by the General Partner;
- (f) the value of any restricted securities (including securities subject to any hold period) shall be the lesser of:
  - (A) the value thereof based on reported quotations in common use; and
  - (B) that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Partnership's acquisition cost was of the market value of such securities at the time of acquisition, provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restrictions will be lifted is known;
- (g) the value of any security or property or other assets to which, in the opinion of the General Partner, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair value thereof determined in good faith in such manner as the General Partner from time to time adopts.

“**Net Asset Value per Unit**” is the amount obtained by dividing the Net Asset Value as of a particular date by the total number of Units outstanding on that date;

“**Offering**” means the initial public offering of Units as described in the Prospectus;

“**Ordinary Resolution**” means a resolution passed by more than 50% of the votes cast at a duly constituted meeting of Limited Partners, or an adjournment thereof, or, alternatively, a written resolution signed in one or more counterparts by Limited Partners holding more than 50% of the Units outstanding entitled to vote at a meeting;

“**Partner**” means any Limited Partner or the General Partner;

“**Partnership**” means the partnership formed by the General Partner and the Initial Limited Partner on September 12, 2001 and registered as a limited partnership pursuant to the filing of the Declaration under the *Limited Partnerships Act* (Ontario) on the same date;

“**Partnership Capital**” means the amount of capital of the Partnership which is raised pursuant to subscriptions for Units;

“**Performance Bonus**” means a performance bonus payable by the Partnership to the General Partner in an amount equal to (i) 20% of the amount by which the Net Asset Value per Unit exceeds a threshold increase of 18% for the period from the date of the initial Closing to the Dissolution Date, multiplied by (ii) the number of Units outstanding at the Dissolution Date. The Performance Bonus will be determined by calculating the Net Asset Value per Unit on the Dissolution Date without taking the Performance Bonus into consideration and excluding the effect of distributions, if any, to Partners and comparing such number to \$10;

“**Prospectus**” means the final prospectus of the Partnership relating to the Offering, including any amendments thereto;

“**Resource Issuer**” means a company whose principal business is oil and gas exploration and development, mining exploration and development or the generation of energy using alternative means or the development of alternative energy projects, and which is a principal business corporation as defined in subsection 66(15) of the *Tax Act*;

“**Subscription**” means a subscription for two hundred and fifty (250) or more Units;

“**Subscription Price**” means, in respect of a Unit, the amount of \$10 to be contributed to the Partnership Capital in consideration for the issue of that Unit;

“**Tax Act**” means the *Income Tax Act* (Canada), as amended from time to time;

“**Transfer Form**” means a transfer form as provided for in paragraph 12.1(a) hereof;

“**Unit**” means an equal and undivided interest in 99.99% of the net assets of the Partnership acquired by subscription therefor or transfer thereof;

“**Valuation Date**” means the day of the first Closing and the last business day of each month during the term of the Partnership; and

“**Warrants**” means common share purchase warrants that are acquired in connection with an investment in Flow-Through Shares.

3.2 The division of this Agreement into Articles, Sections, paragraphs, subparagraphs and clauses and the insertion of headings and an index are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms “this Agreement”, “hereto”, “herein”, “hereunder” and similar expressions refer to this Agreement (including the schedules annexed hereto) and not to any particular Article, Section, paragraph or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

3.3 Words importing the singular number only shall include the plural and vice versa. Words importing the use of any gender shall include all genders. Words importing persons shall include firms, trusts and corporations and vice versa.

3.4 In the event that one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality or enforceability of the remaining

provisions hereof shall not be affected or impaired thereby. Each of the provisions of this Agreement is hereby declared to be separate and distinct.

3.5 Wherever in this Agreement reference is made to a calculation or determination to be made, it shall be made in accordance with generally accepted accounting principles consistently applied from time to time and approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation or determination is made or required to be made, all of which will be binding upon the Partners.

3.6 The schedules hereto and forming part of this Agreement are as follows:

Schedule A – Unit Certificate

Schedule B – Transfer Form.

## ARTICLE IV

### UNITS

4.1 The interest in the Partnership of the Limited Partners will be divided into and represented by a total of not more than 2,000,000 Units.

4.2 The General Partner may raise capital for the Partnership by selling Units and may determine the terms and conditions of any such sale and may do all things in that regard including preparing and filing a preliminary prospectus and the Prospectus, or an offering memorandum, and such other documents as may be necessary or advisable, paying the expenses of issue and entering into agreements with any person providing for a commission or fee in respect of such sale, either to agents or purchasers, all in a manner that is not inconsistent with the provisions of the Prospectus or any offering memorandum and all things done by the General Partner in that regard are hereby ratified and confirmed, provided that the General Partner has complied with applicable securities laws and Section 13.4 of this Agreement.

4.3 Each subscriber shall submit a Subscription to one of the Agents. The General Partner shall have the right to accept or reject Subscriptions in whole or in part. Without limiting the generality of the foregoing, the General Partner will reject Subscriptions by “non-residents” within the meaning of the *Tax Act* and partnerships and may reject Subscriptions of Units to be issued in more than one name. If a Subscription is rejected in whole or in part, monies received and not applied towards the Subscription Price shall be returned to the subscriber without interest or deduction within 15 days following such rejection. The acceptance of a Subscription by the General Partner, whether in whole or in part, shall constitute a subscription agreement between such subscriber and the Partnership upon the terms and conditions set out in the Prospectus and this Agreement, including the following:

- (a) the irrevocable authorization and direction to the Agents to provide to the General Partner all information about such subscriber that the General Partner requires in order to maintain the record of limited partners pursuant to subsection 4(1) of the *Limited Partnerships Act* (Ontario), including the name and address of such subscriber, as well as the social insurance, business or corporation account number of such subscriber, as the case may be, and the name and registered representative number of the representative of the Agents responsible for such subscription, and to confirm to the General Partner the accuracy of such information prior to the dissolution of the Partnership;
- (b) the acknowledgement by such subscriber that he is bound by the terms of this Agreement and is liable for all obligations of a Limited Partner, including the obligation to pay the amount due on account of the Subscription Price;
- (c) the representation, warranty and covenant of such subscriber that he is not a “non-resident” of Canada for purposes of the *Tax Act*, that he will maintain such status during such time as Units are held by him, that

the subscriber is not a partnership and that payment of the subscription price for such subscriber's Units was not financed through a borrowing or other indebtedness for which recourse is or is deemed to be limited within the meaning of Section 143.2 of the *Tax Act*. For these purposes, the *Tax Act* provides that recourse for a borrowing or other financing is generally deemed to be limited unless: (i) *bona fide* arrangements, evidenced in writing, are made, at the time the indebtedness arises, for repayment of the indebtedness and all interest thereon within a reasonable period not exceeding ten years; and (ii) interest is payable, at least annually, at a rate equal to or greater than the lesser of the prescribed rate of interest under the *Tax Act* in effect at the time the indebtedness arose, and the prescribed rate of interest applicable from time to time during the term of the indebtedness and such interest is paid by the Limited Partner in respect of the indebtedness not later than 60 days after the end of each taxation year of the Limited Partner;

- (d) the irrevocable nomination, constitution and appointment of the General Partner as his true and lawful attorney with the full power and authority as set out in this Agreement; and
- (e) the representation, warranty and covenant of such subscriber that, unless such subscriber has provided written notice to the General Partner prior to the date of acceptance of any part of his Subscription to the contrary, it is not a "financial institution" as that term is defined in subsection 142.2(1) of the *Tax Act* at such date and, if it is not a "financial institution" at such date, it will continue not to be a "financial institution" during such time as Units are held by it.

Such subscription agreement shall be evidenced by delivery of the Prospectus to such subscriber, provided that the Subscription of such subscriber has been accepted by the General Partner. The Subscription will have been accepted by the General Partner upon issuance of the Units on the Closing Date.

4.4 A Limited Partner shall subscribe for no fewer than two hundred and fifty (250) Units and, subject to the maximum number of Units which may be issued by the Partnership, there shall be no restriction on the maximum number of Units that a Limited Partner is entitled to hold in the Partnership. No fractional Units shall be issued.

4.5 Each subscriber who subscribes for Units on Closing shall furnish to the capital of the Partnership the Subscription Price which shall be payable in the manner contemplated herein and in the Prospectus, except for the Initial Limited Partner who shall furnish \$10 to the capital of the Partnership upon execution of this Agreement. Upon or as soon as possible after the first Closing, the interest of the Initial Limited Partner shall be redeemed by the Partnership. Every person whose Subscription has been accepted in whole or in part by the General Partner shall become a Limited Partner upon being recorded as such in the current record maintained by the General Partner pursuant to subsection 4(1) of the *Limited Partnerships Act* (Ontario) and shall be deemed to have been accepted as such by all other Limited Partners.

4.6 Subject to Sections 6.9 and 15.5 hereof, each Unit shall entitle the holder thereof to the same rights and obligations as the holder of any other Unit and no Limited Partner shall be entitled to any privilege, priority or preference in relation to any other Limited Partner.

4.7 The General Partner may, but is not obligated to, subscribe for or otherwise acquire Units.

4.8 In the event of default in payment of the Subscription Price when due of any Unit by any Limited Partner for any reason whatsoever, the General Partner and any agent of the General Partner or the Partnership authorized by the General Partner may (i) execute and deliver to the General Partner a transfer of Units from such Limited Partner in favour of the Partnership, which transfer of Units shall be sufficient to transfer the Units to the Partnership; and (ii) deny any transfer of Units proposed by that Limited Partner; all without prejudice to any other recourse the Partnership may otherwise have against such Limited Partner; provided, however, that no such action shall be taken by the General Partner without giving at least 15 days' notice of such default to the Limited Partner.

