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CONFIDENTIAL OFFERING MEMORANDUM

Private Placement

Continuous Offering
June 24, 2011

CGS FLOW-THROUGH 2011 - 1 LP

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Offering of Limited Partnership Units
\$30,000,000 Maximum (1,200,000 Units): \$1,000,000 Minimum (40,000 Units)

Purchase Price: \$25 per Unit
Minimum Purchase: \$5,000 (200 Units)

The Partnership and Offering: CGS Flow-Through 2011 - 1 LP (the “Partnership”), a limited partnership established under the laws of the Province of Alberta, proposes to issue on a private placement basis transferable limited partnership units (the “Units”) at a price of \$25 per Unit. The Offering (as defined herein) is being made on a continuous basis and is subject to a maximum aggregate subscription level of \$30,000,000 and a minimum aggregate subscription level of \$1,000,000. Each investor must purchase a minimum of 200 Units (\$5,000). See “The Partnership” and “Details of the Offering”.

Investment Objectives: The Partnership’s investment objective is to maximize total return and provide its Limited Partners (as defined herein) with the opportunity for significant tax benefits through investment in a diversified portfolio of equity securities of Resource Companies (as defined herein) in the oil & gas sector. The Partnership will invest primarily in flow-through shares (“Flow-Through Shares”) of Resource Companies, including junior issuers, in accordance with its Investment Guidelines (as defined herein) and investment strategies outlined herein. Only investors seeking exposure to the oil & gas sector should invest in the Partnership.

Investment Strategy: The Partnership will invest its Available Funds (as defined herein) on or before December 31, 2011 primarily in Flow-Through Shares of Resource Companies (primarily oil & gas) listed on the Toronto Stock Exchange (“TSX”), TSX Venture Exchange or Canadian National Stock Exchange. The Partnership may also invest up to 40% of its net asset value in securities of private oil & gas companies. To reduce certain risks to Limited Partners, the General Partner (as defined herein) will actively manage the Partnership’s investment portfolio, which may involve the sale of Flow-Through Shares and other securities and the reinvestment of the net proceeds from such dispositions. Commencing in 2011, the General Partner may sell Flow-Through Shares at any time (subject to applicable hold periods) and invest the proceeds of sale in other securities of Resource Companies if it is of the opinion that it is in the best interests of the Partnership to do so.

In order to maximize the after-tax returns to its Limited Partners, the Partnership intends to invest its Available Funds (i.e., the gross proceeds of the Offering less the Offering Expenses, Dealers’ Fees, and an initial Working Capital Reserve) in Flow-Through Shares such that its Limited Partners will be entitled to claim certain 2011 and 2012 tax deductions from income for income tax purposes.

Available Funds of the Partnership that have not been committed to purchase Flow-Through Shares prior to January 1, 2012 will be distributed on January 31, 2012 on a *pro rata* basis to Limited Partners of record of the Partnership on December 31, 2011. The Partnership intends to invest in Resource Companies that: (i) have experienced management; (ii) have an exploration program in place; (iii) offer potential for future growth; and (iv) meet certain specified market capitalization and other criteria. It is anticipated that the Resource Companies will include a significant number of junior oil & gas Resource Companies. See “Investment Guidelines”.

Management of the Partnership: CGS Flow-Through 2011 - 1 GP Ltd. (the “General Partner”) is the general partner of the Partnership and has coordinated the organization and registration, and has established the Investment Guidelines, of the Partnership. The General Partner will identify prospective investments in Resource Companies, will negotiate the terms of such investments, and

will monitor the investment portfolio of the Partnership to ensure compliance with the Investment Guidelines. The Partnership has retained the Manager to provide investment, management, administrative and other services to the Partnership. See “The General Partner and the Manager”.

Mutual Fund Rollover Transaction: Prior to or on June 30, 2012, the Partnership intends to complete the Mutual Fund Rollover Transaction pursuant to which Limited Partners will receive redeemable Class D Shares (as defined herein) of CGS Resource Fund Ltd. (“**CGS Resource**”), a corporation managed by the Manager, or such other mutual fund securities that are appropriate from a tax planning and capital appreciation point of view. CGS Resource is qualified as an open-end mutual fund corporation. The Partnership intends to complete the Mutual Fund Rollover Transaction pursuant to the terms of the Transfer Agreement. The Transfer Agreement is assignable by CGS Resource, and Partnership assets may be transferred to any other open-end mutual fund corporation managed by the Manager. The completion of the Mutual Fund Rollover Transaction will be subject to the receipt of all approvals that may be necessary and the other conditions set forth in the Transfer Agreement. **There can be no assurance that the Mutual Fund Rollover Transaction will be implemented on or before June 30, 2012.**

In the event that the Mutual Fund Rollover Transaction is not completed on or before August 31, 2012, the Partnership will be dissolved and the net assets of the Partnership will be distributed to its Limited Partners and the General Partner in the form of cash or other assets (the “**Dissolution Transaction**”). In connection with a Dissolution Transaction for the Partnership, the General Partner may: (a) take steps to convert all or any part of the assets of the Partnership to cash; (b) pay or provide for the payment of the debts and liabilities of the Partnership, liquidation expenses and the Performance Bonus allocation; and (c) distribute the remaining assets of the Partnership as to 0.01% to the General Partner and as to 99.99% among the Limited Partners of record the Partnership on the date of dissolution, proportionate to the number of Units held by them. Alternatively, the General Partner may, after the payment of the debts and liabilities of the Partnership, liquidation expenses and the Performance Bonus allocation, cause the Partnership to distribute to each partner an undivided interest in each asset of the Partnership as contemplated by subsection 98(3) of the *Income Tax Act* (Canada) (the “**Tax Act**”) on a tax-deferred basis and take steps to partition such undivided interests. See “Risk Factors”.

