



# Creststreet 2010 Flow-Through Quebec Class Limited Partnership

## 2010 > Annual Report

### Management Report of Fund Performance

For the Period Ended December 31, 2010

THIS ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE CONTAINS FINANCIAL HIGHLIGHTS AND IS PART OF THE ANNUAL REPORT OF CRESTSTREET 2010 FLOW-THROUGH QUEBEC CLASS LIMITED PARTNERSHIP (THE "PARTNERSHIP").

UNITHOLDERS MAY OBTAIN A COPY OF THE ANNUAL FINANCIAL STATEMENTS AT NO COST BY CALLING 1-866-864-6330, BY WRITING TO CRESTSTREET GENERAL PARTNER LIMITED, 70 UNIVERSITY AVE., SUITE 1450, TORONTO, ON, M5J 2M4, OR BY VISITING OUR WEBSITE AT [WWW.CRESTSTREET.COM](http://WWW.CRESTSTREET.COM). UNITHOLDERS MAY ALSO CONTACT CRESTSTREET USING ONE OF THESE METHODS TO REQUEST A COPY OF THE PARTNERSHIP'S PROXY VOTING POLICIES, PROXY VOTING DISCLOSURE RECORD, OR QUARTERLY PORTFOLIO DISCLOSURE.

### Results of Operations

#### Investment Performance

With very strong period end Net Asset Values, we are very pleased to provide the first annual report for the Creststreet 2010 Flow-Through Quebec Class Limited Partnership.

You may recall that we expanded the Creststreet investment team in 2010, and now have some of the best execution capabilities both in Energy and Metals & Mining Flow-Through. In addition, Creststreet pioneered the Dual Class structure in 2010, which provides full transparency on fees and ultimately saves on expenses for investors. We also enhanced the tax efficient roll-over options to include the more conservative Creststreet Dividend & Income Fund managed by a veteran income fund manager.

The flow-through portfolio allocations came in almost exactly in line with our guidance. For the Québec Class, our target for companies eligible for additional provincial deductions was slightly better than we had expected. The Québec Class portfolio is also diversified with some excellent Energy exposure predominately in relatively larger companies with operations in Western Canada. The expanded execution capabilities within the Creststreet portfolio management team are reflected in the quality and diversification of this 2010 flow-through portfolio. We are very pleased with the portfolio on all fronts and believe that the partnership is well placed for the next stage of the market's recovery.

There was a significant increase in global equity market volatility during the latter part of the first half and while commodity prices were mixed, most were also subject to increased volatility to the downside. On the back of additional government stimulus globally and emerging market demand, the markets returned to a more positive trajectory with sentiment continuing to improve with markets finishing the year strongly. West Texas Intermediate ("WTI") light sweet crude oil closed the year up 15.1% while NYMEX natural gas prices suffered a more dramatic decline of 20% for year. In the Materials sectors, base metal prices ended the year significantly higher as the volatility during the summer months. The bellwether of the base metals, Copper, appreciated by 32.8% for the year while other base metals prices continued to be responsive to renewed demand globally. Gold continued the positive trend with positive investor sentiment in response to economic uncertainty and currency market volatility with the price rising 29% for 2010.

We re-iterate our optimistic global economic outlook over the mid term. While we would expect some shorter term volatility as we approach the seasonally quieter summer months, we believe supply side disruptions & constraints, improved economic growth & demand globally coupled with attractive valuations and balance sheets sets the backdrop for solid returns through 2011.

We thank you for your business and look forward to a very successful 2011.

## Revenues and Expenses

The Partnership commenced operations on October 6, 2010 and for the period ended December 31, 2010, the Partnership incurred expenses totaling \$88,925. The Partnership Advisor is entitled to an annual fee of 2% of the net asset value of the Partnership calculated and paid monthly in arrears. The partnership advisor fee amounted to \$33,234 for the period ended December 31, 2010. The Partnership negotiated a term loan facility which allows it to borrow an amount to pay agents' fees and other issue costs thereby maximizing its investment in flow-through securities. The loan balance was \$759,783 as at December 31, 2010. Subsequent to the year end, on February 10, 2011, the loan was fully repaid. However, for the period the loan was outstanding in 2010, the Partnership paid \$8,987 in interest expense. Other expenses of \$46,704 were incurred in the normal operation of the Partnership.