4.9 At no time may "financial institutions" (as that term is defined in subsection 142.2(1) of the *Tax Act*) (each a "financial institution") be the beneficial owners of more than 45% of the Units. The General Partner may require any Limited Partner to provide a declaration as to its status as a financial institution. If the General Partner becomes aware

that the beneficial owners of 45% or more of the Units then outstanding are, or may be, financial institutions or that such a situation is imminent, the General Partner shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration in form and content satisfactory to the General Partner that the person is not a financial institution. If, notwithstanding the foregoing, the General Partner determines that more than 45% of the Units are held by financial institutions, the General Partner may send a notice to Limited Partners that are financial institutions, chosen in inverse order to the order of acquisition or registration or in such other manner as the General Partner may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 15 days. If the Limited Partners receiving such notice have not sold the specified number of Units or provided the General Partner with satisfactory evidence that they are not financial institutions within such period, the General Partner shall have the right to sell such Limited Partners' Units (and in the interim, shall suspend the voting and distribution rights attached to such Units) or to purchase the same on behalf of the Partnership at fair value determined by an independent third party selected by the General Partner, whose determination will be final and binding and not subject to review or appeal. Upon such sale, the affected Limited Partners shall cease to be Limited Partners and their rights shall be limited to receiving the net proceeds of sale of such Units.

## **ARTICLE V**

### **BUSINESS OF THE PARTNERSHIP**

5.1 The Partnership will invest its Available Funds in Resource Issuers in accordance with Flow-Through Agreements pursuant to which the Resource Issuers will incur CEE to be renounced in favour of the Partnership and will issue Flow-Through Shares to the Partnership. Notwithstanding the foregoing, in the event that a Resource Issuer is unable to incur sufficient CEE to enable it to issue the maximum number of Flow-Through Shares issuable to the Partnership pursuant to the Flow-Through Agreement entered into between the Partnership and the Resource Issuer, the Partnership may invest all or any portion of the unexpended Available Funds that have been committed to that Resource Issuer to purchase common shares issued by it which do not constitute Flow-Through Shares if (i) in the opinion of the General Partner it is in the best interests of the Partnership to do so, and (ii) the price at which the common shares are issuable to the Partnership is less than the market price of those shares, determined at the time as at which the Partnership elects to purchase those common shares. The Partnership may invest up to 1% of its Available Funds in Warrants. The General Partner will manage the resulting portfolio of Flow-Through Shares and common shares, if any. The Partnership shall not carry on any other business except as incidental to the foregoing, provided that the Partnership may invest and reinvest its funds, subject to the restrictions herein contained.

5.2 The General Partner shall use its best efforts to commit all of the Available Funds in accordance with this Agreement on or before December 31, 2001 under Flow-Through Agreements pursuant to which Resource Issuers will renounce CEE equal to the amount committed with an effective date of not later than December 31, 2001. Notwithstanding the foregoing, up to 1% of Available Funds may be invested in Warrants. Any Available Funds not committed by the Partnership to purchase Flow-Through Shares or Warrants on or before December 31, 2001 shall be returned to the Limited Partners of record on December 31, 2001 by January 31, 2002 or the Dissolution Date, whichever is earlier, without interest. Interest earned by the Partnership from time to time after the Closing on funds of the Partnership will accrue to the benefit of the Partnership. If accrued prior to December 31, 2001, such interest will form part of the Available Funds which will be invested with regard to the Investment Guidelines; if accrued after that time, such interest, at the General Partner's discretion, will be used to fund the Partnership's expenses or invested in additional Flow-Through Shares of other Resource Issuers or in common shares of Resource Issuers which do not constitute Flow-Through Shares or in High-Quality Liquid Investments.

## **ARTICLE VI**

### **EXPENSES, ALLOCATION OF PROFITS AND LOSSES OF THE PARTNERSHIP AND DISTRIBUTIONS**

6.1 The Partnership shall pay all fees and expenses payable by it in connection with the issue and sale of Units, including the costs of organization of the Partnership and other expenses of the Offering.

6.2 The General Partner will be entitled to receive a management fee equal to 1/12th of 2% of the Net Asset Value of the Partnership, calculated and payable monthly in arrears on or before the 10th day of each month based on the Net Asset Value of the Partnership at the end of the preceding month. Additionally, the General Partner will be entitled to the Performance Bonus on the Dissolution Date. The General Partner agrees that the Performance Bonus, if any, will be paid in Mutual Fund Shares if the Partnership's assets are transferred to the Mutual Fund as contemplated by Section 10.3 unless payment in such manner is not permitted by applicable law.

6.3 The General Partner shall not be entitled to charge for its overhead or other administrative costs, other than reasonable costs incurred by the General Partner in connection with preparation, delivery and filing of financial statements, reports and other information referred to in Article VIII or required by law and/or acting as registrar and transfer agent of the Partnership; provided, however, that the General Partner shall be entitled to be reimbursed for all expenses, fees and costs of third parties dealing at arm's length with the General Partner and incurred on behalf of the Partnership for services rendered to the Partnership.

6.4 Subject to Section 7.7 hereof, the proceeds from the issue of Units by the Partnership will be applied only to pay those fees and expenses referred to in Sections 6.1 to 6.3 hereof and any applicable taxes and to pay the purchase price for the Flow-Through Shares, Warrants and common shares, if any, of the Resource Issuers subscribed for by the Partnership in accordance with the terms and conditions of the Flow-Through Agreements.

6.5 The net income and net loss of the Partnership for each fiscal year, after deducting the amounts referred to in Section 6.1 hereof, and the amounts payable to the General Partner referred to in Sections 6.2 to 6.3 hereof, shall be allocated among the Partners as follows:

- (a) the Limited Partners of record at the end of the fiscal year shall be entitled to 99.99% of the net income or net loss of the Partnership which shall be allocated among the Limited Partners in proportion to the number of Units held by each of them; and
- (b) the General Partner shall be entitled to 0.01% of the net income or net loss of the Partnership.

6.6 The net income or net loss of the Partnership for each fiscal year for income tax purposes shall be allocated among the Partners on the basis set forth in Section 6.5. The CEE renounced to the Partnership with an effective date in a fiscal year shall be allocated among the Limited Partners of record at the end of the fiscal year in proportion to the number of Units held by each of them. In computing the net income or net loss of the Partnership for each fiscal year for income tax purposes, the Partnership will claim the maximum amounts allowable under the *Tax Act* in respect of offering expenses, operating expenses and discretionary deductions.

6.7 The Partnership does not expect to make, but is not precluded from making, cash distributions to Partners prior to the dissolution of the Partnership.

6.8 Any grants, payments, credits or other amounts in respect of any government program, received by the Partnership or to which the Limited Partners are entitled shall be allocated among the Limited Partners of record at the end of the relevant fiscal year in proportion to the number of Units then held by each of them unless otherwise required by law. Distribution of such grants, payments, credits or other amounts shall be made by the Partnership to Limited Partners so entitled on or before the date of dissolution of the Partnership.

6.9 Notwithstanding Section 6.6, in the event that the actions of a particular Limited Partner result in a reduction in the net loss of the Partnership or a reduction in the amount of any CEE renounced or that might otherwise be renounced to the Partnership, the amount of such reduction shall be applied firstly to reduce the share of the net loss or the CEE, as applicable, that would otherwise be allocated to the particular Limited Partner pursuant to Section 6.6. To the extent the amount of such reduction exceeds the net loss of the Partnership or the CEE that would otherwise be allocated to the particular Limited Partner, the net loss or the CEE after such reduction will be

allocated among the Limited Partners other than the particular Limited Partner in proportion to the number of Units held by each of them. If, in a subsequent fiscal period, the particular Limited Partner takes steps which offset all or part of the reduction in the net loss of the Partnership or the reduction in the amount of such CEE, such amount of the net loss of the Partnership or CEE, as the case may be, as is restored at such time shall first be allocated pro rata among the other Limited Partners until their share of the net loss or CEE are restored to what they would have been but for the actions of the particular Limited Partner and then to the particular Limited Partner.

## ARTICLE VII

### FUNCTIONS AND POWERS OF THE PARTNERS

7.1 The General Partner shall have exclusive authority to manage the operations and affairs of the Partnership, to make all decisions regarding the business of the Partnership, to bind the Partnership and to admit Limited Partners. No person dealing with the Partnership shall be required to verify the power of the General Partner to take any measure or any decision in the name of the Partnership.

7.2 Without limiting the foregoing, but always in pursuance of the business of the Partnership and subject to the terms of this Agreement and to any applicable limitations set forth in the *Limited Partnerships Act* (Ontario) which have not been amended by this Agreement, the General Partner shall be vested with all of the rights, powers and obligations that may be possessed by a general partner pursuant to the *Limited Partnerships Act* (Ontario), including without limitation the following powers:

- (a) to execute and carry out all agreements on behalf of the Partnership involving matters or transactions which are within the ordinary course of the Partnership's business, including without limitation, Flow-Through Agreements, subject to Sections 7.8 and 7.9 hereof;
- (b) to admit any person as a Limited Partner, subject to the provisions of Sections 4.3 and 12.1 hereof;
- (c) to open and manage in the name of the Partnership bank accounts and to name signing officers for these accounts and to spend the Partnership Capital in the exercise of any right or power possessed by the General Partner;
- (d) to manage, control and develop all the activities of the Partnership and to take all measures necessary or appropriate for the business of the Partnership or ancillary thereto;
- (e) to conclude agreements with third parties so that services may be rendered to the Partnership and to delegate to any such person any power or authority of the General Partner hereunder where, in the discretion of the General Partner, it would be in the best interests of the Partnership to do so (provided that such agreement or delegation will not relieve the General Partner of any of its obligations hereunder);
- (f) to decide in its sole and entire discretion any additional time when property of the Partnership shall be distributed to the Partners and the amount of any such distribution;
- (g) to manage, administer, conserve, develop, operate and dispose of any and all properties or assets of the Partnership, including Flow-Through Shares, Warrants and common shares, if any, and in general to engage in any and all phases of business of the Partnership;
- (h) without altering or affecting the rights, titles and interests hereby, to hold the assets of the Partnership in the name of the General Partner, as nominee for the Partnership, and for the use and benefit of the Partners in accordance with the terms and provisions hereof, until such time as the General Partner determines that it is appropriate or advisable for the assets to be held or registered in the name of the Partnership, another nominee or otherwise. (For greater certainty, such holding of the assets will not prevent the vesting of the

legal and beneficial title thereto in the Partnership in the manner and at the time that may be otherwise herein provided); and

- (i) to execute any and all other deeds, documents and instruments and do all acts as may be necessary or desirable to carry out the intent and purpose of this Agreement.