The federal tax shelter identification number for CGS Flow-Through 2011 - 1 LP is TS078444. The identification number issued for this tax shelter must be included in any income tax return filed by the investor. 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 relevant identification number issued for this tax shelter must be included in any income tax return filed by the 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. There are important tax consequences to holding these securities. See “Certain Canadian Federal Income Tax Considerations”.

	<u>Price to Investor</u> ⁽¹⁾	<u>Dealer’ Fees</u> ⁽²⁾	<u>Estimated Offering Costs</u> ⁽³⁾	<u>Net Proceeds to Partnership</u> ⁽³⁾
CGS FLOW-THROUGH 2011 - 1 LP				
Maximum Offering (1,200,000 Units).....	\$30,000,000	\$1,500,000	\$82,000	\$28,418,000
Minimum Offering (40,000 Units).....	\$ 1,000,000	\$ 50,000	\$50,000	\$ 900,000

- Notes:
- (1) The Subscription Price per Unit was established by the General Partner.
 - (2) Assumes that all Units will be sold through the Dealers. The Dealers’ Fees and Offering Expenses will be paid by the Partnership from the proceeds of the Offering raised by the Partnership. The initial Working Capital Reserve (\$860,000 in the case of the maximum Offering and \$160,000 in the case of the minimum Offering) will be retained from the proceeds of the Offering raised by the Partnership. See “Fees and Expenses of the Partnership” and “Summary of the Partnership Agreement – Limited Recourse Financings”.
 - (3) The total expenses of this Offering will not exceed \$1,582,000 in the case of the Maximum Offering and \$100,000 in the case of the Minimum Offering. The General Partner has agreed that the total Dealer Fees and Offering Costs to be paid by the Partnership shall not exceed 5.27% of the gross proceeds in the case of the Maximum Offering and 10% of the gross proceeds in the case of the Minimum Offering, plus any applicable taxes, and the General Partner will pay for any excess amount. See “Fees and Expenses of the Partnership – Initial Fees and Expenses”.

There is no market or exchange through which the Units may be sold and none is expected to develop. Consequently, the only liquidity option available to investors of the Partnership may be the Mutual Fund Rollover Transaction or, if the Mutual Fund Rollover Transaction is not implemented prior to June 30, 2012, the Dissolution Transaction on or about August 31, 2012. Limited Partners will be restricted from selling Units for an indefinite period. See “Resale Restrictions”.

THESE SECURITIES ARE SPECULATIVE IN NATURE. THIS IS A BLIND POOL OFFERING. The Units are speculative in nature as are the securities in which the Available Funds will be invested. There is no market through which the Units may be sold and purchasers may not be able to resell Units purchased by way of private placement pursuant to this Offering. 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 guarantee that an investment in the Partnership will earn a specified rate of return or any return in the short or long term. Flow-Through Shares may be issued to the Partnership at prices greater than the market prices of ordinary common

shares of the Resource Companies and may be subject to resale restrictions. Limited Partners must rely on the discretion of the General Partner for the management of the Partnership's portfolio. There can be no assurance that the General Partner, on behalf of the Partnership, will be able to identify a sufficient number of investments to permit the Partnership to commit its Available Funds to purchase Flow-Through Shares by December 31, 2011. Therefore, the possibility exists that capital may be returned to Limited Partners and Limited Partners may be unable to claim anticipated deductions from income for income tax purposes. There is no assurance that an adequate market will exist for the 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. Federal or provincial income tax legislation may be amended, or its interpretation changed, so as to alter fundamentally the tax consequences of holding or disposing of Units. Distributions from the Partnership to Limited Partners in a year may not be sufficient to pay fully any tax that a Limited Partner may owe as a result of being a Limited Partner in that year. 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; and the General Partner has only nominal assets. There are no assurances that the Mutual Fund Rollover Transaction will be implemented. Investors should consult their own professional advisors to assess the income tax, legal and other aspects of the investment. See "Risk Factors".

You have two business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, you have the right to either sue for damages or to cancel the agreement. See "Right of Action for Damages or Rescission".

Dealers are able to subscribe for Units of the Partnership on behalf of accredited investors, eligible investors or investors who purchase a prescribed minimum amount of Units through FundSERV using the code CGS 111. Alternatively, accredited or eligible investors or investors who purchase a prescribed minimum amount of Units may also subscribe for Units directly by completing a subscription agreement and power of attorney form, and returning both to the General Partner along with a certified cheque or bank draft payable, or wire transfer sent, to the Partnership.

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. The Initial Closing for CGS Flow-Through 2011 - 1 LP is expected to take place two business days after subscriptions for at least 40,000 Units of the Partnership are received by the General Partner, which is anticipated to be on or about July 31st, 2011, or earlier. If less than the maximum number of Units of the Partnership offered hereby is subscribed for at the Initial Closing, one or more subsequent Closings may be held on or before December 31, 2011, at the discretion of the General Partner. The General Partner has the sole discretion to accept investor capital on behalf of the Partnership and reserves the right to decline purchase orders towards the end of 2011 if it believes its ability to place capital is not attractive or in the best interest of Limited Partners.

Dealers will hold subscription cheques and proceeds received from investors prior to the Initial Closing until subscriptions for the minimum Offering are received and other closing conditions of this Offering have been satisfied, at which time the Closing will take place. If the minimum Offering is not subscribed for by December 31, 2011, subscription cheques and proceeds will be returned, without interest or deduction, to the investors.

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SUMMARY OF KEY DATES

<u>Approximate Date</u>	<u>Event</u>
July 31 st , 2011	Anticipated Initial Closing – Investors purchase Units and pay the full purchase price of \$25 per Unit.
Subsequent dates in 2011	Additional Closings, as required – Investors purchase Units monthly, based on a minimum closing being achieved, and pay the full purchase price of \$25 per Unit.
March 31, 2012	Limited Partners will be sent a 2011 T5013 federal tax receipt.
April 2012	A copy of the audited financial statements of the Partnership is made available to Limited Partners.
June 30, 2012	Anticipated implementation of the Mutual Fund Rollover Transaction ⁽¹⁾ , subject to earlier dissolution.
September 30, 2012 to November 31, 2012	The Partnership will be dissolved pursuant to a Dissolution Transaction if the Mutual Fund Rollover Transaction is not completed by August 31, 2012.
March 31, 2013	Limited Partners will be sent a 2012 T5013 federal tax receipt.