## Investment Objectives and Strategies

The investment objective of the Partnership is to provide the Limited Partners with a tax-assisted investment in a diversified portfolio of Flow-Through Securities issued by Resource Issuers engaged in oil and gas, mining or renewable energy exploration and development across Canada.

The Partnership's portfolio is managed with a view to the preservation of capital and capital appreciation on the Portfolio's investments. The Partnership's investment strategy is to invest in Flow-Through Securities 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 or development program or renewable energy project in place and (iv) offer potential for future growth. The Partnership may also invest Available Funds in other Flow-Through Securities. The Partnership has the following investment guidelines in place that govern investing activities.

**Resource Issuers** - The Partnership invests substantially all of its funds in the flow-through securities of companies engaged in oil and gas, mining, or renewable energy exploration and development primarily in the Province of Québec. To the extent that the Partnership disposes of these securities (for example, if a take-over bid is made for such securities), the Partnership may reinvest the net proceeds in securities of other resource issuers, including flow-through securities, or to exercise warrants.

**Exchange Listing** - The Partnership invests a minimum of 80 percent of funds in flow-through securities of resource issuers that are listed on the TSX or on the TSX Venture Exchange.

**Market Capitalization** - Fifty percent of the Partnership's investments must be in flow-through shares in resource issuers whose market capitalization is at least \$50 million at the time of purchase.

**Private Companies** - The Partnership may invest 20 percent of its funds in resource issuers that are not publicly traded.

**Diversification** - The Partnership may not purchase securities of any one issuer if that purchase would result in a position that is greater than 10 percent of the Partnership's net asset value at the time of purchase, however, the Partnership may invest up to 20 percent 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, and may invest up to 30 percent of its net asset value in resource issuers with a market capitalization of more than \$100 million.

**No Control** - The Partnership may not purchase securities of a reporting issuer for the purposes of exercising control or management of such issuer. The Partnership may not purchase more than 10 percent of the voting securities of any issuer.

## Risk

The Partnership invests primarily in the equity securities of Canadian resource issuers and investors are exposed to the risks and rewards of the Canadian resource sector. The Partnership focuses on small and middle market capitalization companies as these companies have historically generated higher per share returns, however, these companies can be more volatile than some of the larger capitalization oil and gas companies. A more detailed discussion of the Partnership's risk exposures can be found in the Partnership's prospectus and in the notes of the 2010 annual financial statements.

## Past Performance

The Partnership has not presented its historical performance because it commenced operations on October 6, 2010 and has not been in operation for a full financial fiscal year.

## Financial Highlights

The following tables show selected key financial information about the Partnership and are intended to help you understand the Partnership's financial performance for the period since its inception on October 6, 2010 to December 31, 2010. This information is derived from the Partnership's annual financial statements.

### The Partnership's Net Asset Value (NAV) per Unit:

	<b>2010</b>
<b>Net assets, beginning of period<sup>(1)</sup></b>	<b>\$ 10.00</b>
<b>Increase (decrease) from operations:</b>	
Total revenue	-
Total expenses	(0.17)
Realized gains (losses) on investments	-
Unrealized gains (losses) on investments	0.50
Transaction costs	-
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.33</b>
<b>Net assets, end of period<sup>(3)</sup></b>	<b>\$ 9.35</b>

- (1) This information is derived from the Partnership's annual financial statements. The inception date of the Partnership was October 6, 2010 at which time the units were offered at \$10.00 per unit.
- (2) Net asset value is based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (3) These calculations are prescribed by securities regulators and are not intended to act as a continuity of the opening and closing net assets per unit.