7.3 Subject to Section 6.3 concerning administration expenses, the General Partner or an Affiliate or Associate thereof may render services to the Partnership, provided that the services rendered by the General Partner or by such Affiliate or Associate are performed pursuant to a written agreement and are charged to the Partnership at rates consistent with those of a third party dealing at arm's length with the Partnership and furnishing similar services.

7.4 The General Partner may enter into contracts with third parties so that services may be rendered to the Partnership.

7.5 The General Partner shall file on behalf of the Partnership, on a timely basis whenever required, any amendment to the Declaration and any other declarations, certificates or amendments thereto that might be required by the laws of the Province of Ontario or any other jurisdiction in which the Partnership may carry on business. The General Partner shall take every reasonable action necessary to preserve the limited liability of the Limited Partners and shall not take any action which or omit to take any action, the omission of which, could reasonably be expected to jeopardize the limited liability of the Limited Partners.

7.6 The General Partner shall have the power to receive certain documents as agent for the Limited Partners and to make on behalf of the Partnership and on behalf of each Limited Partner, in respect of any Partner's interest in the Partnership, any and all elections, determinations or designations under the *Tax Act* or any other taxation or other legislation or laws of like import of Canada or of any province or jurisdiction including, without limitation, elections under subsection 85(2) of the *Tax Act* and the corresponding provisions of applicable provincial legislation in respect of the transfer of the Partnership assets to the Mutual Fund. The General Partner shall file, on behalf of the General Partner and the Limited Partners, any information return required to be filed in respect of the activities of the Partnership under the *Tax Act*, or any other taxation or other legislation or laws of like import of Canada or of any province or jurisdiction including, without limiting the generality of the foregoing, any information returns required to be filed under section 237.1 of the *Tax Act* by a promoter of a tax shelter.

7.7 The General Partner will invest that portion of the funds of the Partnership, if any, not yet expended or distributed in accordance with this Agreement, in High-Quality Liquid Investments.

7.8 Notwithstanding any of the foregoing provisions, the General Partner shall not be entitled:

7.8.1 to dissolve the Partnership or wind-up its affairs except in accordance with the provisions of Article X hereof;

7.8.2 subject to Section 7.11, to enter into any Flow-Through Agreement unless:

- (a) by the terms of the Flow-Through Agreement, the Resource Issuer agrees to incur, in an amount at least equal to the aggregate subscription price thereunder for Flow-Through Shares, CEE that will be renounced by the Resource Issuer in favour of the Partnership with an effective date in 2001 and such Resource Issuer will be liable to the Partnership if it fails to do so;
- (b) by the terms of the Flow-Through Agreement, the Flow-Through Shares and common shares, if any, are to be issued in the name of the Partnership or in the name of the General Partner as trustee for the benefit of the Partnership;
- (c) if the Flow-Through Agreement provides that the Partnership shall pay the consideration for Flow-Through Shares issuable under the Flow-Through Agreement before the Resource Issuer has incurred CEE pursuant to the Flow-Through Agreement and that the Flow-Through Shares issuable under the Flow-

Through Agreement shall be issued before the Resource Issuer has incurred CEE pursuant to the Flow-Through Agreement, the Flow-Through Agreement shall contain the covenant of the Resource Issuer to indemnify each Limited Partner for an amount equal to the tax payable by the Limited Partner under the *Tax Act* and the laws of a province as a consequence of (i) the failure of the Resource Issuer to renounce CEE to the Partnership equal in the aggregate to the subscription price of the Flow-Through Shares, or (ii) a reduction pursuant to subsection 66(12.73) of the *Tax Act* of an amount purported to be renounced to the Partnership in respect of the Flow-Through Shares.

7.8.3 to borrow money;

7.8.4 unless authorized by an Extraordinary Resolution:

- (a) to effect a bulk sale of the assets of the Partnership (except to the Mutual Fund in connection with the exchange transaction contemplated by Article X or any other transaction involving the dissolution of the Partnership);
- (b) to make a loan to itself, or to any party with which it does not deal at arm's length within the meaning of the *Tax Act* out of the assets of the Partnership; or

7.8.5 subject to Section 7.11, to enter into Flow-Through Agreements which contemplate that CEE will be incurred after December 31, 2002 or which contemplate that CEE will be renounced with an effective date later than December 31, 2001;

7.9 In addition to the restrictions in Section 7.8 hereof, and notwithstanding any of the foregoing provisions, the General Partner, in entering into Flow-Through Agreements, shall pursue the investment objective and consider, in investing Available Funds, the investment strategy and investment guidelines set forth in the Prospectus under the headings "The Partnership – The Investment" and "The Partnership – Investment Guidelines". The General Partner may, however, depart from such strategy and guidelines in circumstances in which the General Partner considers, in its sole discretion, it is in the best interests of the Partnership to do so.

7.10 No Limited Partner, as such, shall take part in the management or control of the business of the Partnership, transact any business for the Partnership or have the power to sign for or bind the Partnership.

7.11 If the Partnership sells Flow-Through Shares acquired pursuant to Flow-Through Agreements under which the subscription price was funded with Available Funds, the General Partner, if it considers it in the best interests of the Partnership to do so, may invest all or part of the sale proceeds in additional Flow-Through Shares to be acquired pursuant to Flow-Through Agreements. In such event, the Partnership may enter into Flow-Through Agreements after 2001 and which contemplate that CEE may be renounced with an effective date not later than December 31, 2002 and Sections 7.8.2 and 7.8.5 shall apply *mutatis mutandis*.

## **ARTICLE VIII**

### **ACCOUNTING AND REPORTING**

8.1 The Partnership shall use the calendar year as its fiscal year for tax and financial reporting purposes.

8.2 The General Partner shall keep, during the term of the Partnership and for a period of six years thereafter, at its principal place of business, proper and complete records and books of account reflecting the assets, liabilities, income and expenditures of the Partnership and, either directly or by the intermediary of a trust company appointed from time to time as registrar pursuant to Article XI, a register listing the names and addresses of all the Limited Partners and the number of Units held by each of them. Such books, records and registers will be kept available for inspection and audit by any Limited Partner or his duly authorized representatives during business hours at the office of the General Partner or in the case of the register, at the office of any registrar that may be duly appointed for

such purpose. A Limited Partner, however, will not have access to any information of the Partnership contained in its books and records (other than the register) which, in the opinion of the General Partner, should be kept confidential in the interests of the Partnership, and each Limited Partner hereby waives any right, statutory or otherwise, to greater access to the books and records of the Partnership than is permitted herein, to the greatest extent permitted by law.

8.3 Limited Partners may obtain a copy of the information contained in the register referred to in Section 8.2 hereof by mail on written request, within a reasonable period of time from the date of receipt of such request, subject to the Limited Partner:

- (a) agreeing, in writing, that the information contained in the register will not be used by him except in connection with:
  - (i) an effort to influence the voting of Limited Partners;
  - (ii) an offer to acquire Units; or
  - (iii) any other matter relating to the affairs of the Partnership; and
- (b) paying, if requested, a fee in an amount not exceeding the reasonable costs to the Partnership of providing the information.

8.4 The General Partner, at the expense of the Partnership, shall:

- (a) prepare, for each fiscal year, an income and cash flow statement and balance sheet of the Partnership in accordance with generally accepted accounting principles, standards and practices and retain a qualified independent auditor to report thereon. All revenues and expenses of the Partnership shall be calculated and allocated among the Partners in accordance with the provisions of this Agreement. A copy of the financial statements, together with the auditors' report thereon, will be mailed by the General Partner to each Limited Partner within 140 days after the end of each fiscal year;
- (b) prepare an unaudited income and cash flow statement and balance sheet for the three month periods ended March 31, June 30 and September 30 of each fiscal year and the corresponding period of the preceding year. A copy of such unaudited financial statements will be mailed by the General Partner to each Limited Partner within 60 days of the end of each such period in each year;
- (c) on or before March 31 of each year commencing in 2002 or earlier for a Limited Partner if reasonably requested by such Limited Partner, furnish to each Limited Partner of record of the Partnership as at December 31 of the preceding year or on the date of dissolution of the Partnership if dissolution occurred in the preceding year, as the case may be, all necessary income tax reporting information related to his interest in the Partnership as at such date;
- (d) furnish to each Limited Partner such other reports as the Partnership may be required by law to deliver to Limited Partners; and
- (e) prepare and file within the prescribed time all forms and information returns and other documents required by law to be filed by the Partnership with any governmental authority.

8.5 The financial statements referred to above will be accompanied by a narrative report describing the affairs and operations of the Partnership.

8.6 The General Partner is authorized to establish from time to time accounting policies with respect to the financial statements of the Partnership and to change from time to time any policy that has been so established so long as such policies are consistent with generally accepted accounting principles in Canada.

8.7 The appointment of auditors for the Partnership will be made by the General Partner in its sole and unfettered discretion provided only that such auditors be chartered accountants licensed to practice accounting in Canada.

