Financial Statements of

FRONT STREET FLOW-THROUGH 2011-I LIMITED PARTNERSHIP

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Front Street Flow-Through 2011-I Limited Partnership (the "Partnership") are the responsibility of management. They were prepared in accordance with Canadian generally accepted accounting principles using information available to March 20, 2013 and management's best estimates and judgments.

Management has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

The external auditors have unrestricted access to the Board of Directors of FSC GP VII Corp., the General Partner of the Partnership (the "Board of Directors"). The Board of Directors meets with management and the external auditors to review the financial statements and the result of the audit examination. The Board of Directors also considers the engagement or re-appointment of the external auditors.

The Board of Directors has approved these financial statements, which have been audited by KPMG LLP, Chartered Accountants, Licensed Public Accountants, on behalf of the partners. Their Independent Auditors' Report outlines the scope of their audit and their opinion on the financial statements.

Gary P. Selke

Director, Chief Executive Officer and President of the General Partner for the Front Street Flow-Through 2011-I

Limited Partnership

Frank C. Portugais, CA
Chief Financial Officer of the
General Partner for the

Front Street Flow-Through 2011-I

Limited Partnership



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INDEPENDENT AUDITORS' REPORT

To the Partners of Front Street Flow-Through 2011-I Limited Partnership

We have audited the accompanying financial statements of Front Street Flow-Through 2011-I Limited Partnership, which comprise the statements of net assets as at December 31, 2012 and 2011, the statement of portfolio investments as at December 31, 2012, the statements of operations, changes in net assets and cash flows for the year ended December 31, 2012 and the period from February 16, 2011 (date of commencement of operations) to December 31, 2011, 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 audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are 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 audits 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 net assets of Front Street Flow-Through 2011-I Limited Partnership as at December 31, 2012 and 2011, its investments held as at December 31, 2012, and its results of operations, its changes in net assets and its cash flows for the year ended December 31, 2012 and the period from February 16, 2011 (date of commencement of operations) to December 31, 2011 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

March 20, 2013 Toronto, Canada

KPMG LLP

Statements of Net Assets

December 31, 2012 and 2011

		2012	2011
Assets			
Cash	\$ ^	11,666,827	\$ 4,158,766
Portfolio investments, at fair value	4	14,330,271	80,351,914
Accounts receivable for portfolio investments sold		138,268	_
Accounts receivable relating to dividend income		44,056	29,110
Account receivable - other		_	266
Prepaid expense		6,601	9,318
	ţ	56,186,023	84,549,374
Liabilities			
Accounts payable and accrued expenses		97,197	105,675
Investments sold short, at fair value		_	268,200
Management fees payable (note 4)		108,743	138,990
Loan payable (note 3)		6,700,000	9,200,000
		6,905,940	9,712,865
Subsequent events (note 11)			
Net assets	\$ 4	19,280,083	\$ 74,836,509
Number of limited partnership units outstanding (note 5)		5,182,443	5,182,443
Net assets per unit (note 9)	\$	9.51	\$ 14.44

See accompanying notes to financial statements.

On behalf of the General Partner:

Gary P. Selke, President

David A. Conway, Secretary

Statements of Operations

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

		2012		2011
lance the ent annual control				
Investment revenue:	\$	220.070	\$	E0 907
Dividends, net of withholding taxes Interest and other	Ф	220,979 3,060	Ф	50,807 212,499
interest and other		224,039		263,306
		,000		_00,000
Expenses:				
Audit fees		43,084		45,058
Custodial fees		30,071		24,164
Independent Review Committee fees		2,400		4,000
Insurance		917		_
Interest and fees on bank loan		349,037		345,685
Legal fees		7,657		24,606
Management fees (note 4)		1,374,728		1,851,179
Operating		57,314		42,429
Security holder reporting		54,564		53,189
		1,919,772		2,390,310
Investment loss for the period		(1,695,733)		(2,127,004)
Net realized gain (loss) on sale of investments		(53,760,599)		1,404,146
Net realized loss on foreign currencies		(72,363)		_
Transaction costs		(353,093)		(10,600)
Net unrealized appreciation (depreciation) in value of investments		30,326,789		(44,847,017)
Decrease in net assets from operations	\$	(25,554,999)	\$	(45,580,475)
Decrease in net assets from operations per unit	\$	(4.93)	\$	(8.79)