## Ratios and Supplemental Data

	<b>2010</b>
Total Net asset (GAAP NAV) (\$) (000's) <sup>(1)</sup>	7,583
Number of units outstanding <sup>(1)</sup>	811,370
Management expense ratio (MER) <sup>(2)</sup>	7.62%
Portfolio turnover rate <sup>(3)</sup>	-
Trading expense ratio <sup>(4)</sup>	-
Net asset value per unit (Pricing NAV) (\$)	9.53

- (1) This information is provided as at December 31 for the period shown.
- (2) The management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- (3) The Partnership's portfolio turnover rate indicates how actively the Partnership's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Partnership buying and selling all of the securities in its portfolio once in the course of a year. The higher a fund's portfolio turnover rate, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (4) The trading expense ratio represents the total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Recent Developments

### Changeover to International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has confirmed the ability to defer the adoption of International Financial Reporting Standards ("IFRS") to fiscal periods beginning on or after January 1, 2013 for entities applying Accounting Guideline 18, Investment Companies. The Partnership intends to adopt IFRS on January 1, 2013.

The General Partner of the Partnership has developed an IFRS changeover plan, which addresses key elements of the conversion to IFRS and includes identifying and assessing the impact of the significant differences between IFRS and Canadian GAAP that are expected to impact financial reporting.

Based on the current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is not expected to have a significant impact on the calculation of net asset value per unit. IFRS is expected to have an impact on the presentation of unitholders' equity and result in additional disclosure in the accompanying notes. The General Partner continues to monitor changes to IFRS. The current assessment and IFRS changeover plans may change if new standards are issued or if interpretations of existing standards are revised.

### Harmonized Sales Tax

Effective July 1, 2010, Ontario replaced their Provincial Sales Tax ("PST") and Federal Goods and Service Tax ("GST") with a single Harmonized Sales Tax ("HST") of 13 percent. Partnership Advisor fees and all other expenses charged to the Partnership are subject to HST. New rules in Canada require Investment Funds to calculate HST using the residency of the unit holders and the current value of their interests, rather than the physical location of the Fund. The use of this blended rate will allow the Partnership to reduce the effect of harmonization to the extent the Partnership has residents in provinces not subject to HST.

## Related Party Transactions

Creststreet General Partner Limited (the 'General Partner') is responsible for the ongoing business, investment and administrative affairs of the Partnership. The General Partner is a wholly owned subsidiary of Creststreet Asset Management Limited. Creststreet Asset Management Limited, a corporation registered as an investment counsel and portfolio management company in Ontario, is the Portfolio Manager of the Partnership. The Portfolio Manager provides investment, management, administrative and other services to the Partnership.

### Independent Review Committee

Further to the requirements in National Instruments 81-107 – Independent Review Committee for Investment Funds, which came into effect as of November 1, 2007, the General Partner, has appointed an Independent Review Committee ("IRC") with a mandate to provide impartial recommendation or judgement on conflict of interest matters with regard to the operations of the Partnership and its respective portfolio. The IRC is composed of three members, all of whom are independent of the General Partner and its affiliates. The compensation and other reasonable expenses of the IRC is paid pro-rata amongst the investment funds for which the IRC has been appointed as the independent review committee, based on assets of each investment fund at the time the expenses are paid, and is paid as an expense of the Partnership.

The General Partner received the following approvals and standing instructions from the IRC for the period ending December 31, 2010:

1. Expense Allocation
2. Fee Allocation
3. Standards of Fairness
4. Trade Errors and Trade Modification
5. Trade Management and Best Execution
6. Investment Suitability and Allocation
7. Related Party Transactions
8. Proxy Voting
9. Access Person Trading
10. Creation & Management of new Investment Funds / Rights of First Refusal

In each case, the standing instructions require the General Partner to comply with its related policies and procedures and to report periodically to the IRC.

The IRC is required to issue an annual report detailing its activities for the year, which is available to the shareholders on the website at [www.creststreet.com](http://www.creststreet.com) or at their request and at no cost by calling toll-free 1.866.864.6330.

### Partnership Advisor Fee

The Portfolio Manager provides investment and administrative services to the Partnership. In consideration for these services, the Partnership pays out a partnership advisor fee equal to 2.0% per annum of the net asset value of the Partnership, calculated and payable monthly in arrears. Harmonized Sales Tax (HST) is paid on all partnership advisory fees. Partnership advisor fees totalled \$33,234 for the period ended December 31, 2010.