- (1) If the Mutual Fund Rollover Transaction is implemented in respect of the Partnership, shares of CGS Resource or any other mutual fund securities will be distributed as soon as practicable and, in any event, within 90 days following the transfer of the Partnership's assets to CGS Resource or any other redeemable mutual fund corporation.

FORWARD LOOKING STATEMENTS

Certain statements included in this offering memorandum constitute forward looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “may”, “will”, “intend” and similar expressions to the extent they relate to the Partnership, the General Partner or the Manager. These forward looking statements are not historical facts but reflect the Partnership's, the General Partner's, and/or the Manager's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These risks and uncertainties include, but are not limited to, changes in the global economy, general economic and business conditions, existing governmental regulations, supply, demand and other market factors specific to the resource sector and to the securities of Resource Companies, including those set out under “Risk Factors”. In light of the many risks and uncertainties surrounding the resource sector, the forward-looking statements contained in this offering memorandum may not be realized. See “Risk Factors”. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither the General Partner, on behalf of the Partnership, nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as required by law.

ELIGIBILITY FOR INVESTMENT

In the opinion of Janke Law Office, counsel to the Partnership, the Units do not constitute “qualified investments” for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, tax-free savings accounts or registered disability savings plans for purposes of the Tax Act.

HOW TO PURCHASE UNITS

The Units are being offered for sale on a “private placement” basis in reliance on the “accredited investor”, “offering memorandum” and “minimum amount investment” exemptions from prospectus and registration requirements of applicable Canadian securities laws. The Manager has made arrangements to offer the Units through the investment fund order system, FundSERV, under the following code:

CGS 111: CGS Flow-Through 2011 - 1 LP

See “Details of the Offering – How to Purchase Units”. As a result, resale of the Units will be restricted in the manner provided by applicable securities laws. See “Resale Restrictions”.

Investors must purchase at least the minimum subscription amount of 200 Units. Any investment in excess of \$5,000 per

investor must be made in multiples of \$1,000 (40 Units). See “Details of the Offering.”

1. Investors may purchase Units through qualified dealers, including investment dealers and mutual fund dealers, as the case may be.
2. To acquire Units, an investor must deliver to the General Partner on or prior to the Closing a duly completed and signed Subscription Agreement and Power of Attorney Form, together with a certified cheque, wire transfer or bank draft in the amount of \$25 per Unit payable to “CGS Flow-Through 2011 - 1 LP”. For Units purchased from the qualified dealer on the FundSERV network, an investor must deliver on or prior to the Closing a duly completed and signed subscription agreement and power of attorney form, together with payment by electronic or manual settlement.

GLOSSARY

When used in this offering memorandum (the “**Offering Memorandum**”), the following terms have the following meanings ascribed thereto:

“**affiliate**” means an affiliated entity within the meaning of National Instrument 45-106 – *Prospectus and Registration Exemptions* of the Canadian Securities Administrators.

“**Available Funds**” means all funds available from the sale of Units of the Partnership after deducting the Partnership’s portion of the Offering Expenses and Dealers’ Fees and taking an initial Working Capital Reserve.

“**CCEE**” means cumulative Canadian exploration expense as defined in subsection 66.1(6) of the Tax Act.

“**CDE**” means Canadian development expense described in paragraphs (a) and (b) of the definition of “Canadian development expense” in subsection 66.2(5) of the Tax Act, but in any case excluding CEDOE.

“**CEDOE**” means Canadian exploration and development overhead expenses as prescribed under the regulations to the Tax Act for purposes of subsections 66(12.6), 66(12.601) and 66(12.62) of the Tax Act.

“**CEE**” means Canadian exploration expense as defined in subsection 66.1(6) of the Tax Act (which includes CRCE), but in any case excluding CEDOE, expenses in respect of seismic data described in paragraph 66(12.6)(b.1) of the Tax Act and expenses that are deemed to be Canadian exploration expenses by subsection 66.1(9) of the Tax Act, and 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; and
- (d) certain expenses incurred in respect of certain alternative energy projects.

“**CGS Resource**” means CGS Resource Fund Ltd., a corporation managed by the Manager. CGS Resource is qualified as an open-end “mutual fund corporation” for purposes of the Tax Act existing under the laws of Canada and includes its permitted assigns, or any successor to such fund by way of merger or amalgamation or any other open-end “mutual fund corporation” for purposes of the Tax Act, which is managed by the Manager, to which the assets of the Partnership may be transferred.

“**Closing**” means any closing of the sale of Units of the Partnership to investors pursuant to the Offering and includes the Initial Closing.

“**Closing Date**” means the date a Closing takes place but, in any event, not later than December 31, 2011.

“**CRA**” means the Canada Revenue Agency.

“**CRCE**” means Canadian renewable and conservation expense as defined in subsection 66.1(6) of the Tax Act and the regulations thereunder, and is a category of CEE.

“**Custodian**” means RBC Dexia Investor Services Trust, in its capacity as custodian under the Custodian Agreement.

“**Custodian Agreement**” means an agreement to be entered into by the Partnership, the General Partner and the Custodian

on or before the Initial Closing pursuant to which the Custodian will hold the investment portfolio of the Partnership.

“**Dealers**” means qualified investment dealers who sell Units from time to time.

“**Dealers’ Fees**” means the sales commission to be paid by the Partnership to the Dealers in an amount of up to 5.0% of the selling price for each Unit sold to an investor.

“**Dissolution Transaction**” means the dissolution of the Partnership and the distribution of the net assets of the Partnership to its Limited Partners and the General Partner in the form of cash or other assets (other than in connection with the Mutual Fund Rollover Transaction).