Statements of Changes in Net Assets

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

	2012	2011
Net assets, beginning of period	\$ 74,836,509	\$ _
Decrease in net assets from operations	(25,554,999)	(45,580,475)
Capital transactions: Gross proceeds from issuance of units Agents' fees Other costs of issue	(1,427) (1,427)	129,561,075 (8,745,373) (398,718) 120,416,984
Net assets, end of period	\$ 49,280,083	\$ 74,836,509

Statements of Cash Flows

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

		2012		2011
Cash provided by (used in):				
Operating activities:				
Decrease in net assets from operations Adjustments to reconcile net cash provided by	\$	(25,554,999)	\$	(45,580,475)
(used in) operations: Purchase of portfolio investments and covered buys		(46,053,244)		(132,706,581)
Sales of portfolio investments and short sales		58,234,609		9,179,996
Net realized loss (gain) on sale of investments Net unrealized depreciation (appreciation) in		53,760,599		(1,404,146)
value of investments		(30,326,789)		44,847,017
Change in non-cash operating items: Increase in accounts receivable relating to		, , ,		, ,
dividend income		(14,946)		(29,110)
Decrease (increase) in account receivable - other		266		(266)
Decrease (increase) in prepaid expense Increase (decrease) in accounts payable and		2,717		(9,318)
accrued expenses		(8,478)		105,675
Increase (decrease) in management fees payable		(30,247)		138,990
		10,009,488		(125,458,218)
Financing activities:				
Proceeds from (repayment of) loan payable		(2,500,000)		9,200,000
Gross proceeds from issuance of units		_		129,561,075
Agents' fees		_		(8,745,373)
Other costs of issue		(1,427)		(398,718)
		(2,501,427)		129,616,984
Increase in cash		7,508,061		4,158,766
Cash, beginning of period		4,158,766		_
Cash, end of period	\$	11,666,827	\$	4,158,766
<u> </u>				
Supplemental cash flow information:	ø	0.40.040	Φ	055.000
Interest and loan fees paid	\$	346,319	\$	355,003

Statement of Portfolio Investments

December 31, 2012

Quantity	Name of company		Cost	Fair value
	Equities - energy sector			
217,200	Americas Petrogas Inc.	\$	653,772	\$ 651,600
126,086	Angle Energy Inc.		798,007	448,866
1,115,314	Antrim Energy Inc.		705,796	568,810
127,700	Athabasca Oil Corporation	1	,364,918	1,331,911
11,600	Baytex Energy Corporation		521,065	496,944
21,912	Celtic Exploration Limited		274,333	574,752
31,665	Coastal Energy Company		486,552	629,184
31,800	Crescent Point Energy Corporation	1	1,180,095	1,192,500
83,500	Crew Energy Inc.		610,019	538,575
459,700	DeeThree Exploration Limited	2	2,367,455	2,988,050
1,416,000	Dolomite Energy Inc., Flow-Through	3	3,256,800	1,203,600
369,000	Eland Oil & Gas Plc.		574,695	692,834
250,000	Hyperion Exploration Corporation		450,000	117,500
55,700	Northern Tier Energy Limited Partnership	1	,312,161	1,408,387
2,666,667	Oil Reserve Inc., Flow-Through		2,000,000	800,000
60,400	Precision Drilling Corporation		479,443	494,676
82,800	Spartan Oil Corporation		404,840	433,872
36,300	Suncor Energy Inc.	1	,039,007	1,187,010
19,800	Tourmaline Oil Corporation		527,326	616,374
2,090,140	Tuya Energy Inc., Restricted	1	,045,070	522,535
252,500	Twin Butte Energy Limited		726,016	648,925
80,366	Whitecap Resources Inc.		704,810	694,362
55,775	Whitecap Resources Inc., Warrants		_	31,337
2,941,300	Yangarra Resources Limited	2	2,353,040	985,336
	Sub-totals, equities - energy sector		3,835,220	19,257,940
	Equities - materials and mining sector			
56,100	Argonaut Gold Inc.		533,237	528,462
4,079,920	Armistice Resources Corporation	1	1,142,378	387,592
1,000,000	Canada Coal Inc.		<i></i> –	86,864
310,000	Cap-Ex Ventures Limited, Warrants		_	· –
4,623,342	Castle Resources Inc.	2	2,912,705	901,552
2,600,000	Explor Resources Inc., Warrants		_	3
40,100	First Quantum Minerals Limited		881,758	876,586
16,300	Goldcorp Inc.		678,049	592,994
630,000	Graphite One Resources Inc., Warrants		_	13,348
473,300	Huldra Silver Inc.		567,960	620,023
200,000	IAMGOLD Corporation	F	5,096,000	2,272,000
3,000,000	JNR Resources Inc.		,500,000	240,000
320,000	Kaminak Gold Corporation, Flow-Through		800,000	479,232
	Kombat Copper Inc.		35,475	12,062
70.950			55,	13,402
70,950 671,500	Kombat Copper Inc., Warrants		_	
671,500	Kombat Copper Inc., Warrants Lumina Copper Corporation	1	_ 1.056.193	
671,500 81,308	Lumina Copper Corporation		- 1,056,193 1,198,333	764,295
671,500 81,308 893,487	Lumina Copper Corporation Mawson West Limited	1	,198,333	764,295 705,855
671,500 81,308	Lumina Copper Corporation	1		764,295