## ARTICLE IX

### LIABILITIES OF THE PARTNERS

9.1 The General Partner has unlimited liability for the undertakings, liabilities and obligations of the Partnership. The liability of each Limited Partner for the liabilities, undertakings and obligations of the Partnership shall be limited to the amount of such Limited Partner's capital contribution plus his pro rata share of the undistributed income of the Partnership. A Limited Partner will have no further personal liability or liabilities and obligations and, following the payment of the Subscription Price, a Limited Partner will not be liable for any further calls or assessments or further contributions to the Partnership. If, however, as a result of a distribution to the Partners, the Partnership Capital is returned to the Partners and the Partnership becomes unable to discharge its debts in the normal course, the Partners having received any such distribution are liable to the Partnership, or where the Partnership is dissolved, to its creditors for any amount, not in excess of the amount returned with interest, necessary to discharge the liabilities of the Partnership to all creditors who extended credit or whose claims otherwise arose before the return of the Partnership Capital. In addition, the Limited Partners acknowledge that there is also a possibility that Limited Partners may lose their limited liability: (a) to the extent the principles of Canadian law recognizing the limitation of liability of limited partners have not been authoritatively established with respect to limited partnerships formed under the laws of one province but operating, owning property or incurring obligations in another province; (b) by taking part in the control of the business; or (c) as a result of false statements in the public filings made pursuant to the *Limited Partnerships Act* (Ontario), in which case they may be liable as third parties.

9.2 The General Partner is not liable to the Limited Partners for any mistakes or errors in judgment, or for any act or omission believed by it in good faith to be within the scope of authority conferred by this Agreement other than an act, omission or error in judgment which is in contravention of Section 13.4 hereof or which is a result of gross negligence or willful misconduct, or for any loss or damage to any of the property of the Partnership attributable to an event beyond the control of the General Partner.

9.3 Notwithstanding Section 9.2 hereof, the General Partner shall indemnify and hold harmless each Limited Partner (including former Limited Partners) from and against all costs, damages, liabilities or losses incurred by such Limited Partner that result from such Limited Partner not having limited liability, other than a loss of limited liability caused by any act or omission of such Limited Partner or a change in any applicable legislation and only in respect of amounts which, in the aggregate, exceed the capital contribution of such Limited Partner. The amount of any such indemnity will be limited to the extent of the assets of the General Partner and will under no circumstance include the assets of any Affiliate or Associate of the General Partner. Except as specifically provided for in this Section 9.3, the General Partner will not otherwise be called upon or be liable to indemnify the Partnership or any Limited Partner. The General Partner will indemnify the Partnership for any costs, damages, liabilities or losses incurred by the Partnership as a result of an act of gross negligence or willful misconduct by the General Partner, its agents or employees or of any act or omission not believed by it in good faith to be within the scope of authority conferred by this Agreement. The obligations under this Section 9.3 shall survive any termination of this Agreement or the Partnership.

9.4 Neither the General Partner nor the Partnership shall have any responsibility to prepare or file income tax returns for any Limited Partner.

9.5 In any action, suit or other proceeding commenced by a Limited Partner against the General Partner, the Partnership shall bear the reasonable expenses of the General Partner (including fees and expenses of any legal counsel retained on its behalf, on a solicitor and his own client basis) in any such action, suit or other proceedings in which or in relation to which the General Partner is adjudged not to be in breach of any duty or responsibility imposed upon it hereunder; otherwise, such costs will be borne by the General Partner.

9.6 If any provision of this Agreement has the effect of imposing upon any Limited Partner any of the liabilities or obligations of a general partner under the *Limited Partnerships Act*, (Ontario) such provision shall be deemed to be of no force and effect and severed from the remainder of this Agreement.

## ARTICLE X

### DISSOLUTION/MUTUAL FUND

10.1 Unless, on or before December 15, 2002, the General Partner gives notice to the Limited Partners of the extension of the term of the Partnership to a date not later than September 30, 2003, the Partnership shall be dissolved on or about January 15, 2003 unless any of the following events shall occur prior thereto in which case the Partnership shall be dissolved on such earlier date:

- (a) if the General Partner, or Limited Partners holding at least 33 1/3% of the Units, make a demand in writing for dissolution and the Limited Partners consent thereto by means of an Extraordinary Resolution, on the date specified in such Extraordinary Resolution;
- (b) on the date which is 180 days following the date of the dissolution, liquidation, bankruptcy, insolvency or winding-up of the General Partner or the nomination of a trustee, sequestrator or liquidator, or the date of any event permitting a trustee or a sequestrator to administer the affairs of the General Partner, provided that the trustee, sequestrator or liquidator performs his functions for 60 consecutive days, unless a new General Partner is admitted to the Partnership by Ordinary Resolution prior to the expiration of such 180 day period; or
- (c) on December 31 of the year during which all of the property of the Partnership is sold or otherwise realized and has been settled and distributed in accordance with this Article.

10.2 The Partnership will not be dissolved or terminated by the resignation, removal, death, incompetence, bankruptcy, insolvency, dissolution, liquidation, winding-up or receivership of, or the admission or withdrawal of, the General Partner or any Limited Partner or upon the transfer of any Units, except as otherwise provided in this Agreement.

10.3

- (a) The General Partner will use its best efforts to (i) qualify the Mutual Fund as a mutual fund corporation under the *Tax Act*; and (ii) satisfy any other conditions to the transfer of the assets of the Partnership to the Mutual Fund and the transfer of the Mutual Fund Shares to the Partnership and to the Partners including, if necessary, the filing of a prospectus, offering memorandum or similar document by the Mutual Fund. In the event that an offering memorandum, prospectus or similar document is prepared in connection with any such transfers, a copy of such document will be delivered to each Limited Partner or to the General Partner as agent for each Limited Partner pursuant to Section 19.1 hereof. The General Partner will provide notice to Limited Partners of its receipt of any documents as agent for the Limited Partners and provide a copy thereof to the Limited Partners upon request.
- (b) Provided that the Mutual Fund qualifies as a mutual fund corporation under the *Tax Act* at the time of the transfer of the assets to the Mutual Fund hereinafter referred to or will qualify within 90 days thereafter, and provided further that the Mutual Fund may acquire the assets of the Partnership under applicable securities laws and issue Mutual Fund Shares in exchange therefor to the Partnership and that such Mutual Fund Shares may then be distributed to the Partners, the Partnership shall, on or about the Dissolution Date, transfer all of its assets, including without limitation, any net proceeds from any sale of Flow-Through Shares which occurs in 2003, but subject to Section 10.3(c), to the Mutual Fund in exchange for Mutual Fund Shares. The Mutual Fund shall assume all contingent and undetermined liabilities and

obligations of the Partnership and shall assume all costs and expenses relating to the transfer of the Partnership's assets to the Mutual Fund but, for greater certainty, shall not assume the obligation to pay the Performance Bonus to the General Partner. The General Partner, on behalf of all Partners, shall file appropriate elections under subsection 85(2) of the *Tax Act* and all other applicable income tax legislation to effect such transfer on a tax-deferred basis. Forthwith following the transfer of assets to the Mutual Fund, the General Partner shall pay the Performance Bonus, if any, to the General Partner by delivery to the General Partner of the appropriate number of Mutual Fund Shares (unless payment in such manner is not permitted by applicable law) and thereafter shall transfer to the Partners the assets of the Partnership, being the remaining Mutual Fund Shares, as to 99.99% to the Limited Partners proportionate to the number of Units held and as to 0.01% to the General Partner. The Partnership shall immediately thereafter and, in any event, within 60 days of the date of transfer of the Partnership assets to the Mutual Fund, satisfy all applicable formalities and dissolve.

- (c) If the General Partner would be unable to make an election under applicable income tax legislation referred to in Section 10.3(b) hereof in respect of certain property ("Non-Qualified Property"), the Non-Qualified Property will be distributed, before the transfer of the balance of the Partnership's assets to the Mutual Fund, as to 99.99% among the Limited Partners proportionate to the number of Units held by them and will be held by the General Partner as their agent and as to 0.01% to the General Partner. Each Limited Partner hereby irrevocably appoints the General Partner as its agent for such purpose. Immediately after the distribution of the Mutual Fund Shares and the dissolution of the Partnership, the General Partner will, on behalf of the Limited Partners and the General Partner, transfer the Non-Qualified Property to the Mutual Fund in exchange for Mutual Fund Shares having a net asset value (calculated on the same basis as Net Asset Value) equal to the value of the Non-Qualified Property. Such Mutual Fund Shares will then be distributed to the Limited Partners and the General Partner. In the event that such transfer does not take place within 10 days of the dissolution of the Partnership, the Non-Qualified Property will be distributed by the General Partner to the Partners entitled thereto.
- (d) The parties agree that there can be no assurance that the General Partner will be successful in its efforts to qualify the Mutual Fund under applicable tax legislation and the General Partner shall have no liability whatsoever to the Limited Partners arising from its failure to qualify the Mutual Fund provided that it has used its best efforts to do so.
- (e) The parties agree that the General Partner shall have no liability whatsoever to the Limited Partners arising from the inability of the Partnership to transfer its assets to the Mutual Fund in exchange for Mutual Fund Shares in compliance with applicable securities laws.

10.4 Not less than 15 days prior to the dissolution of the Partnership, if the assets of the Partnership are not to be transferred to the Mutual Fund as provided in Section 10.3, the General Partner (or in the event that dissolution results from an event referred to in paragraph 10.1(b) hereof, such other person as may be appointed by Ordinary Resolution of the Limited Partners) shall:

- (a) sell or otherwise convert to cash all of the Partnership's assets;
- (b) pay or provide for the payment of the debts and liabilities of the Partnership and liquidation expenses;

and thereafter,

- (c) distribute the remaining assets in cash as to 99.99% to the Limited Partners, proportionate to the number of Units held on such date and as to 0.01% to the General Partner; and
- (d) satisfy all applicable formalities in such circumstances as may be prescribed by applicable law.

The General Partner (or in the event that dissolution results from an event referred to in paragraph 10.1(b), such other person as may be appointed by Ordinary Resolution of the Limited Partners) shall give notice of the proposed date of dissolution of the Partnership not less than 15 days prior to such date, or as soon as practicable thereafter.