### Summary of Investment Portfolio

As at December 31, 2010

Sector Mix	% of net assets
Metals & Mining	71.3%
Energy	23.5%
Other	15.6%
<b>Total Investments</b>	<b>110.4%</b>
Cash and cash equivalents	2.4%
Other net assets	-12.8%
	<b>100.0%</b>

## Summary of Investment Portfolio (continued)

Top Positions	% of net assets
Champion Minerals Inc	11.9%
Royal Nickel Corporation	11.0%
Strateco Resources Inc	9.9%
Gobex Mining Enterprises In	8.1%
Donner Metals Ltd	8.0%
Paramount Resources Limited	7.6%
Eloro Resources Ltd	6.0%
Nemaska Exploration Inc	5.6%
Nevado Resources Corporation	5.4%
Connacher Oil And Gas Ltd	4.3%
Balmoral Resources Ltd	4.2%
Fancamp Exploration Ltd	4.0%
Angle Energy Inc.	3.3%
Pace Oil & Gas Ltd	3.2%
Quest Rare Minerals Ltd	2.9%
Beaufield Resources Inc	2.8%
Vero Energy Inc.	2.6%
Waldron Energy Corp	2.5%
Plato Gold Corp	2.5%
Cogitore Resources Inc	2.4%
Jourdan Resources Inc	2.2%
<b>Total Net Asset Value</b>	<b>\$ 7,583,483</b>

The summary of investment portfolio may change due to ongoing portfolio transactions of the Partnership. A quarterly portfolio update is available to the investor at no cost by calling 1-866-864-6330, by writing to Creststreet 2010 Flow-Through Quebec Class Limited Partnership, Suite 1450, 70 University Avenue, Toronto ON M5J 2M4 or by visiting the website at [www.creststreet.com](http://www.creststreet.com).

## Management's Responsibility for Financial Reporting

These financial statements form the basis for all of the financial information that appears in this annual report. The financial statements and all of the information in this annual report are the responsibility of the management of Creststreet General Partner Limited and have been reviewed and approved by its board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities.

Management has prepared the financial statements according to Canadian generally accepted accounting principles ("GAAP"). Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present the entity's financial position, results of operations and changes in net assets. Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

KPMG LLP, the unitholders' external auditors, have audited the financial statements in accordance with Canadian generally accepted auditing standards and their report follows. KPMG LLP has free and full access to the board's audit committee.



**Robert J. Toole**  
President  
Chief Executive Officer  
Creststreet General Partner Limited



**Donna Shea**  
Vice-President, Finance  
Chief Financial Officer  
Creststreet General Partner Limited

March 9, 2011

## INDEPENDENT AUDITORS' REPORT

### To the Partners of Creststreet 2010 Flow-Through Quebec Class Limited Partnership

We have audited the accompanying financial statements of Creststreet 2010 Flow-Through Quebec Class Limited Partnership, which comprise the statements of net assets and investment portfolio as at December 31, 2010, the statements of operations, changes in net assets, and cash flows for the period from the commencement of operations on October 6, 2010 to December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

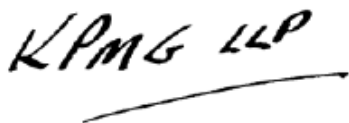
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Creststreet 2010 Flow-Through Quebec Class Limited Partnership as at December 31, 2010, and results of its operations, changes in net assets, and cash flows for the period from the commencement of operations on October 6, 2010 to December 31, 2010 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and extends to the right, ending under the "P".