Statement of Portfolio Investments (continued)

December 31, 2012

Quantity	Name of company	Cost	Fair value
	Equities - materials and mining sector (continued))	
239,490	New Gold Inc.	2,399,690	2,620,021
795,000	Northland Resources SA	898,350	858,600
5,012,600	Oceanic Iron Ore Corporation, Restricted	802,016	818,056
300,000	Pretium Resources Inc.	3,255,000	3,933,000
310,700	Regis Resources Limited	1,315,171	1,628,484
117,175	Rio Alto Mining Limited	502,714	595,249
801,500	Roxgold Inc.	565,057	569,065
500,000	Sabina Gold & Silver Corporation	3,300,000	1,315,000
2,870,900	Tiger Resources Limited	989,247	860,697
1,000,000	Trevali Mining Corporation	1,000,000	1,040,000
81,700	Yamana Gold Inc.	1,362,295	1,392,168
	Sub-totals, equities - materials and mining sector	35,044,132	25,072,331
Sub-totals, ed	uities	58,879,352	44,330,271
Transaction c	osts	(28,253)	-
Total portfolio	investments	\$ 58,851,099	\$ 44,330,271

Notes to Financial Statements

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

1. Organization of the Limited Partnership:

Front Street Flow-Through 2011-I Limited Partnership (the "Partnership") was formed on November 1, 2010 as a limited partnership under the laws of the Province of Ontario. The principal purpose of the Partnership is to acquire flow-through shares and other securities of resource companies with a view to achieving capital appreciation for its Limited Partners and to participate financially in the gross production or production revenue generated from mining and oil sands properties through indirect investments in qualifying environmental trusts ("QET"). The resource companies will incur Canadian Exploration Expenses (including Canadian Renewable and Conservation Expenses) or Canadian Development Expenses, and will renounce these expenses effective December 31, 2012 and December 31, 2011, as applicable, to the Partnership in amounts substantially equal to the subscription amount of the flow-through shares. In addition, the QETs will allocate expenses to the Partnership. In turn, the Partnership will allocate the renouncements and QET allocated expenses to the Limited Partners. The Partnership had no operations from the date of its formation until February 16. 2011 (the completion date of the initial offering of limited partnership units, hereinafter referred to as the "Initial Closing Date").

The general partner of the Partnership is FSC GP VII Corp. (the "General Partner"), which was incorporated on September 10, 2010. The Partnership is governed by the amended and restated Limited Partnership Agreement (the "Partnership Agreement") between the General Partner and the Limited Partners, dated January 13, 2011.

The General Partner is responsible for the management of the Partnership in accordance with the terms and conditions of the Partnership Agreement. Under the Partnership Agreement, the General Partner is entitled to a 0.01% beneficial interest in the Partnership.