10.5 Except upon a dissolution of the Partnership or the return of capital to the Initial Limited Partner pursuant to Section 4.5 hereof or to the Limited Partners pursuant to Section 5.2 hereof, no Limited Partner is entitled to any reimbursement of his contribution to the Partnership Capital.

10.6 Except as provided for in this Agreement, no Limited Partner shall have the right to ask for the dissolution of the Partnership, for the winding-up of its affairs or for the distribution of its assets.

10.7 Notwithstanding the dissolution of the Partnership, this Agreement shall not terminate until the provisions of Section 10.3 or 10.4 hereof, as the case may be, shall have been complied with.

10.8 Notwithstanding anything else herein contained, the General Partner shall not take, or agree to take, any action (corporate or otherwise) to dissolve, liquidate, file a proposal for bankruptcy under the *Bankruptcy and Insolvency Act* (Canada), wind up or make any arrangement or assignment for the benefit of creditors or appoint any trustee, receiver, receiver-manager or sequestrator to administer its affairs, unless it has first given 60 days' notice in writing to the Limited Partners and in such notice called a meeting of Limited Partners to be held for the purpose of appointing a new General Partner by Ordinary Resolution within such 60 day period. Upon the appointment of such new General Partner, the former General Partner shall be deemed to have resigned as the general partner of the Partnership.

## ARTICLE XI

### UNIT CERTIFICATES

11.1 The General Partner may appoint a trust company or other qualified corporation to be the registrar and transfer agent for the Units upon such terms and conditions and at such remuneration as the General Partner considers appropriate. The General Partner may from time to time terminate the engagement of a particular registrar and transfer agent and engage another and will provide notice to the Limited Partners of such appointment within 30 days thereafter. If no such registrar and transfer agent is appointed, the General Partner shall act as registrar and transfer agent of the Units.

11.2 The registrar and transfer agent shall maintain the register of Limited Partners, record issues and transfers of Units, and carry out such other formalities related to the registration and records of the Partnership as is agreed between the registrar and transfer agent and the General Partner.

11.3 The registrar and transfer agent will be considered in its capacity as registrar as having an office only at such location as is, and as transfer agent as having offices only at that location and such other locations as are, approved by the General Partner from time to time and will not be required to transact any business concerning the registration or transfer of Units at any other office.

11.4 A Certificate evidencing the Units will be issued to CDS or its nominee on the Closing Date. CDS requires that any Units registered in the book-based system be represented in the form of a fully registered global Certificate held by, or on behalf of, CDS as custodian of such Certificate for CDS participants (the "CDS Participants") and registered in the name of CDS. The Partners each acknowledge and agree that CDS is acting as their nominee for this purpose and acknowledge and consent to these arrangements. If CDS notifies the Partnership that it is unwilling or unable to continue as depository in connection with such global Certificate, or if at any time CDS ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Partnership is unable to locate a qualified successor, or if the General Partner elects to terminate the book-based system, the General Partner shall make appropriate arrangements to replace either CDS or to replace the book-based system in an orderly fashion. If requested by a Limited Partner and consented to by the General Partner, the General Partner shall issue, or cause the

registrar and transfer agent of the Units to issue, to that Limited Partner, at the expense of the Partnership, a Certificate substantially in the form attached as Schedule A hereto, indicating that such Limited Partner is the owner of the number of Units set out thereon. In that event, a new global Certificate will be issued to and in the name of CDS reflecting the reduction in the number of Units represented by the Certificate held by CDS. The name in which a global Certificate is issued is for the convenience of the book-based system only and shall have no bearing on the identity of the Limited Partners. All distributions will be made to the registered holders of any Certificates issued by the Partnership as contemplated above. Accordingly, distributions will be made by the Partnership to CDS in respect of Units represented by the global Certificate held by CDS. Any such distributions will be forwarded by CDS to the applicable CDS Participants and, thereafter, to the Limited Partners whose Units are represented by that global Certificate.

11.5 Every Certificate must be signed by at least one officer or director of the General Partner and by the registrar and transfer agent, if any, of the Units and the validity of a Certificate will not be affected by the circumstance that a person whose signature is so reproduced is deceased or no longer holds the office which he held when the reproduction of his signature in that office was authorized. The signature of any officer or director of the General Partner may be mechanically reproduced in facsimile and Certificates bearing such facsimile signature shall be binding upon the Partnership as if the Certificate had been manually signed by such director or officer; provided, however, that all Certificates shall bear at least one manual signature.

11.6 A Certificate may be sent through the mail by registered or first class prepaid mail or delivered to the order of the Limited Partner and neither the General Partner, the Partnership nor the registrar and transfer agent will be liable for any loss by a Limited Partner that results from the loss of a Certificate by reason that it is so sent.

11.7 If any Certificate is lost, mutilated, stolen or destroyed, the General Partner shall issue, or cause the registrar and transfer agent to issue, a replacement Certificate to the Limited Partner upon receipt of evidence satisfactory to the General Partner of such loss, mutilation, theft or destruction, and upon receiving such indemnification as it deems appropriate in the circumstances.

11.8 No Unit may be subscribed for by, beneficially owned by or registered in the name of, any person who is not an individual, corporation, body corporate, trustee, executor, administrator or other legal representative and no Unit may be subscribed for, beneficially owned by or registered in the name of, a partnership.

11.9 The General Partner shall be entitled to be reimbursed by the Partnership for all reasonable costs and expenses incurred by it in performing its obligations pursuant to this Article XI; provided, however, that it shall not be entitled to reimbursement for amounts which are in excess of amounts which would be charged by a trust company or other qualified corporation to act as registrar and transfer agent in accordance with the provisions of this Article XI.

11.10 Upon the dissolution of the Partnership and distribution to a Limited Partner of the assets to which such Limited Partner is entitled hereunder, any Certificate for Units issued to such Limited Partner shall become null and void.

11.11 If a Limited Partner at any time changes the CDS Participant through whom such Limited Partner holds its Units, it shall promptly notify CDS of such change.

## **ARTICLE XII**

### **TRANSFER OF UNITS**

12.1 No Unit may be transferred except in conformity with the following provisions:

- (a) a Unit is not transferable in part, and a Limited Partner may transfer only all or some of his Units by delivering to the General Partner the transfer form in the form annexed as Schedule B hereto or such other

form acceptable to the General Partner duly completed and executed by both parties to such transfer with the signature of the transferor guaranteed by a Canadian chartered bank, a trust company qualified to carry on business in any province of Canada, a member of the Investment Dealers Association of Canada or a member of any recognized stock exchange;

- (b) the transfer shall be effective and the transferee shall become a Limited Partner on the later of (i) the day on which the transfer form, or such other form duly completed and executed by the transferor and transferee, is accepted by the General Partner, and (ii) the day that the current record of limited partners of the Partnership maintained by the General Partner pursuant to subsection 4(1) of the *Limited Partnerships Act* (Ontario) is updated to show the transferee as a Limited Partner;
- (c) the General Partner will deny the transfer of Units to a “non-resident” within the meaning of the *Tax Act* or to a partnership and may deny the transfer of Units to a “financial institution” as defined in subsection 142.2(1) of the *Tax Act*;
- (d) no transfer of Units will be accepted by the General Partner after the sending of the notice of dissolution provided for in Section 10.4 hereof; and
- (e) the General Partner shall have the right, in its sole and absolute discretion, to refuse any transfer in whole or in part, and without limiting the foregoing, the General Partner may deny any transfer of Units if the General Partner has reason to believe that the transfer is not being made in compliance with applicable securities laws.

12.2 A transferee of Units will automatically become bound and subject to this Agreement without execution of further instrument from and after the time set forth in Section 12.1(b) above, and, without limiting the generality of the foregoing, such transferee shall be deemed to make all of the representations and warranties, covenants and acknowledgements of a Limited Partner pursuant to this Agreement and to grant the power of attorney provided for in Section 19.1 hereof.

12.3 In the case of a transfer of less than all of the Units represented by a Certificate (if a Certificate has been issued), a new Certificate for the balance of the Units retained by the transferor also shall be issued.

12.4 Neither the General Partner nor the registrar and transfer agent, if any, shall be bound to see to the execution of any trust, express, implied or constructive, or of any charge, pledge or equity to which any of the Units or any interests therein are subject, to ascertain or inquire whether any sale or transfer of any such Units or interest therein by a Limited Partner or his personal representatives is authorized by such trust, charge, pledge or equity or to recognize any person having any interest therein except for the person recorded as such Limited Partner. No transfer shall relieve the transferor from any obligations to the Partnership incurred prior to the transfer becoming effective. Any transfer of Units made in accordance with the provisions hereof shall be made without charge.

12.5 Where a person becomes entitled to a Unit on the incapacity, death or bankruptcy of a Limited Partner, or otherwise by operation of law, in addition to the requirements of Section 12.1 hereof, such entitlement will not be recognized or entered in the register evidencing ownership of the Units until that person:

- (a) has produced evidence satisfactory to the General Partner of such entitlement; and
- (b) has acknowledged in writing that he is bound by the terms of this Agreement.

12.6 A Limited Partner may mortgage, pledge or hypothecate a Unit which has been fully paid for as security for a loan to or an obligation of such Limited Partner; however, the General Partner is not obliged to recognize or acknowledge any such mortgage, pledge or hypothecation, and until and unless a Unit is transferred in accordance with this Article XII, only the registered holder of the Unit shall be recognized by the General Partner and all distributions shall be made to such registered holder.

12.7 Promptly following the registration by the General Partner of any transfer implemented in accordance with this Article XII, the General Partner shall notify CDS of the particulars thereof.

### **ARTICLE XIII**

#### **CONFLICTS OF INTEREST**

13.1 The General Partner may not act as the general partner of any other limited partnerships or engage in any business other than the management of the business of the Partnership as herein set forth.