**Chartered Accountants, Licensed Public Accountants**  
Toronto, Canada  
March 9, 2011

## Statement of Net Assets

As at December 31	2010
<b>Assets</b>	
Investments at market value	\$ 8,377,531
Cash and cash equivalents	179,379
	<hr/>
	8,556,910
<hr/>	
<b>Liabilities</b>	
Accounts payable and accrued liabilities	213,644
Loan liability (note 3)	759,783
	<hr/>
	973,427
<hr/>	
<b>Net assets - GAAP NAV (note 2)</b>	<b>\$ 7,583,483</b>
Adjustment from bid market prices to last traded market prices	146,976
<b>Net asset value - Pricing NAV (note 2)</b>	<b>\$ 7,730,459</b>
<hr/>	
Units outstanding	811,370
<hr/>	
<b>Net assets per unit - GAAP NAV (note 2)</b>	<b>\$ 9.35</b>
Adjustment from bid market prices to last traded market prices	0.18
<b>Net asset value per unit - Pricing NAV (note 2)</b>	<b>\$ 9.53</b>

See accompanying notes to financial statements

Approved by Creststreet General Partner Limited on behalf of  
Creststreet 2010 Flow-Through Limited Partnership



**Robert J. Toole**  
Director



**Stuart P. Hensman**  
Director

## Statement of Operations

For the period from the date of inception on October 6th to December 31

2010

<b>Expenses</b>	
Partnership advisor fees (note 4)	\$ 33,234
Operating expenses	6,222
Audit fees	16,950
Legal and filing fees	904
Interest expense	8,987
Securityholder reporting costs	21,498
Custodial fees	1,130
	<hr/>
	\$ 88,925
<b>Loss from investment operations</b>	<hr/> <b>(88,925)</b>
Change in unrealized appreciation of investments	<hr/> 268,657
<b>Net unrealized gain on investments</b>	<hr/> <b>268,657</b>
<b>Increase in net assets from operations</b>	<hr/> <b>\$ 179,732</b>
<b>Per unit</b>	
(based on average number of units outstanding)	
<b>Increase in net assets from operations per unit</b>	<hr/> <b>\$ 0.33</b>

See accompanying notes to financial statements

## Statement of Changes in Net Assets

For the period from the date of inception on October 6th to December 31 2010

<b>Net assets at the beginning of period</b>	\$	-
Increase in net assets from operations		179,732
<b>Capital transactions</b>		
Proceeds from the issue of units		8,113,700
Agents' fee and issue costs		(709,949)
<b>Net assets at the end of period - GAAP NAV (note 2)</b>	\$	7,583,483
Adjustment from bid market prices to last traded market prices		146,976
<b>Net asset value at the end of period - Pricing NAV (note 2)</b>		7,730,459

See accompanying notes to financial statements

## Statement of Cash Flows

For the period from the date of inception on October 6th to December 31 2010

<b>Cash flows from (used in) operating activities</b>		
Loss from investment operations	\$	(88,925)
Investments purchased		(8,108,874)
Net change in non-cash working capital		213,644
Cash flows used in operating activities	\$	(7,984,155)
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issue of units		8,113,700
Proceeds from loan		759,783
Payment of agents' fee and issue costs		(709,949)
Cash flows from financing activities	\$	8,163,534
Net increase in cash and cash equivalents	\$	179,379
Cash and cash equivalents, beginning of period		-
<b>Cash and cash equivalents, end of period</b>	\$	179,379

See accompanying notes to financial statements

## Statement of Investment Portfolio

As at December 31, 2010

Issuer	Number of Securities	Type of Security	Cost	Fair Value
Champion Minerals Inc.	384,615	Common shares	\$ 500,000	\$ 899,999
Strateco Resources Inc.	775,000	Common shares	736,250	751,750
Royal Nickel Corp.	275,000	Common shares	687,500	728,750
Globex Mining Enterprises Inc.	300,000	Common shares	900,000	615,000
Donner Metals Ltd.	2,250,000	Common shares	720,000	607,500
Paramount Resources Ltd.	18,300	Class A common shares	498,674	579,561
Eloro Resources Ltd.	5,000,000	Common shares	500,000	375,000
Connacher Oil and Gas Ltd.	250,000	Common shares	362,500	327,500
Balmoral Resources Ltd.	250,000	Common shares	200,000	320,000
Nevado Resources Corp.	750,000	Common shares	262,500	315,000
Nemaska Exploration Inc.	500,000	Common shares	250,000	285,000
Fancamp Exploration Ltd.	500,000	Common shares	325,000	250,000
Angle Energy Inc.	30,000	Common shares	301,500	247,800
Pace Oil and Gas Ltd.	30,000	Common shares	291,000	245,700
Quest Rare Minerals Ltd.	40,000	Common shares	200,000	220,800
Beaufield Resources Inc.	500,000	Common shares	275,000	212,500
Vero Energy Inc.	35,000	Common shares	285,250	200,550
Waldron Energy Corp.	78,000	Common shares	226,200	191,880
Cogitore Resources Inc.	750,000	Common shares	225,000	180,000
Jourdan Resources Inc.	1,000,000	Common shares	200,000	170,000
Plato Gold Corp.	2,500,000	Common shares	162,500	150,000
Nemaska Exploration Inc.	500,000	Warrants	-	136,176
Royal Nickel Corp.	137,500	Warrants	-	107,250
Nevado Resources Corp.	375,000	Warrants	-	91,386
Eloro Resources Ltd.	2,500,000	Warrants	-	77,775
Fancamp Exploration Ltd.	250,000	Warrants	-	52,178
Plato Gold Corp.	1,250,000	Warrants	-	38,476
<b>Total investments</b>			<b>\$ 8,108,874</b>	<b>\$ 8,377,531</b>