Under the terms of the Partnership Agreement, the General Partner intends to implement an exchange transaction pursuant to which the Partnership will transfer its assets to a Mutual Fund, on a tax-deferred basis in exchange for redeemable shares of that Mutual Fund and within 60 days thereafter, distribute 99.99% of the shares of the Mutual Fund to the Limited Partners, pro rata, and 0.01% of the shares of the Mutual Fund to the General Partner, on a tax-deferred basis upon the dissolution of the Partnership (the "Mutual Fund Rollover Transaction"). If the Mutual Fund Rollover Transaction is not implemented by May 31, 2013 or the Limited Partners determine by Extraordinary Resolution not to proceed with the Mutual Fund Rollover Transaction, the Partnership will be dissolved on or about June 30, 2013 and the net assets will be distributed pro rata to the partners.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

1. Organization of the Limited Partnership (continued):

These financial statements reflect only the assets, liabilities, revenue and expenses of the Partnership and, therefore, do not include any assets, liabilities, revenue or expenses of the partners. No provision for income taxes has been recorded in the financial statements as all income and losses of the Partnership are allocated to the partners.

2. Significant accounting policies:

These financial statements have been prepared by the General Partner using Canadian generally accepted accounting principles ("GAAP") for annual financial statements. All amounts are reported in Canadian dollars.

(a) Valuation of investments:

The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), requires the fair value of financial instruments traded in active markets be measured based on the bid price for securities owned or held long and based on the asking price for securities sold short. For financial reporting purposes, the Partnership adopted the valuation policy in accordance with the requirements of Section 3855 for actively traded securities owned by the Partnership.

Canadian securities regulatory authorities had previously granted relief to investment funds from the requirement to comply with Section 3855, for the purposes of calculating and reporting of net asset value used for investor transactions ("Transactional NAV"). Effective September 8, 2008, amendments to National Instrument 81-106 ("NI 81-106") came into force to address the implications of Section 3855. The amendments permit investment funds to have two different net asset values: (i) one for financial statements, which will be prepared in accordance with Canadian GAAP, including Section 3855 (and referred to as "net assets", previously referred to as "GAAP NAV"); and (ii) another for all other purposes, including unit pricing for investor transactions (referred to as "net asset value", previously referred to as "Transactional NAV"). These amendments to NI 81-106 will not impact the financial position of the Partnership nor cause a significant change to the Partnership's current valuation practices.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

2. Significant accounting policies (continued):

For financial statement reporting purposes, the Partnership is required to disclose the differences between net assets per security and net asset value per security, including any differences in valuation principles or practices for the purposes of calculating net asset value versus those required under Canadian GAAP. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold short) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining net asset value. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry.

A reconciliation between the net assets for financial reporting purposes and net asset value for investor transactions is presented in note 9.

Securities with no bid/ask prices are valued at their closing sale prices. Securities traded on an over-the-counter market are valued in the same manner based on available public quotations from recognized dealers in such securities. Investments in securities having no readily available source of fair value or in illiquid securities are valued by the General Partner at estimated fair value. In such cases, fair value is initially determined as cost, unless there is a substantial arm's length transaction that establishes a different fair value or there is a significant change from the General Partner's expectations that establishes a different fair value. Estimated fair values for investments in securities having no readily available source of value or for illiquid securities may differ from values that would have been used had a ready market existed for such investments.

Bid/ask prices of any securities subject to a hold period have not been adjusted for the potential impact of such hold periods. Bid/ask prices may be affected by trading volumes and restrictions. Bid/ask prices may not be indicative of what the Partnership might realize on an immediate sale, as it might take significant time to liquidate positions without causing a negative impact on market values. Any difference between the fair value and the cost of the investments is treated as unrealized appreciation or depreciation.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

2. Significant accounting policies (continued):

Short-term investments, if any, are valued at the aggregate of cost and accrued interest receivable, which approximates market value.

(b) Transaction costs:

Section 3855 also requires that transaction costs (such as brokerage commissions), incurred in the purchase and sale of securities, be charged to operations for the period. Accordingly, transaction costs (if any) are expensed and are reported as such in the statements of operations.

(c) Investment transactions and income recognition:

Except for short-term investments, investment transactions are accounted for on the business day following the date that the order to buy or sell was executed. Short-term investments are accounted for on the date that the order to buy or sell is executed. Realized gains and losses are calculated on an average cost basis.

Revenue from investments is recognized on the accrual basis. Interest revenue is accrued as earned and dividend revenue is recognized on the ex-dividend date.

For income tax purposes, the adjusted cost base of flow-through portfolio investments is reduced by the amount of expenditures renounced or allocated to the Partnership. Upon the disposition of such shares, any capital gain or loss that would result is allocated to the Limited Partners based on their proportionate ownership interest.