13.2 The services of the directors and officers of the General Partner are not exclusive to the Partnership. On the initial Closing of the Offering, the Partnership will enter into an agreement with the Initial Limited Partner and the General Partner which will provide that prior to the date that the Partnership has committed all the Available Funds, none of the Initial Limited Partner, the General Partner, their Affiliates or their respective officers will engage in the management or investment management of any future fund, partnership or other legal entity which invests primarily in flow-through shares (other than Creststreet 2000 Limited Partnership and Creststreet 2001 Limited Partnership) unless the future fund, partnership or other legal entity has granted a right of first refusal to the Partnership with respect to any and all potential investments in flow-through shares of Resource Issuers giving rise to CEE by that future fund, partnership or other legal entity.

13.3 Funds of the Partnership will not be commingled with the funds of the General Partner or of any other entity.

13.4 The General Partner will exercise its powers and discharge its duties honestly, in good faith and in the best interest of the Partnership and will exercise the care, diligence and skill of a reasonably prudent and qualified manager.

### **ARTICLE XIV**

#### **REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE PARTNERS**

14.1 The General Partner hereby represents and warrants to the Limited Partners that:

- (a) it is a body corporate, duly incorporated under the laws of Ontario and it is and shall continue to be existing and in good standing under the said laws and under the laws of any jurisdiction where it carries on business and it is not a “non-resident” within the meaning of the *Tax Act*;
- (b) it has and shall continue to have the capacity to act as the General Partner and its obligations herein do not conflict with nor constitute a default under its articles of incorporation, its by-laws or any agreement by which it is bound;
- (c) it shall exercise the powers conferred on it hereunder in pursuance of the business of the Partnership;
- (d) it shall carry out such investigations and obtain such assurances as a prudent investor would deem necessary or appropriate prior to entering into a Flow-Through Agreement with a Resource Issuer; and
- (e) it will devote to the conduct of the affairs of the Partnership such time as may be reasonably required for the proper management of the affairs of the Partnership.

14.2 Each Limited Partner represents, warrants and covenants to the General Partner and all the other Limited Partners that:

- (a) if an individual, he has obtained the age of majority and has the legal capacity and competence to enter into this Agreement and to take all actions required pursuant thereto and hereto;
- (b) if a corporation or body corporate, it has the legal capacity and competence to enter into this Agreement and to take all actions required pursuant thereto and hereto and all necessary approvals by its directors, shareholders and members, or otherwise, have been given to authorize the entering into of this Agreement and to take all actions required pursuant thereto and hereto;
- (c) he or it is not, and will not be as long as he or it is a Limited Partner, a “non-resident” as that expression is defined in the *Tax Act*;
- (d) he or it has not financed, and will not finance, his or its acquisition of the Units with a borrowing or other indebtedness for which recourse is or is deemed to be limited within the meaning of the *Tax Act* and, for the purpose of this representation, warranty and covenant, limited recourse indebtedness includes:
  - (i) indebtedness in respect of which bona fide written arrangements were not made, at the time the indebtedness was incurred, for repayment of all principal and interest within a reasonable period not exceeding 10 years;
  - (ii) indebtedness on which interest is not payable, at least annually, at a rate equal to or greater than the lesser of the rate prescribed under the *Tax Act* at the time the indebtedness arose and the prescribed rate that is applicable from time to time during the term of the indebtedness; and
  - (iii) indebtedness in respect of which such interest is not paid by the debtor within 60 days of the end of the debtor’s tax year;
- (e) he or it shall not transfer his or its Units in whole or in part in a manner that would not conform with Article XII;
- (f) he or it acknowledges and confirms that he or it has conveyed to his or its broker in respect of the offering described in the Prospectus his or its compliance with the representations and warranties set forth in paragraphs 14.2(c) and (d) above;
- (g) it is not a partnership; and
- (h) acknowledges that it may be obliged to provide the General Partner with a declaration that it is not a “financial institution” as that term is defined in subsection 142.2(1) of the *Tax Act*.

14.3 Each Limited Partner covenants and agrees that he will not cease to be a resident of Canada for the purposes of the *Tax Act* or otherwise change his status as represented herein or transfer or purport to transfer his Units to any person that is not a resident of Canada for the purposes of the *Tax Act* or to a partnership or in any other case if such change, transfer or purported transfer would have the effect of altering the status of the Partnership in relation to the *Tax Act* or any similar statute affecting such status. Each Limited Partner covenants and agrees that he will promptly provide evidence to the General Partner upon request of his status under such statute or any similar statute affecting the status of the Partnership or of any other matter which affects or may from time to time affect such status. The General Partner may require those Limited Partners who are non-residents of Canada for the purposes of the *Tax Act* or partnerships to sell their Units to residents of Canada. In the event that a Limited Partner fails to comply with such a request, the General Partner shall have the right to sell such Limited Partner’s Units or to purchase the same on behalf of the Partnership at fair value as determined by an independent third party selected by the General Partner, whose determination will be final and binding and not subject to review or appeal.

14.4 Each Limited Partner will, on the request of the General Partner, immediately execute such documents considered by the General Partner to be necessary to comply with any applicable law or regulation of any jurisdiction in Canada, for the continuation, operation or good standing of the Partnership.

14.5 The representations and warranties contained in this Article XIV shall remain valid after the execution of this Agreement and each party shall be required to ensure that each representation and warranty made by such party pursuant to the above provisions remains true so long as such party remains a Partner.

## ARTICLE XV

### PARTNERSHIP MEETINGS

15.1 The Partnership shall not be required to hold annual general meetings of the Partnership; however, the General Partner may at any time and shall, upon the written request of Limited Partners representing 25% or more of the Units outstanding requesting a meeting and stating the purpose for which the meeting is to be held, call a meeting. If the General Partner fails or neglects to call such a meeting within 30 days after receipt of the written request, any Limited Partner who was a party to the request may call the meeting. Meetings of Limited Partners are to be held at such place in the City of Toronto or other city as the General Partner may designate or, in the event of a meeting called by a Limited Partner in the aforesaid circumstances, at such place in the City of Toronto as the said Limited Partner may designate.

15.2 Notice of any Partners' meeting shall be given to each Limited Partner and to the General Partner. The notice shall be mailed by prepaid post at least 21 and not more than 60 days prior to the meeting and shall specify the time and place of the meeting and in reasonable detail, the nature of all business to be transacted. Notice for adjourned meetings shall be mailed not less than 10 days in advance and otherwise in accordance with the provisions of notice contained in this Article XV, except that it need not specify the nature of the business to be transacted. Accidental failure to give notice to any Partner shall not invalidate a meeting or proceeding thereat.

15.3 The Chairman of all meetings will be chosen by the General Partner unless those Limited Partners present in person or represented by proxy at the meeting choose, by Ordinary Resolution, some other person present to be Chairman. To the extent that the rules and procedures for the conduct of a meeting of the Partners are not prescribed in this Agreement, such rules and procedures may be determined by the Chairman of the meeting.

15.4 Two or more Limited Partners present in person and holding or representing by proxy at least 10% of the Units outstanding shall constitute a quorum at any meeting of the Partners, except for purposes of passing an Extraordinary Resolution to remove the General Partner pursuant to Article XVIII, in which case two or more Limited Partners present in person and holding or representing by proxy at least 50% of the Units outstanding and entitled to vote thereon shall constitute a quorum. If a quorum is not present for a meeting of Partners within 30 minutes after the time fixed for holding the meeting, the meeting, if convened pursuant to a written request of Limited Partners, will be cancelled, but otherwise will be adjourned to such date not less than 10 or more than 21 days after the original date for the meeting as is determined by the General Partner at a time and location determined by the General Partner. The Limited Partners present at any such adjourned meeting shall constitute a quorum.

15.5 At a meeting of Partners, each Limited Partner shall be entitled to one vote for each Unit held. The General Partner shall be entitled to one vote in its capacity as General Partner, at any meeting of the Partners. The Chairman shall not have a casting vote. Every question submitted to a meeting shall be decided by a show of hands unless a poll is demanded by a Partner or the Chairman before the question is put or after the results of the show of hands has been announced and before the meeting proceeds to the next item of business, in which case a poll shall be taken. The General Partner in respect of Units held by it, if any, insiders, as such expression is defined in the *Securities Act* (Ontario), and Affiliates of the General Partner and any director or officer of such persons, if any, who holds Units shall not be entitled to vote on any Extraordinary Resolution. At any meeting of the Partners, upon any matter:

- (a) for which no poll is requested, a declaration made by the Chairman of the meeting as to the voting on any particular resolution shall be conclusive evidence thereof; or

- (b) for which a poll is requested, the result of the poll shall be deemed to be the decision of the meeting on the question or resolution in respect of which the poll was taken.

15.6 At any meeting of Partners, any Limited Partner entitled to vote may vote by proxy in a form acceptable to the General Partner, provided the proxy shall have been received by the General Partner for verification prior to the meeting. Any individual may be appointed as proxy and every instrument of proxy shall be considered valid unless it is dated more than one year before the date of the meeting or is challenged by a Partner or holder of another proxy prior to or at the time of its exercise. The Chairman shall determine the validity of any challenged instrument of proxy.

15.7 A vote cast in accordance with the terms of an instrument of proxy shall be valid notwithstanding the subsequent death, incapacity, insolvency, bankruptcy or insanity of the Limited Partner giving the proxy or the revocation of the proxy, provided that no written notice of such death, incapacity, insolvency, bankruptcy, insanity or revocation shall have been received by the General Partner prior to the time fixed for the holding of the meeting. A Partner which is a corporation may appoint under seal an officer, director or other authorized individual as its representative to attend, vote and act on its behalf at meetings of Partners, and may by a like instrument revoke any such appointment, and for all purposes of meetings of Partners, other than the giving of notice, an individual so appointed will be deemed to be the holder of every Unit held by the corporation he represents.