See accompanying notes to financial statements

## Notes to Financial Statements

For the period from the date of inception on October 6 to December 31, 2010

### 1. Establishment of the Partnership

Creststreet 2010 Flow-Through Limited Partnership (the “Flow-Through Partnership”) was formed as a limited partnership under the laws of the Province of Ontario on August 17, 2010. The Partnership consists of two classes of limited partnership units, the Creststreet 2010 FT Quebec Class (“the Partnership”) and the Creststreet 2010 FT National Class, each of which is a separate non-redeemable investment fund for securities laws purposes with its own investments portfolio and investment objective. The investment objective of the investment portfolio comprising the National Class units is to invest in a diversified portfolio of flow-through shares of resource companies engaged in oil and gas, mining or renewable energy exploration and development across Canada.

The General Partner of the Partnership is Creststreet General Partner Limited (the “General Partner”) which is a promoter of the Partnership in connection with the offering of units of the Partnership.

The advisor to the Partnership is Creststreet Asset Management Limited (the “Partnership Advisor”) which is also a promoter of the Partnership in connection with the offering of units of the Partnership.

Under its amended and restated limited partnership agreement dated as of September 30, 2010, the Partnership will be dissolved on or about January 20, 2012.

### 2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and the following is a summary of significant account policies followed by the Partnership:

#### (a) Valuation of investments

Investments are deemed to be held for trading in accordance with Section 3855 and are therefore recorded at fair value.

Fair value of securities held by the Partnership that are listed on a recognized public securities exchange are valued at their closing bid price or the closing ask price for securities sold short. Securities that are not listed or traded on a public securities exchange or actively traded on an over-the-counter market, will be valued at its fair value determined Manager pursuant to the Manager’s established pricing policies. Acquisition cost may be used as a fair value proxy, particularly if the acquisition date of the investment was within the current fiscal year. For unlisted securities, the Manager’s policy is to use evidence of arm’s length third party transactions, where possible, in determining the fair value. The Black Scholes pricing methodology is used to price the warrants held by the Partnership.

CICA Emerging Issues Committee Abstract 173 – Credit Risk and Fair Value of Financial Assets and Financial Liabilities (“EIC-173”) clarifies how the Partnership’s own credit risk and counterparty risk should be taken into account in determining the fair value of financial instruments. The application of EIC-173 does not have a significant impact on the valuation of the Partnership’s financial instruments or its net assets.

CICA Handbook Section 3855 impacts the valuation and the disclosure of the net assets of an investment fund for financial reporting purposes (“GAAP NAV” or “Net Assets”) as the Canadian GAAP requires securities traded on a public exchange be valued at bid price for long positions and ask price for securities sold short. The value used to determine the Partnership’s daily price for purchases and redemption of units (“Pricing NAV” or “Net Asset Value”) is, however, not affected by the Section 3855 accounting policy change, as permitted by NI 81-106. This will result in a difference between the Net Asset Value (Pricing NAV) and Net Assets (GAAP NAV), which is presented in the Statement of Net Assets.