“**Eligible Expenditures**” means expenditures in respect of resource exploration and development which qualify as CEE (including CRCE) or as CDE which may be renounced as CEE to the Partnership.

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

“**Final Closing Date**” means the date of the last Closing, which shall be not later than December 31, 2011.

“**Flow-Through Investment Agreement**” means an agreement between the Partnership and a Resource Company pursuant to which the Partnership will subscribe for Flow-Through Shares (including Flow-Through Shares offered as part of a unit) or an agreement by the Partnership to otherwise invest in or purchase securities of a Resource Company, including a trade made through the facilities of a stock exchange or other market.

“**Flow-Through Shares**” means common shares in the capital of a Resource Company that qualify as flow-through shares for purposes of the Tax Act and in respect of which the Resource Company renounces Eligible Expenditures to the Partnership, and rights to acquire such shares, which rights qualify as flow-through shares for the purposes of the Tax Act.

“**General Partner**” means CGS Flow-Through 2011 - 1 GP Ltd. and its successors as provided in the Partnership Agreement.

“**Government Issuers**” means the Government of Canada or any agency thereof or the government of any province or territory of Canada or any agency thereof.

“**Index-based Securities**” means index-based investment products that allow the purchase and sale of entire portfolios of securities in a single security.

“**Initial Closing**” means the first closing of the sale of Units of the Partnership to an investor pursuant to the Offering, expected to be on or about July 31, 2011.

“**Investment Guidelines**” means the investment policies and restrictions set forth in the Partnership Agreement and as described herein.

“**Limited Partners**” means holders of Units of the Partnership whose names and other prescribed information are maintained by the Partnership pursuant to the *Partnerships Act* (Alberta).

“**Management Agreement**” means the management agreement dated June 24th, 2011 among the Partnership, the General Partner and the Manager, as amended from time to time.

“**Management Fee**” means a fee equal to 2.00% of the Net Asset Value of the Partnership, calculated and paid monthly in arrears, plus applicable taxes.

“**Manager**” means CGS Asset Management Ltd. or its successors or such other affiliated entity as is acceptable to the Partnership.

“**Mutual Fund Rollover Transaction**” means an exchange transaction pursuant to which the Partnership will transfer its assets to CGS Resource on a tax-deferred basis in exchange for Class D shares of CGS Resource (or such other mutual fund securities that are appropriate from a tax planning and capital appreciation point of view), within 60 days of which, upon the

dissolution of the Partnership, such Class D Shares (or such other mutual fund securities) will be distributed to the Limited Partners, *pro rata*, on a tax-deferred basis.

“**Net Asset Value**” and “**Net Asset Value per Unit**” have the meanings given to those terms under the heading “Valuation of Investments – Valuation Principles”.

“**Offering**” means the private placement of Units of the Partnership pursuant to the terms of this Offering Memorandum and the Partnership Agreement and the applicable Subscription Agreement and Power of Attorney Forms.

“**Offering Expenses**” means expenses related to the Offering and each Closing, including the costs of creating and organizing the Partnership, the costs of printing and preparing this Offering Memorandum, legal and audit and accounting expenses of the Partnership, marketing expenses and legal and other reasonable expenses incurred by the Dealers and other incidental expenses.

“**Partnership**” means CGS Flow-Through 2011 - 1 LP.

“**Partnership Agreement**” means the amended and restated limited partnership agreement of the Partnership dated as of June 24th, 2011 between the General Partner, Michael Janke, as initial limited partner, and each person who becomes a Limited Partner thereafter, as amended from time to time.

“**Performance Bonus**” means the amount payable to the Manager on the Performance Bonus Date in respect of each Unit of the Partnership outstanding on such date equal to 20% of the amount by which the sum of (A) the Net Asset Value per Unit of the Partnership on the Performance Bonus Date and (B) all distributions per Unit of the Partnership on or prior to the Performance Bonus Date, exceeds \$25 (the Subscription Price per Unit).

“**Performance Bonus Date**” means the earliest to occur of: (i) the business day prior to the implementation of the Mutual Fund Rollover Transaction; and (ii) August 31, 2012.

“**Proposed Loss Limitation Rule**” means certain Tax Proposals released on October 31, 2003 described under “Certain Canadian Federal Income Tax Considerations” and “Risk Factors – Tax Related Risks”.

“**Related Issuer**” means a Resource Company of which the General Partner or any of their respective affiliates (other than limited partnerships managed by the General Partner or its affiliates) individually or together beneficially own or exercise direction or control over, directly or indirectly, more than 20% of the outstanding securities after giving effect to the exercise of all convertible securities held by the General Partner or their respective affiliates (other than limited partnerships managed by the General Partner or its affiliates).

“**Resource Company**” means a company, limited partnership or other issuer whose principal business is oil and gas exploration, development and/or production, certain energy production that may incur CEE, CCEE, CDE and CRCE or a related resource business, such as a pipeline or service company or utility.

“**Short-Term Securities**” means: (i) obligations issued or guaranteed by the Government of Canada or any province of Canada or any agency or instrumentality thereof with less than 12 months to maturity; (ii) term deposits, guaranteed investment certificates or bankers acceptances of or guaranteed by any Canadian chartered bank or any other financial institution, the short-term debt or deposits of which have been rated at least investment grade by Standard & Poor’s Corporation, Moody’s Investment Services, Inc. or DBRS Limited, or a money market mutual fund with similar constraints; and (iii) commercial paper rated at least investment grade by Standard & Poor’s Corporation, Moody’s Investment Services, Inc. or DBRS Limited, in each case maturing within 365 days after the date of acquisition, or for which the General Partner believes that there will be a liquid market for the resale thereof within such 365 day period.

“**Subscription Agreement and Power of Attorney Form**” means the subscription agreement and power of attorney form between each investor and the Partnership in the form provided by the Partnership in connection with this Offering.

“**Subscription Price**” means the amount of \$25 paid to the Partnership for the issue of each Unit of the Partnership.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended from time to time, including the regulations thereunder.