(d) Unit values:

The net assets per limited partnership unit is calculated as net assets at market value, less the General Partner's 0.01% share, divided by the number of limited partnership units outstanding.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

2. Significant accounting policies (continued):

(e) Financial instruments:

Financial instruments of the Partnership consist of cash, portfolio investments, accounts receivable for portfolio investments sold, accounts receivable relating to dividend income, accounts receivable - other, accounts payable and accrued expenses, investments sold short, management fees payable and loan payable. The fair value of the portfolio investments and investments sold short (if any) are reported in the statement of portfolio investments. The fair values of all other financial instruments approximate their carrying values due to the immediate or short-term maturity thereof.

(f) Fair value measurements:

CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"), requires the Partnership to use a three-tier hierarchy as a framework for disclosing fair values, based on inputs used to value the Partnership's investments. This hierarchy is summarized as follows:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Details of the fair value measurements are reported in note 7. Changes in valuation methods may result in transfers into or out of an investment's assigned level.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

2. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities (if any) at the dates of the financial statements and the reported amounts of revenue and expenses during the periods. Notably, the process of valuing investments for which no published market exists is subject to inherent uncertainty. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are recognized in operations in the periods in which such adjustments become known.

(h) Future accounting changes:

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") would replace Canadian GAAP, effective January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. Accordingly, the Partnership would have been required to adopt IFRS for its interim and annual financial statements commencing on or after January 1, 2011. However, in September 2010, the CICA announced that investment companies (including flow-through investment entities) were given a one-year deferral from adopting IFRS. Since then, the AcSB has announced further deferrals, the result of which is that the mandatory IFRS changeover date for investment companies will be January 1, 2014.

As stated in note 1, the Partnership will be dissolved no later than on or about June 30, 2013. In view of this planned dissolution, the Partnership will not be required to produce interim or annual financial statements in accordance with IFRS for a reporting period commencing on January 1, 2013.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

3. Loan payable:

On February 16, 2011, the Partnership established a credit facility with the National Bank of Canada (the "Bank") for the payment of the agents' fees and costs of issue, and has provided the Bank with a security interest in all the assets of the Partnership. The Partnership pays interest on the outstanding loan balance at the greater of (i) the annual rate of interest publicly announced or established by the Bank from time to time as being the reference rate then in effect for determining interest on Canadian dollar commercial loans in Canada, and (ii) one percent (1%) over the average annual percentage rate applicable to Canadian dollar bankers' acceptances ("BAs") with the same maturity being purchased by the Bank. The initial interest on the drawdown or renewal of the BAs is deferred and amortized over the term of the BAs.

4. Related party transactions:

The Investment Advisor, a party under common control with the General Partner, is entitled to receive management fees equal to 2% per annum of the net asset value of the Partnership calculated and paid monthly, in arrears. During the year ended December 31, 2012, the management fee expense was \$1,374,728 (2011 - \$1,851,179), including \$108,743 accrued and unpaid as at December 31, 2012 (2011 - \$138,990).

The General Partner is entitled to receive additional distributions of 20% of the product of the number of limited partnership units outstanding, and the amount by which the sum of net asset value and distributions per unit exceed \$28 during a specified period. For the year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011, no provision has been recognized for any additional distributions.

5. Partners' equity:

The authorized capital of the Partnership consists of an unlimited number of limited partnership units. All Partnership units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Partnership and the right to one vote at any meeting of the Limited Partners.

As at December 31, 2012 and 2011, 5,182,443 limited partnership units were issued and outstanding.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

6. Management of financial risks:

In the normal course of business, the Partnership is exposed to financial risks, including market risk (consisting of price risk, interest rate risk and currency risk), credit risk, custodian and prime brokerage risks, and liquidity risk. The Partnership's overall risk management programme seeks to minimize potentially adverse effects of those risks on the Partnership's financial performance. The Partnership moderates financial risks through the careful selection of portfolio investments and other financial instruments within the parameters of the investment guidelines, strategies and objectives.

(a) Market risk:

(i) Price risk:

Price risk is the risk the value of a financial instrument will fluctuate because of changes in market prices. As at December 31, 2012, the Partnership's portfolio investments consist primarily of equity securities of companies whose securities are actively traded on recognized public exchanges.