#### (b) Cash and cash equivalents

Cash comprises cash on deposit. This is deemed to be held for trading and is therefore carried at fair value.

(c) **Other assets and liabilities**

Accounts payables and accrued liabilities and loan liability are designated as other financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these liabilities are due to their short term nature.

(d) **Investment transactions and income recognition**

Investment transactions are accounted for as of the trade date, and any related gains or losses from such transactions are calculated on an average cost basis. Dividend income is recognized on the record date and interest income is accrued as earned.

(e) **Allocation of partnership income or loss**

The net income of the Partnership is allocated 0.01 percent to the General Partner and the balance, along with the 100 percent of the net loss of the Partnership, among the limited partners in proportion to the number of units held by each of them at the end of each period. The Partnership is not itself a taxable entity, and therefore no provision for income tax is required.

(f) **Use of estimates**

The preparation of the financial statements in accordance with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and loss for the reporting period. Actual results could differ from those estimates.

### **3. Loan Payable**

A term facility in the amount of \$759,783 was due to mature on the earlier of October 6, 2012 or the dissolution date of the Partnership. The facility is secured by a general security agreement and interest is calculated at the bank's prime rate. Subsequent to period end, on February 10, 2011, the loan was fully re-paid.

### **4. Partnership Advisor Fees**

The Partnership Advisor will be entitled to an annual fee of 2% of the net asset value of the Partnership calculated and paid monthly in arrears. The partnership advisor fee amounted to \$33,234 for the period ended December 31, 2010. The General Partner has a 0.01 percent beneficial interest in the Partnership.

### **5. Liquidity of Partnership Units and Termination of Partnership**

On or about January 20, 2012, the Partnership is scheduled to transfer all of its assets to Creststreet Resource Fund, a class of shares of Creststreet Mutual Funds Limited, an open-ended mutual fund (the "Mutual Fund"), in exchange for shares of the Mutual Fund. Upon this transfer, the Partnership will be dissolved at which time the net assets will be allocated 99.99% to the limited partners and 0.01% to the General Partner. Upon dissolution, the limited partners will receive their pro-rata share of the shares of the Mutual Fund.

### **6. Financial Instrument Risk**

The Partnership's objective is to invest in the flow-through securities of resource issuers engaged in oil and gas, mining or renewable energy exploration and development across Canada. Accordingly, the Partnership is exposed to all of the risks associated with investments in such securities. The Partnership's use of financial instruments gives rise to a number of risk factors.

#### **Market Risk**

Market risk is simply the risk that the fair value of a financial instrument will fluctuate because of volatility of market prices. Market risk is comprised of three types of risk: *currency risk*, *interest rate risk*, and *other price risk*.

#### **Currency Risk**

Currency risk is the risk that the fair value of a financial instrument could fluctuate due to changes in foreign currency exchange rates. The Partnership's functional currency is Canadian dollars, and the Partnership is exposed to foreign currency risk when it invests in securities denominated in another currency since the fair value of those securities is

determined by converting the price of the security into Canadian dollars. As at December 31, 2010, the Partnership did not hold any securities denominated in foreign currencies, hence there was no currency risk exposure to the Partnership.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument could fluctuate due to changes in market interest rates. The immediate impact of interest rate risk is greatest on debt and fixed income securities that have a relatively long duration (generally one year or more to maturity). The Partnership did not hold any such securities as at December 31, 2010, or at any time during the period then ended.

#### Other Price Risk

Other price risk is the risk that the fair value of a financial instrument could fluctuate due to changes in market conditions other than currency or interest rate risk. These changes could be due to a number of factors including, but not limited to; changes in relation to a specific security or the issuer of a security, changes in the prices of a market sector's underlying commodity, or changes due to shifts in overall market sentiment. The General Partner mitigates other price risk by managing and allocating the investment portfolio within the parameters of the Partnership's investment objectives. As at December 31, 2010 and assuming all other variables were held constant, had the general price level of the equities markets been 5 percent higher or lower, the NAV and the NAV per unit of the Partnership may have been \$328,579 and \$0.40 per unit higher or lower. This estimation is based on statistical tools that measure the relationships between each security in the Partnership's portfolio and how their returns relate to the return of the overall equities markets. In reality, results could differ from this estimate and the difference could be material.