“**Termination Date**” means August 31, 2012.

“**Transfer Agreement**” means the agreement dated March 14th, 2011 between CGS Resource and the Partnership that provides for the Mutual Fund Rollover Transaction, together with all amendments, supplements, restatements and replacements thereof from time to time.

“**Units**” means limited partnership units of the Partnership.

“**Working Capital Reserve**” means funds which, in the opinion of the General Partner, are necessary or advisable to be held in cash or Short-Term Securities, having regard to the current and anticipated cash requirements of the Partnership, including, without limitation, funding the ongoing fees and general administrative expenses of the Partnership. The Working Capital Reserve will be \$160,000 in the case of the minimum Offering and \$860,000 in the case of the maximum Offering.

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OFFERING SUMMARY

The information set forth below should be read together with, and is qualified by, the more detailed information contained elsewhere in this offering memorandum (the “Offering Memorandum”) and the information contained in the Partnership Agreement and the Subscription Agreement and Power of Attorney Form. Certain capitalized terms used but not defined in this summary and in the body of this offering memorandum are defined under “Glossary”.

- Issuer:** CGS Flow-Through 2011 - 1 LP.
- Securities Offered:** Limited Partnership Units.
- FundSERV Code:** The Manager has made arrangements to offer the Units through the investment fund order system, FundSERV, under the following code: **CGS 111: CGS Flow-Through 2011 - 1 LP**
- Issue Size:** Maximum Offering: \$30,000,000 (1,200,000 Units)
Minimum Offering: \$ 1,000,000 (40,000 Units)
- Subscription Price:** \$25 per Unit.
- Investor Eligibility:** To subscribe, the investor must qualify as an accredited investor or eligible investor as defined, or purchase a minimum amount of Units as prescribed, by the provincial securities regulatory authority in the province in which the investor resides. Each subscriber is also required to provide a fully executed Subscription Agreement and Power of Attorney Form (with Risk Acknowledgement Form, if an eligible investor), which must be delivered in original form to the General Partner. See “Details of Offering”.
- Minimum Purchase:** \$5,000 (200 Units). Any investment in excess of \$5,000 per investor must be made in multiples of \$1,000 (40 Units). See “Details of Offering – How to Purchase Units”.
- Payment Terms:** Payable on or before Closing in the amount of \$25 per Unit.
- Initial Closing:** On or about two business days after subscriptions for at least 40,000 Units of the Partnership are received by the General Partner, which is anticipated to be on or about July 31st, 2011, or earlier.
- General Partner:** CGS Flow-Through 2011 - 1 GP Ltd. (the “General Partner”) has coordinated the organization and registration of the Partnership and has established the Investment Guidelines of the Partnership. The General Partner will work with Dealers in developing and implementing all aspects of the Partnership’s communications, marketing and distribution strategies, will monitor the investment portfolio of the Partnership to ensure compliance with the Investment Guidelines and will manage the ongoing business and administrative affairs of the Partnership.
- Investment Objectives:** The Partnership’s investment objective is to maximize total return and provide its Limited Partners with the opportunity for significant tax benefits through investment in a diversified portfolio of equity securities of Resource Companies in the oil & gas sector. The Partnership will invest primarily in Flow-Through Shares of Resource Companies, including junior issuers, in accordance with its Investment Guidelines and investment strategies outlined herein. Only investors seeking exposure to the oil & gas and/or Canadian energy sector should invest in the Partnership. See “The Partnership”.
- Investment Strategies:** The Partnership will use its best efforts to invest its Available Funds on or before December 31, 2011 primarily in Flow-Through Shares of Resource Companies listed on the TSX, TSX Venture Exchange or Canadian National Stock Exchange. The Partnership may also invest up to 40% of its Net Asset Value in securities of private oil & gas companies. Limited Partners will be entitled to claim certain deductions from 2011 and 2012 taxable income. By investing in a number of Resource Companies, the Partnership will benefit from the reduced risks associated with portfolio diversification.

The Partnership may dispose of a portion of the Partnership’s initial investment portfolio and purchase common shares of Resource Companies during 2011 with a view of providing capital gains to Limited Partners.

To reduce certain risks to Limited Partners, the General Partner will actively manage the Partnership’s investment portfolio which may involve the sale of Flow-Through Shares and other securities and the reinvestment of the net proceeds from such dispositions. The General Partner may sell Flow-Through Shares (subject to applicable hold periods) at any time and invest the proceeds of the sale in other securities of Resource Companies, in bonds issued by Government Issuers or in Index-based Securities if it is of the opinion that it is in the best interests of the Partnership to do so. All investments will be made in accordance with the Investment Guidelines. Initially, the Partnership intends to invest in oil & gas issuers that: (i) represent good value in relation to the market price of the oil & gas shares; (ii) have experienced management; (iii) have an exploration program in place; and (iv) offer potential for future growth. By investing in a number of companies, the Partnership will benefit from the reduced risks associated with portfolio diversification. In order to maximize the after-tax returns to its Limited Partners, the Partnership intends to invest its Available Funds in Flow-Through Shares such that its Limited Partners will be entitled to claim certain 2011 and 2012 tax deductions from income for income tax purposes.

Investment Guidelines:

The Partnership has developed certain investment policies and restrictions (the “**Investment Guidelines**”) that are more fully described under “Investment Guidelines”. The key Investment Guidelines of the Partnership include the following:

<u>Type of Investment</u>	<u>Investment Restriction</u> ⁽¹⁾
Securities of Resource Companies listed on a Canadian Stock Exchange	At least 60% of Net Asset Value in 2011 and up to 100% of Net Asset Value in 2012
Resource Companies whose market capitalization is at least \$10,000,000	At least 50% of Net Asset Value
Cash or Short-Term Securities.....	Commencing in 2012, the Partnership may invest up to 100% of the Net Asset Value in cash or Short-Term Securities
Illiquid Investments, including private companies ..	Up to 40% of Net Asset Value
Borrowing.....	Up to 10% solely to cover issue expenses of the Partnership
Investment in any one Resource Company	Not more than 30% of any class of securities of a Resource Company ⁽²⁾
Investment in Related Resource Companies.....	Not more than 20% of Net Asset Value

Notes:

- (1) All amounts or percentage interests are as at the time of investment.
- (2) Percentage of class of securities of Resource Company immediately after giving effect to the relevant investment.