If the bid price of each of the portfolio investments had increased by 1% with all other variables remaining constant, the decrease in net assets from operations for the year ended December 31, 2012 would have been reduced by \$443,303, being \$0.09 per unit (2011 - decrease in net assets from operations would have been reduced by \$800,837, being \$0.16 per unit). Conversely, if the bid price of the portfolio investments had decreased by 1% with all other variables remaining constant, the decrease in net assets from operations for the year ended December 31, 2012 would have been greater by \$443,303, being \$0.09 per unit (2011 - decrease in net assets from operations would have been greater by \$800,837, being \$0.16 per unit).

(ii) Interest rate risk:

Interest rate risk is the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. As at December 31, 2012, interest-bearing financial instruments are at fixed rates over their respective terms of typically 90 days or less. The Partnership has no floating rate long-term assets or long-term liabilities.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

6. Management of financial risks (continued):

As described in note 3, the Partnership is liable to the Bank for a demand loan used to fund the payment of agents' fees and costs of issue. As at December 31, 2012, if interest rates payable on the interest-bearing loan had varied by 25 basis points with all other variables remaining constant, the change in net assets from operations for the year ended December 31, 2012 would not have been significant.

(iii) Currency risk:

In the normal course of business, the Partnership may hold assets or have liabilities denominated in currencies other than Canadian dollars (the reporting and functional currency of the Partnership, and hereinafter referred to as "CAD"). Therefore, the Partnership is exposed to currency risk, as the value of any assets or liabilities denominated in currencies other than CAD will vary due to changes in foreign exchange rates. The following is a summary, at fair value, of the Partnership's exposure to significant currency risks, as at December 31, 2012:

		Foreign currency		CAD equivalent
Cash, U.S. dollars Portfolio investments: Australian dollar Pounds Sterling U.S. dollar	\$ \$ £ \$	394,787 2,407,810 428,040 1,415,894	\$ \$\$	392,694 2,489,181 692,834 1,408,387

As at December 31, 2012, had the CAD become stronger by 1% with all other variables remaining constant, the decrease in net assets from operations would have been greater by \$49,338, being \$0.01 per unit. Conversely, had the CAD become weaker by 1% with all other variables remaining constant, the decrease in net assets from operations would have been lower by \$50,334, being \$0.01 per unit.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

6. Management of financial risks (continued):

(b) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Partnership. As at December 31, 2012 and 2011, the Partnership had no holdings of short-term investments or any other material amount receivable. Therefore, it is the opinion of the General Partner that the Partnership is not subject to any significant credit risk.

(c) Custody and prime brokerage risks:

There are risks involved with dealing with a custodian or prime broker who settle trades. In certain circumstances, the securities or other assets deposited with the custodian or prime broker may be exposed to credit risk with respect to those parties. In addition, there may be practical or timing problems associated with enforcing the Partnership's rights to its assets in the case of an insolvency of any such party.

The Partnership maintains a custody account with RBC Dexia Investor Services Trust ("RBC Dexia"). Although the Partnership monitors RBC Dexia and believes it to be an appropriate custodian, there is no guarantee that RBC Dexia will not become insolvent. While there are government regulations intended to protect investor property in the event of a failure, liquidation or insolvency of a broker-dealer, there is no certainty that, in the event of a failure, the Partnership will not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets, or both. Because substantially all the assets of the Partnership are in the custody of a single custodian, such losses could be significant and could impair the ability of the Partnership to achieve its investment objective.

(d) Liquidity risk:

Liquidity risk is the risk of loss arising from an inability to quickly realize asset value or obtain funding. Consistent with the investment strategies and objectives of the Partnership, the Partnership retains sufficient liquid investments (including cash and cash equivalents, short-term investments having maturity dates less than 45 days (when applicable), and portfolio investments in equity securities traded in active markets) to maintain liquidity.