15.8 In addition to all other powers conferred on them by this Agreement, but subject to Article XVI hereof, the Limited Partners may by Extraordinary Resolution:

- (a) waive any default on the part of the General Partner on such terms as they may determine and release the General Partner from any claims in respect thereof;
- (b) approve any amendment to this Agreement, including without limitation, to change the nature of the business permitted to be carried on by the Partnership pursuant to Article V;
- (c) approve the sale of all or substantially all of the assets of the Partnership;
- (d) require the General Partner on behalf of the Partnership to enforce any obligation or covenant on the part of any Limited Partner; and
- (e) extend the term of the Partnership.

In addition, the Limited Partners may from time to time, by Extraordinary Resolution or Ordinary Resolution, advise as to the management of the Partnership's business, including as to any transaction proposed to be made outside the normal course of business of the Partnership, provided that, notwithstanding Section 15.10 hereof, any such Extraordinary Resolution or Ordinary Resolution shall not be binding on the Partners or the Partnership and shall be advisory only.

15.9 Minutes and proceedings of every meeting of the Partners shall be made and recorded by the General Partner. Minutes, when signed by the Chairman of the meeting, shall be prima facie evidence of the matters therein stated. Until the contrary is proved, every meeting in respect of which minutes have been made shall be taken to have been duly held and convened and all proceedings referred to in the minutes shall be deemed to have been duly passed or not to have been passed, as the case may be.

15.10 Any Extraordinary Resolution or Ordinary Resolution shall be binding on all Partners and their respective heirs, executors, administrators or other legal representatives, successors and assigns, whether or not such Partner was present or represented by proxy at the meeting at which such resolution was passed and whether or not such Partner voted against such resolution.

## **ARTICLE XVI**

### **AMENDMENT**

16.1 Subject to Section 16.2 hereof, this Agreement may be amended only in writing and with the consent of the Limited Partners given by Extraordinary Resolution provided that:

- (a) this Article XVI may not be amended without the unanimous consent of the Limited Partners present in person or represented by proxy at a meeting held for such purpose;
- (b) no amendment shall be made to this Agreement which would have the effect of reducing the General Partner's share of the net income or loss of the Partnership or the fees payable hereunder to the General Partner (unless the General Partner, in its sole discretion consents thereto) except upon a change of the General Partner pursuant to Article XVIII;
- (c) no amendment shall be made to this Agreement without the unanimous consent of the Limited Partners which would have the effect of reducing the interest in the Partnership of any Limited Partner, changing the liability of any Limited Partner, allowing any Limited Partner to exercise control over the business of the Partnership, changing the right of a Limited Partner to vote at any meeting or changing the Partnership from a limited partnership to a general partnership; and
- (d) no amendment which would have the effect of adversely affecting the rights and obligations of the General Partner will become effective before 60 days after the date of the meeting at which such amendment was adopted (unless the General Partner consents to an earlier date), except for the removal of the General Partner pursuant to Section 18.1 hereof or the replacement of the General Partner pursuant to Section 10.7 hereof

16.2 The General Partner may, without prior notice to or consent from any Limited Partner, amend from time to time any provision of this Agreement or add any provision, if such amendment or addition is, in the opinion of counsel to the Partnership, for the protection or benefit of Limited Partners or of the Partnership or to cure an ambiguity or to correct or supplement any provisions contained herein which may be defective or inconsistent with any other provision contained herein and if the cure, correction or supplemental provision does not and will not, in the opinion of the General Partner, materially adversely affect the interest of any Limited Partner.

16.3 Limited Partners will be notified of the full details of any amendment to this Agreement under Section 16.1 within 60 days of the effective date of the amendment.

## **ARTICLE XVII**

### **NOTICES**

17.1 Any notice or other written communications which must be given or sent under this Agreement shall be deemed to have been validly given or received the fifth day following its sending by first class mail to the address of the General Partner and the Limited Partners as follows: in the case of the General Partner, to Suite 2320, 130 Adelaide Street West, Toronto, Ontario M5H 3P5, Attention: President or any other new address following a change of address in conformity with Section 17.2 below, and in the case of the Limited Partners to the postal address inscribed in the register of the Limited Partners.

17.2 A Limited Partner may, at any time, change his address for the purposes of service by written notice to the General Partner or to such other person as is then the registrar and transfer agent for the Partnership. The General Partner may change its address for the purposes of service by written notice to all the Limited Partners and to the registrar and transfer agent, if any.

17.3 In the event of any disruption, strike or interruption in the Canadian postal service after mailing and before receipt or deemed receipt of a document, it will be deemed to have been received on the sixth business day following full resumption of the Canadian postal service. If the party giving any notice or other written communication knows or ought reasonably to know of any difficulties with the postal system that might affect the delivery of mail, any such demand, notice or other communication may not be mailed but must be given by personal delivery or by telecopier or other electronic means of communication or, in the case of communication to the Limited Partners, by publication once in the national edition of *The Globe and Mail* or, if such publication is impracticable, by publication once in any newspaper(s) published in the English language having general circulation in each of Vancouver, Calgary, Toronto, Halifax and Montreal.

17.4 Notices may also be validly given by way of telecopier or other electronic means of communication or hand deliveries whereupon they shall be deemed to have been received on the date of their transmittal (if on a business day during normal business hours of the recipient and, if not, on the next business day) or on the date of delivery as the case may be.

17.5 An accidental omission in the giving of, or failure to give, a notice required by this Agreement will not invalidate or affect in any way the legality of any meeting or other proceedings in respect of which such notice was or was intended to be given.

## ARTICLE XVIII

### CHANGE OF GENERAL PARTNER

18.1 Subject to Section 10.1(b), the General Partner may be removed as General Partner only by an Extraordinary Resolution to that effect and then only if (i) the General Partner has breached its obligations under this Agreement and, if capable of being cured, such breach continues unremedied for a period of 20 business days after the General Partner has received written notice thereof from any Limited Partner; and (ii) the Limited Partners shall appoint by Ordinary Resolution, concurrently with the removal of the General Partner, a replacement General Partner which shall assume all the responsibilities and obligations of the General Partner under this Agreement. Upon removal of the General Partner, a new General Partner may be appointed by Ordinary Resolution. The General Partner may not be a "non-resident" within the meaning of the *Tax Act*. Except as provided in this Section 18.1 and in Section 10.8 hereof, the General Partner may not resign unless it has given at least 180 days' written notice to the Limited Partners of such intention and nominates a qualified successor whose appointment is approved by Ordinary Resolution and who accepts such position within such period and the General Partner may not sell, assign, transfer or otherwise dispose of its interest in the Partnership unless such sale, assignment, transfer or disposition is to the continuing corporation resulting from the amalgamation, merger or reorganization of the General Partner with another company, which continuing corporation will become the General Partner upon such amalgamation, merger or reorganization. Notwithstanding anything else set forth in this Agreement, the General Partner may not resign if the effect of its resignation would be to dissolve the Partnership. A new General Partner may be appointed by Ordinary Resolution upon the occurrence of an event described in paragraph 10.1(b). In the event of appointment of a new General Partner, the General Partner which has withdrawn or has been removed from the Partnership shall no longer be entitled to its share of the net income or net loss of the Partnership or to the amounts referred to in Section 6.2 except in respect of those amounts to which such General Partner has become entitled prior to or at the fiscal year end of the Partnership immediately preceding the withdrawal or removal of the General Partner, which shall be paid to the General Partner, without set-off or counterclaim, prior to the effective date of its removal or resignation.

18.2 The new General Partner will execute a counterpart of this Agreement and will forthwith assume the obligations of the General Partner as of and from the date of its appointment and shall thereafter have the sole right to exercise all rights of the General Partner as manager of the Partnership and to receive the General Partner's share of net income or net loss of the Partnership and the amounts required by Section 6.2 and to be distributed to the General Partner and the resigning or retiring General Partner shall do all things and take all steps necessary to effectively transfer the management of the Partnership and all rights to which such new General Partner is entitled hereunder to

the new General Partner and shall execute and deliver all deeds, certificates, declarations and other documents necessary or desirable to effect such transfer.

18.3 In the event of a change of the General Partner, the Partnership and the Limited Partners shall release and hold harmless the former General Partner from all actions, claims, costs, demands, losses, damages and expenses with respect to events which occur in relation to the Partnership after the effective date of removal or resignation of the former General Partner, unless such events arise from the gross negligence or willful misconduct of the General Partner, its agents or employees or from any act or omission not believed by it in good faith to be within the scope of this Agreement occurring before such change of General Partner.

## ARTICLE XIX

### POWER OF ATTORNEY

19.1 Each Limited Partner hereby irrevocably makes, constitutes and appoints the General Partner, and any successor to the General Partner under the terms of this Agreement, as its true and lawful attorney and agent, with full power of substitution and authority in his name, place and stead to:

- (a) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices in any jurisdiction where the General Partner considers it appropriate any and all of:
  - (i) this Agreement and any amendment hereto made in accordance with the terms hereof;
  - (ii) any amendment to the Declaration and all certificates and other instruments necessary or appropriate to qualify or to continue the qualification of the Partnership as a limited partnership in the Province of Ontario and in each other jurisdiction where the Partnership may conduct business or where such qualification is necessary or desirable to maintain limited liability of Limited Partners in that jurisdiction;
  - (iii) all instruments and certificates and any amendment to the Declaration necessary or appropriate to reflect any amendment, change or modification of this Agreement subject to the terms and restrictions of this Agreement;
  - (iv) all conveyances and other instruments and documents necessary to reflect the transfer of the assets of the Partnership to the Mutual Fund and the dissolution and liquidation of the Partnership subject to the terms and restrictions of this Agreement including cancellation of any Certificate;
  - (v) all instruments relating to the admission of additional or substituted Limited Partners subject to the terms and restrictions of this Agreement;
  - (vi) any instrument in connection with the sale, transfer or forfeiture of a Unit for which the Subscription Price is not paid when due;
  - (vii) all elections, determinations or designations under the *Tax Act* or any other taxation or other legislation or laws of like import of Canada or of any provinces or jurisdictions in respect of the affairs of the Partnership or of a Partner's interest in the Partnership including, without limitation, elections under subsection 85(2) of the *Tax Act* and the corresponding provisions of applicable provincial legislation in respect of the transfer of Partnership assets to the Mutual Fund; and
  - (viii) any instrument in connection with the receipt from the Partnership of property which cannot be transferred to the Mutual Fund under subsection 85(2) of the *Tax Act* and to transfer such property to the Mutual Fund.