The Investment Guidelines also include a number of general investment restrictions for the Partnership. See “Investment Guidelines”.

Use of Proceeds of the Partnership:

This is a blind pool offering. The Partnership will endeavour to use the proceeds of the Offering raised by the Partnership to: (i) principally to subscribe for Flow-Through Shares; and (ii) to fund the ongoing fees and expenses of the Partnership by way of the Working Capital Reserve, as described herein. See “Use of Proceeds for the Partnership”. The gross proceeds of the Offering, the Dealers’ Fees, the Offering Expenses and the Working Capital Reserve of the maximum and minimum Offering for the Partnership are set forth in the following table:

	<u>Maximum Offering</u>	<u>Minimum Offering</u>
CGS Flow-Through 2011 - 1 LP		
Gross Proceeds	\$30,000,000	\$1,000,000
Dealers' Fees ⁽¹⁾	1,500,000	50,000
Estimated Offering Expenses ⁽²⁾	82,000	50,000
Working Capital Reserve ⁽³⁾	<u>860,000</u>	<u>160,000</u>
Available Funds	<u>\$27,558,000</u>	<u>\$740,000</u>

Notes:

- (1) Assumes that all Units will be sold through the Dealers. The Dealers' Fees payable at Closing by the Partnership will be paid by the Partnership from the gross proceeds of the Offering received by the Partnership.
- (2) The expenses of this Offering will not exceed \$1,582,000 in the case of the Maximum Offering and \$100,000 in the case of the Minimum Offering. The General Partner has agreed that the total fees and offering expenses to be paid by the Partnership shall not exceed 5.27% of the gross proceeds in the case of the Maximum Offering and 10% of the gross proceeds in the case of the Minimum Offering, plus any applicable taxes, and the General Partner will pay for any excess amount. See "Fees and Expenses of the Partnership – Initial Fees and Expenses".
- (3) The Working Capital Reserve will not exceed \$860,000 in the case of the maximum Offering and \$160,000 in the case of the minimum Offering. After December 31, 2011, the General Partner is authorized to fund the ongoing fees and expenses of the Partnership in excess of the initial Working Capital Reserve from sales of Flow-Through Shares.

Cash Distributions:

The General Partner may, on behalf of the Partnership, sell Flow-Through Shares or any other securities in the Partnership's portfolio at any time if it is of the opinion that it is in the best interests of the Partnership to do so. The Partnership Agreement provides that, except for the Performance Bonus, the Partnership will not make distributions of net earnings unless otherwise determined appropriate by the General Partner, in its discretion. There can be no assurance that any such distributions will occur and, if they do occur, whether such distributions will be sufficient to satisfy a Limited Partner's tax liability for the year arising from his, her or its status as a Limited Partner.

Allocations of Net Income or Loss and Eligible Expenditures:

Subject to the payment of the Performance Bonus, 99.99% of the net income of the Partnership, 100% of the net loss of the Partnership and 100% of any Eligible Expenditures renounced to the Partnership will be allocated *pro rata* among the Limited Partners, and 0.01% of the net income of the Partnership will be allocated to the General Partner. On dissolution, Limited Partners are entitled to 99.99% of the assets of the Partnership and the General Partner is entitled to 0.01% of such assets.

Dealers' Fees:

The Partnership will pay Dealers a sales fee of up to \$1.25 (5.0%) for each Unit of the Partnership sold by a Dealer to an investor. The sales fee will be paid by the Partnership from the gross proceeds of the Offering received by the Partnership.

Management Fee:

The Partnership has retained the Manager to provide investment, management, administrative and other services to the Partnership. In consideration for these services, the Partnership will pay to the Manager a fee equal to 2.00% of the Net Asset Value of the Partnership, calculated and paid monthly in arrears, plus applicable taxes. The Manager will also receive the Performance Bonus, if earned. See "Fees and Expenses of the Partnership".

Administrative, Marketing and Operating Expenses:

The Partnership will pay all of its administrative, marketing and operating expenses (including the Management Fee, administration fees, registrar and transfer agency costs, custodial fees, expenses relating to portfolio transactions, taxes, legal, audit, and valuation fees, and Limited Partner reporting, communication, printing and mailing costs). The General Partner estimates that these costs (exclusive of the Performance Bonus) for the Partnership will be approximately \$160,000 per year (in the case of the minimum Offering) and approximately \$860,000 per year (in the case of the maximum Offering). See "Fees and Expenses of the Partnership".

Performance Bonus:

On the Performance Bonus Date, the Partnership shall pay to the Manager an amount in respect of each Unit of the Partnership outstanding on the Performance Bonus Date equal to 20% of the amount by which the sum of (A) the Net Asset Value per Unit of the Partnership on the Performance Bonus Date and (B) all distributions per Unit of the Partnership on or prior to

the Performance Bonus Date, exceeds \$25 (the Subscription Price per Unit).

Performance Bonus Allocation (per Unit):	<u>Value of Portfolio Per Unit</u>	<u>Amount Distributed to Limited Partners</u>	<u>Amount Distributed to Manager</u>
	Up to \$25	Up to \$25	NIL
	Over \$25	\$25 plus 80% of value in excess of \$25	20% of value in excess of \$25

Performance of Previous CGS/AGS Partnerships: The following table sets out the minimum invested amount for each of the previous CGS/AGS Flow-Through Partnerships and the unaudited net asset value for each as at the date which each such partnership transferred its assets to CGS Resource. See “Previous Flow-Through Limited Partnerships”.