#### Credit Risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge its obligations or commitments that it has entered into with the Partnership. The Partnership does not typically invest in debt securities, thereby minimizing the Partnership's exposure to credit risk. The Partnership is exposed to credit risk to the extent that the Partnership's custodian may not be able to settle trades for cash. Canadian securities regulations require that the Partnership employs a custodian that meets certain capital requirements. These regulations state that, among other things, a Partnership's custodian is a bank listed in Schedule I, II, or III of the *Bank Act (Canada)*, or a company incorporated in Canada affiliated with a bank with shareholders' equity of not less than \$10,000,000. The Partnership's custodian, RBC Dexia Investor Services Trust meets all Canadian Securities Administrators' requirements to act as custodian.

## 7. Fair Value Measurement

CICA Handbook Section 3862 "Financial Instruments – Disclosures" requires the Partnership to present a classification of fair value measurements of the Partnership's investment based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair value inputs is summarized as follows:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that are easily accessible.

**Level 2:** Inputs other than quoted prices that is observable for the asset or liability either directly (as prices) or indirectly (derived from prices).

**Level 3:** Inputs for assets or liabilities that are not based on observable data. There is little, if any, market activity and hence the requires significant management judgment or estimation.

The following fair value hierarchy table presents information about the Partnership's assets measured at fair value on a recurring basis as of December 31, 2010.

	Level 1		Level 2		Level 3		Total
Equities	\$	7,874,290	\$	-	\$	-	\$ 7,874,290
Warrants		-		503,241		-	503,241
							-
	\$	7,874,290	\$	503,241	\$	-	\$ 8,377,531

## 8. Tax Shelter Identification Number

The identification number issued for the Partnership should be included on any income tax return filed by a Limited Partner. Issuance of the identification number is for administration 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 Partnership's federal and Quebec provincial tax shelter identification numbers are TS 077305 and QAF-10-01392, respectively.

## 9. Changeover to International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has confirmed the ability to defer the adoption of International Financial Reporting Standards ("IFRS") to fiscal periods beginning on or after January 1, 2013 for entities applying Accounting Guideline 18, Investment Companies. The Partnership intends to adopt IFRS on January 1, 2013.

The General Partners of the Partnership has developed an IFRS changeover plan, which addresses key elements of the conversion to IFRS and includes identifying and assessing the impact of the significant differences between IFRS and Canadian GAAP that are expected to impact financial reporting.

Based on the current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is not expected to have a significant impact on the calculation of net asset value per unit. IFRS is expected to have an impact on the presentation of unitholders' equity and result in additional disclosure in the accompanying notes. The General Partner continues to monitor changes to IFRS. The current assessment and IFRS changeover plans may change if new standards are issued or if interpretations of existing standards are revised.

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## Creststreet General Partner Limited

### Board of Directors

**Jeffrey S. Boyce\***  
Chairman and Chief Executive Officer  
SURE Energy Inc.

**Stuart P. Hensman\*\***  
Corporate Director

**John E. Thompson\***  
President and Chief Executive Officer  
Sirius Energy Inc.

**Robert J. Toole, C.A.**  
Managing Director  
Creststreet Asset Management Limited

### Officers

**Robert J. Toole, C.A.**  
President and Chief Executive Officer

**Donna E. Shea, C.A.**  
Senior Vice-President, Finance and  
Chief Financial Officer

**Sheryl J. Chiddenton**  
Vice-President, Compliance and  
Investment Services

**Administrator and Custodian**  
RBC Dexia Investor Services Trust  
Toronto, Ontario

**Investment Advisor and Investment Fund  
Manager**  
Creststreet Asset Management Limited  
Toronto, Ontario

**Legal**  
McCarthy Tétrault LLP  
Toronto, Ontario

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Toronto, Ontario

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\* Member of the Audit Committee and  
Independent Review Committee

\*\* Chair of the Audit Committee and  
Independent Review Committee