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

6. Management of financial risks (continued):

As at December 31, 2012, included in its portfolio investments, the Partnership has investments in the following types of equity securities:

Type of equity securities	Aggregate fair value	Percentage of portfolio	Percentage of net assets
Private companies (3)	\$ 2,526,135	5.70	5.13
Temporarily restricted shares of public companies (2)	1,297,288	2.93	2.63
Warrants (7)	150,599	0.34	0.31

7. Fair value measurements:

The following is a summary of the classification of the fair value of the portfolio investments using the hierarchy of inputs described in note 2(f) as required by Section 3862:

2012	Level 1	Level 2	Level 3	Total
Portfolio investments in equity securities	\$ 40,356,248	\$ 1,447,888	\$ 2,526,135	\$ 44,330,271

2011	Level 1	Level 2	Level 3	Total
Portfolio investments in equity securities, long positions Portfolio investments	\$ 66,449,881	\$ 8,614,832	\$ 5,287,201	\$ 80,351,914
in equity securities, short positions	(268,200)	-	-	(268,200)

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

7. Fair value measurements (continued):

During the year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011, portfolio investments were transferred from Level 2 to Level 1. These transfers occur when flow-through shares acquired by the Partnership are converted into common shares (in the normal course of business and following a hold period as specified by the flow-through share purchase agreement) and when the Partnership exercised share purchase warrants.

During the year ended December 31, 2012, there was a transfer from Level 3 to Level 2 in the amount of \$1,000,001 (2011 - nil). This transfer reflects the initial public offering of a private company, the investment in which had been previously classified in Level 3. The transfer was made to Level 2 as the Partnership was restricted from freely trading the flow-through shares held in this investee company until such shares are exchanged for common shares thereof. The following is a reconciliation of the changes in the portfolio investments owned, measured at fair value using unobservable inputs (Level 3), for the year ended December 31, 2012 and for the period from February 16, 2011 (date of commencement of operations) to December 31, 2011:

2012:

Level 3 reconciliation: Balance, beginning of year Net transfers out Net purchases Change in unrealized depreciation of investments	\$ 5,287,201 (1,000,001) 1,045,070 (2,806,135)
Balance, end of year	\$ 2,526,135
2011:	
Level 3 reconciliation: Balance, beginning of period Net purchases Change in unrealized depreciation of investments	\$ - 6,256,800 (969,599)
Balance, end of period	\$ 5,287,201

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

8. Management of capital:

The Partnership considers financial instruments in the form of limited partnership units (net of share issue costs) to represent capital. In managing this capital, the objectives of the Partnership are:

- (a) to safeguard the Partnership's ability to continue as a going concern, be flexible and take advantage of opportunities that might present themselves;
- (b) to provide an appropriate return to unitholders; and
- (c) to use active management strategies intended to enhance the returns of the Partnership and concurrently minimize risk and preserve capital, consistent with the investment guidelines, strategies and objectives of the Partnership.

Under the terms of the Partnership Agreement, the limited partnership units are non-redeemable, except as provided for the Mutual Fund Rollover Transaction or for the dissolution of the Partnership if the Mutual Fund Rollover Transaction was not implemented as planned.

The Partnership follows, and is in compliance with, the Investment Guidelines described in the Prospectus and contained in the Partnership Agreement.

The Partnership is not subject to any externally imposed capital requirements.

9. Reconciliation of Transactional NAV to GAAP NAV, as at December 31:

2012	Net asset value	Section 3855 adjustment	Net assets
Total	\$ 49,478,403	\$ (198,320)	\$ 49,280,083
Per unit	9.55	(0.04)	9.51

Notes to Financial Statements (continued)

Year ended December 31, 2012 and period from February 16, 2011 (date of commencement of operations) to December 31, 2011

9. Reconciliation of Transactional NAV to GAAP NAV, as at December 31 (continued):

2011	Net asset value	Section 3855 adjustment	Net assets
Total	\$ 75,154,858	\$ (318,349)	\$ 74,836,509
Per unit	14.50	(0.06)	14.44

10. Canadian resource expenditures:

During the year, the Partnership renounced \$800,000 (2011 - \$128,177,172) of Canadian exploration expenses and Canadian development expenses. The flow-through shares, in which the Partnership invested, are deemed to have no adjusted cost base for income tax purposes.

11. Subsequent events:

On February 1, 2013 and in accordance with the Partnership Agreement, the Partnership completed the direct and indirect tax-deferred transfer of assets of the Partnership into the Front Street Resource Fund class of Front Street Mutual Funds Limited (the "Rollover Fund"). As at the date of transfer, the value of the net assets of the Partnership transferred to the Rollover Fund was \$47,888,087. Concurrent with the rollover, the bank loan was repaid.

The Partnership was dissolved effective on February 12, 2013.