<u>Name of Partnership</u>	<u>Invested Amount (\$25 per unit)</u>	<u>NAV at Rollover⁽²⁾</u>	<u>Value at Rollover⁽²⁾</u>	<u>After-Tax Return⁽²⁾</u>
CGS Flow-Through 2010 LP ⁽¹⁾	\$10,000	N/A	N/A	N/A
AGS Energy 2007 Flow-Through LP	\$10,000	\$11.39	\$4,556	-29%
AGS Energy 2006-2 Flow-Through LP	\$10,000	\$13.04	\$5,216	-20%
AGS Energy 2006-1 Flow-Through LP	\$10,000	\$11.42	\$4,568	-29%
AGS Energy 2005 Flow-Through LP	\$10,000	\$13.93	\$5,572	-15%
AGS Energy 2004 Flow-Through LP	\$10,000	\$29.95	\$11,980	77%
AVERAGE		\$15.95	\$6,378	-3.2%

Note:

- (1) CGS Flow-Through 2010 LP is not expected to complete its Mutual Fund Rollover Transaction until June 30, 2011.
- (2) NAV's at rollover are net of fees and expenses. After-Tax Return calculated using money-at-risk and the highest marginal tax rate for an investor resident in Ontario.

Mutual Fund Rollover Transaction:

Prior to or on June 30, 2012, the Partnership intends to complete the Mutual Fund Rollover Transaction pursuant to which Limited Partners will receive redeemable Class D shares of CGS Resource, a corporation managed by the Manager, which is qualified as an open-end mutual fund corporation. The Partnership intends to complete the Mutual Fund Rollover Transaction pursuant to the terms of the Transfer Agreement. The Transfer Agreement is assignable by CGS Resource, and Partnership assets may be transferred to any other open-end mutual fund corporation managed by the Manager or any other manager. The completion of the Mutual Fund Rollover Transaction will be subject to the receipt of all approvals that may be necessary and the other conditions set forth in the Transfer Agreement. Following such a transfer, the Partnership would be dissolved and the Class D Shares of CGS Resource (or securities of another redeemable mutual fund) would be distributed to the Limited Partners upon such dissolution, *pro rata*, on a tax-deferred basis. See “Risk Factors”.

Dissolution Transaction:

If the General Partner does not complete a Mutual Fund Rollover Transaction by August 31, 2012, the Partnership Agreement provides that the Partnership will be terminated by August 31, 2012 and the net assets of the Partnership will be distributed to its Limited Partners and the General Partner in the form of cash or other assets (the “**Dissolution Transaction**”). In connection with the Dissolution Transaction, the General Partner may (or may instruct the Manager to): (a) take steps to convert all or any part of the assets of the Partnership to cash; (b) pay or provide for the payment of the debts and liabilities of the Partnership liquidation expenses and the Performance Bonus allocation; and (c) distribute the remaining assets of the Partnership, as to 0.01% to the General Partner and as to 99.99% among the Limited Partners of record of the Partnership on the date of dissolution, proportionate to the number of Units of the Partnership held by them. Alternatively, the General Partner may, if it believes it is in the best interest of Limited Partners, after the payment or provision for the payment of the debts and liabilities of the Partnership, liquidation expenses, partition expenses and the Performance Bonus allocation, cause the Partnership to distribute to each Limited Partner an undivided interest in each asset of the Partnership as contemplated by subsection 98(3) of the Tax Act on a tax-deferred basis and take steps to partition such undivided interests. Securities distributed to former Limited Partners may be illiquid and have restrictions on resale. See “Risk Factors”.

Adjusted Cost Base of Flow-Through Shares:

The adjusted cost base of Flow-Through Shares held by the Partnership is expected to be nil such that all proceeds net of selling costs of such securities are expected to be capital gains for tax purposes. If the Partnership disposes of Flow-Through Shares in consideration for other securities, the Partnership's gain or loss on the disposition of the Flow-Through Shares will be calculated by reference to the value of those securities. See "Certain Canadian Federal Income Tax Considerations".

Certain Canadian 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, her or its income for his, her or its taxation year in which the fiscal year of the Partnership ends, subject to the "at-risk" and limited recourse financing rules, deduct an amount equal to 100% of Eligible Expenditures renounced to the Partnership that have been allocated to him, her or it by the Partnership in respect of the fiscal year. See "Selected Financial Aspects".

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 any such capital gain realized on the disposition of Flow-Through Shares generally will equal the proceeds of disposition of the Flow-Through Shares, net of reasonable costs of disposition. There can be no assurance that distributions of cash to Limited Partners by the Partnership will be sufficient to satisfy a Limited Partner's tax liability for the year arising from his, her or its status as a Limited Partner. A disposition of Units by Limited Partners may trigger capital gains (or capital losses).

Upon the dissolution of the Partnership, each Limited Partner will acquire his, her or its *pro rata* portion of the net assets of the Partnership, which may include securities of Resource Companies then held by the Partnership. A dissolution may trigger capital gains (or capital losses) to Limited Partners; however, if certain requirements in the Tax Act are satisfied, such a distribution may occur on a tax-deferred basis. If the Partnership completes the Mutual Fund Rollover Transaction, provided the appropriate elections are made and filed in a timely manner, it is expected that no taxable capital gains will be realized by the Partnership from the transfer.

Each investor should seek independent advice as to the federal and provincial tax considerations of an investment in Units. See "Certain Canadian Federal Income Tax Considerations".

Resale Restrictions:

The Units are being offered for sale on a "private placement" basis in reliance on exemptions from prospectus and registration requirements of applicable Canadian securities laws. As a result, resale of the Units will be restricted in the manner provided by such securities laws. See "Resale Restrictions".

Risk Factors:

An investment in Units is speculative and investors should not invest in Units unless they can absorb the loss of some or all of their investment. Investors should consult with their own professional advisors to assess the legal, tax and other aspects of an investment prior to investing in Units. Investors should consider a number of factors in assessing the risks associated with investing in Units. See "Risk Factors" and "Conflicts of Interest".