- (b) execute and file with any government body any documents necessary and appropriate to be filed in connection with the business of the Partnership or in connection with this Agreement;
- (c) accept service for process for and on behalf of the undersigned at the principal office of the General Partner in Toronto, Ontario;
- (d) make any application for and receive any amount or credit under a federal or provincial incentive program; and
- (e) receive any prospectus, offering memorandum or similar document relating to the Mutual Fund Shares for and on behalf of the Limited Partner.

19.2 Each Limited Partner will be bound by any representation or action made or taken by the General Partner pursuant to the power of attorney in Section 19.1 hereof and waives any and all defences which may be available to contest, negate or disaffirm any action of the General Partner taken in good faith under such power of attorney.

19.3 This power of attorney shall be irrevocable and shall bind the Limited Partner, his heirs, executors, administrators and other legal representatives and the successors and assigns of the Limited Partner, notwithstanding the death or bankruptcy of the Limited Partner. If, for any reason, this power of attorney shall not bind a Limited Partner, his heirs, executors, administrators and other legal representatives and successors and assigns of the Limited Partner, the General Partner shall have the right to sell such Limited Partner's Units or to purchase the same on behalf of the Partnership at fair value as determined by an independent party selected by the General Partner, whose determination will be final and binding and not subject to review or appeal.

19.4 The General Partner shall have the power to execute documents in the name of all the Limited Partners pursuant to this power of attorney by affixing its signature thereto with the indication that it is acting on behalf of all the Limited Partners.

19.5 Each Limited Partner will, on request by the General Partner, immediately execute every certificate or other instrument necessary to comply with any law or regulation of any jurisdiction in Canada for the continuation and good standing of the Partnership.

## **ARTICLE XX**

### **MISCELLANEOUS**

20.1 No action or consent of the Limited Partners shall be required for the admission at any time or from time to time of Limited Partners.

20.2 The General Partner and the Limited Partners agree that this Agreement, the Subscriptions and the Transfer Form shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and they irrevocably accept and attorn to the exclusive jurisdiction of the courts of that province.

20.3 This Agreement may be executed by multiple counterparts, each of which shall be deemed to be an original and all of which shall be construed together as one agreement.

20.4 This Agreement constitutes the entire agreement between the parties and there are no other written or verbal agreements or representations.

20.5 With the exception of the requirements of Section 14.1, any curable default of the General Partner resulting from an omission to take any measure within a prescribed time period and having no material adverse effect on the

Limited Partners or the Partnership will be deemed to have been corrected if the measure is taken within 45 days following a notice by a Limited Partner requesting the General Partner to remedy the default.

20.6 This Agreement will be binding upon and enure to the benefit of the respective heirs, executors, administrators and other legal representatives and, to the extent permitted hereunder, the respective successors and assigns of the parties.

20.7 Time shall be of the essence of this Agreement.

20.8 This Agreement replaces and supersedes any prior agreement pertaining to the subject matter hereof including, without limitation, the Initial Agreement. Notwithstanding its actual date of execution, this Agreement shall be deemed to have been entered into as of the date first above written.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written at Toronto, Province of Ontario.

CRESTSTREET 2001 (II) MANAGEMENT LIMITED

(Signed) By: \_\_\_\_\_

CRESTSTREET ASSET MANAGEMENT LIMITED

(signed) By: \_\_\_\_\_

**SCHEDULE A**

**UNIT CERTIFICATE**

**Creststreet 2001 (II) Limited Partnership**

**(A LIMITED PARTNERSHIP FORMED UNDER THE LAWS OF THE  
PROVINCE OF ONTARIO)**

This is to certify that \_\_\_\_\_ is the registered holder of \_\_\_\_\_ Units in CRESTSTREET 2001 (II) LIMITED PARTNERSHIP (the “Partnership”).

The rights of a holder of Units are governed by the Amended and Restated Limited Partnership Agreement dated as of • among Creststreet 2001 (II) Management Limited as General Partner, Creststreet Asset Management Limited as Initial Limited Partner, and those persons accepted as Limited Partners (as amended from time to time, the “Partnership Agreement”). Limited Partners may lose the protection of limited liability in certain circumstances.

A transfer of any Unit represented by this Certificate may be initiated by delivering this Certificate and a completed transfer form, properly executed by the registered holder and the transferee, to the General Partner at its principal office in Toronto. The transfer of Units to a “non-resident” within the meaning of the *Income Tax Act* (Canada) or a partnership shall be denied.

Capitalized terms herein shall have the meaning ascribed to them in the Partnership Agreement.

This Certificate is not valid unless manually signed by at least one duly authorized officer of Creststreet 2001 (II) Management Limited. Upon the dissolution of the Partnership and distribution to a Limited Partner of the assets to which such Limited Partner is entitled to pursuant to the Partnership Agreement, this Certificate shall be null and void.

IN WITNESS WHEREOF, Creststreet 2001 (II) Management Limited, the General Partner of the Partnership, has caused this Certificate to be signed by its duly authorized officers.

DATED the \_\_\_\_\_ day of \_\_\_\_\_, .

**CRESTSTREET 2001 (II) MANAGEMENT LIMITED**

**SCHEDULE B**

Units in the Partnership are to be assigned by instrument in writing substantially in the following form:

**TRANSFER FORM**

All capitalized terms used herein without definition have the meanings ascribed thereto in the Partnership Agreement, as hereinafter defined.

The undersigned, a Limited Partner of CRESTSTREET 2001 (II) LIMITED PARTNERSHIP (the "Partnership"), hereby assigns to \_\_\_\_\_ all of the undersigned's right, title and interest to Units in the Partnership. The undersigned agrees to furnish to the General Partner of the Partnership (the "General Partner") such documents, certificates, assurances and other instruments as the General Partner may require to effect this assignment and to continue and keep the Partnership in good standing as a limited partnership.

DATED this    day of            ,    .

Guarantor

(Residence Address)

The assignee acknowledges that, by executing this transfer, he: (i) has reviewed and agrees to be bound by the terms of the Amended and Restated Limited Partnership Agreement dated as of October 30, 2001, as from time to time amended, governing the business and affairs of the Partnership (the "Partnership Agreement") and will be liable for all obligations of a Limited Partner; (ii) is making certain representations and warranties as to residency and limited recourse financing as set out in the Partnership Agreement; and (iii) irrevocably ratifies and confirms the power of attorney given to the General Partner pursuant to the Partnership Agreement. The Partnership Agreement includes representations, warranties and covenants on the part of the assignee that he is not a non-resident of Canada for purposes of the *Income Tax Act* (Canada), that he will maintain such status during such time as Units are held by him, that the assignee is not a partnership, and that his acquisition of the Units was not, and will not be, financed through a borrowing or other indebtedness for which recourse is or is deemed to be limited within the meaning of the *Income Tax Act* (Canada). Unless the assignee has concurrently with the delivery of this transfer, delivered written notice to the General Partner that it is a "financial institution" as that term is defined in subsection 142.2(1) of the *Income Tax Act* (Canada), by executing this transfer, it is deemed to represent and warrant that it is not a "financial institution" and to covenant that it will not become a "financial institution" during such time as Units are held by it. The assignee further acknowledges that it may be obliged to provide the General Partner with a declaration that it is not a "financial institution".

The assignee acknowledges that in addition to certain other requirements there is also a possibility that Limited Partners may lose their limited liability to the extent the principles of Canadian law recognizing the limitation of liability of limited partners have not been authoritatively established with respect to limited partnerships formed under the laws of one province but operating, owning property, or incurring obligations in another province. The assignee also acknowledges that the transfer of Units to a "non-resident" within the meaning of the *Income Tax Act*

(Canada) or to a partnership shall be denied and that the transfer of Units to a “financial institution”, as defined in subsection 142.2(1) of the *Income Tax Act* (Canada), may be denied.

Dated at \_\_\_\_ in the Province of \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_ .

(Witness)

(Signature of Assignee) (Seal)

(Name of Registered Dealer or Broker and No.)

(Name of Assignee – Please Print)

(Name of Registered Representative and No.)

(Social Insurance, business or Corporation Acct. No.)

(Ontario Corporation Number, if any)

(Federal Tax Services Office)

(Taxation Year End if Not An Individual)

(Residential Address)

(City, Province, Postal Code)

(O) (H)  
(Telephone Numbers: Office, Home)

Mailing address (if different from residence address)

(Mailing address)

(City, Province, Postal Code)

**PLEASE INDICATE IF YOU WISH TO HAVE YOUR UNITS DEPOSITED INTO YOUR BROKER ACCOUNT (YES/NO \_\_\_\_\_). IF YES, PLEASE INDICATE THE APPROPRIATE BROKER ACCOUNT NUMBER**

**ACCEPTANCE**

This transfer is hereby accepted by the General Partner of the Partnership

**CRESTSTREET 2001 (II) MANAGEMENT LIMITED**

By

Notes:

1. The signature of the Limited Partner assigning the within Unit(s) must be guaranteed by a Canadian chartered bank, a trust company qualified to carry on business in any province of Canada, a member of the Investment Dealers Association of Canada or a member of any recognized stock exchange.
2. No assignment of a Unit may be made without delivering the documents and instruments required under Article XII of the Partnership Agreement.
3. No assignment of a fraction of a Unit may be made.
4. An assignment of a Unit may have income tax implications to the assignor and the assignee.



## **CRESTSTREET 2001 (II) LIMITED PARTNERSHIP**

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