There is no market or exchange through which the Units of the Partnership may be sold and none is expected to develop. Accordingly, the only liquidity option available to investors may be the Mutual Fund Rollover Transaction or, if the Mutual Fund Rollover Transaction is not implemented prior to June 30, 2012, the Dissolution Transaction.

This is a blind pool offering. As of the date of this offering memorandum, the Partnership has not entered into any Flow-Through Investment Agreements with any Resource Company. If any Closing occurs after the Initial Closing, it is likely that the Partnership will have then selected potential investments or made investments. Aside from the tax benefits, subscribers should consider whether the Units have sufficient merit solely as an investment. Investors should consider the following risk factors before purchasing Units:

- (a) there is no market or exchange through which the Units may be sold and purchasers may not be able to resell the Units purchased under this Offering. No market for the Units is expected to develop;
- (b) an investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment;
- (c) there is no guarantee that an investment in the Partnership will earn a specified rate of return or any return in the short or long term;
- (d) 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 may be subject to resale restrictions;
- (e) the purchase price per Unit paid by an investor may be less or greater than the Net Asset Value per Unit at the time of purchase;
- (f) Limited Partners must rely on the discretion of the General Partner for the management of the Partnership's portfolio;
- (g) neither the Partnership nor the General Partner has any previous operating history and the General Partner will have, at all material times, only nominal assets. While the General Partner has agreed to indemnify the Limited Partners in certain circumstances, it is unlikely that the General Partner will have sufficient assets to satisfy any claims pursuant to such indemnity;
- (h) the possibility exists that capital may be returned to Limited Partners and such Limited Partners may be unable to claim anticipated deductions from income for income tax purposes because the General Partner may not be able to identify a sufficient number of investments to permit the Partnership to commit all its Available Funds to purchase Flow-Through Shares by December 31, 2011. The General Partner reserves the right to decline subscriptions for Units at any time if it believes its ability to place capital into flow-through investments is not attractive for Limited Partners;
- (i) Limited Partners may receive securities of, or other interests in, Resource Companies upon termination of the Partnership for which there may be an illiquid market or which may be subject to resale restrictions. There is no assurance that an adequate market will exist for the securities acquired by the Partnership;
- (j) tax related risks include the following:
 - (i) 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;
 - (ii) federal or provincial income tax legislation may be amended, or its interpretation changed, so as to alter fundamentally the tax consequences of holding or disposing of Units;
 - (iii) if a Limited Partner acquires Units using limited recourse borrowing for tax purposes, the amount of Eligible Expenditures and/or losses allocated to all Limited Partners may be reduced;
 - (iv) the alternative minimum tax could limit tax benefits available to a Limited Partner;
 - (v) Resource Companies may fail to renounce Eligible Expenditures equal to Available Funds invested in Flow-Through Shares and any amount renounced may not qualify as CEE;
 - (vi) possible failure of Resource Companies to comply with the provisions of the Flow-

Through Investment Agreement or with the provisions of applicable income tax legislation with respect to the nature of expenses renounced to the Partnership; Limited Partners may, as a result, be reassessed by CRA;

- (vii) while the Partnership may make certain distributions to Limited Partners from proceeds realized from the sale of Flow-Through Shares or other investments, if any, Limited Partners may receive allocations of income and/or capital gains in a year without receiving sufficient distributions from the Partnership for that year to pay fully any tax that they may owe as a result of being a Limited Partner in that year;
- (ix) if the Proposed Loss Limitation Rule is enacted in its current form and applies to the Partnership, losses realized by the Partnership and allocated to Limited Partners or losses realized by a Limited Partner from interest expense or following the dissolution of the Partnership could be denied;
- (x) the ability of the Partnership to achieve, and an investor to realize, the income tax deductions and tax credits set forth under the heading “Maximum Tax Deductions” in “Selected Financial Aspects”, which deduction scenarios are heavily qualified by the assumptions and notes thereunder, is entirely dependent upon the ability of the Partnership to dispose of the Flow-Through Shares at a sale price greater than their adjusted cost base and acquire additional Flow-Through Shares in the quantities described under the heading “Maximum Tax Deductions” in “Selected Financial Aspects”;
- (xi) the Partnership intends to treat its gains from dispositions of Flow-Through Shares as capital gains, although there can be no assurance that this treatment will be respected by the CRA; and
- (xii) if investments in the Partnership become listed or traded on a stock exchange or other public market, the Partnership could become subject to the rules in the Tax Act relating to “specified investment flow-through partnerships” (the “**SIFT Rules**”). If the SIFT Rules were to apply to the Partnership, the tax consequences to the Partnership and Limited Partners would be materially, and in some respects adversely, different;
- (k) there can be no assurance that the Mutual Fund Rollover Transaction will be implemented. In such circumstances, an alternative transaction (including the dissolution of the Partnership) may not be available on a tax-deferred basis or a Limited Partner’s investment in the Partnership may be less liquid;
- (l) Limited Partners may lose their limited liability in certain circumstances;
- (m) there are certain risks inherent in the oil & gas sector and in investing in Resource Companies. Resource Companies may not hold or discover commercial quantities of oil and gas and their profitability and marketability may be affected by adverse fluctuations in commodity prices, proximity and capacity of resource markets, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, native claims, potential claims from operational activities that may not be insurable, liability for environmental damage, competition, imposition of tariffs, duties or other taxes and government regulation, including regulations relating to prices, taxes, royalties, land tenure, land use and environmental protection;
- (n) in the event of a continued general economic downturn or a recession, there can be no assurance that the business, financial condition and results of operations of the Resource Companies in which the Partnership invests would not be materially adversely affected;
- (o) sale of a Unit, prior to December 31, 2011, could result in failure to realize maximum tax

savings and proceeds equal to the Limited Partner's share of the Net Asset Value, and possible liability for capital gains tax;

- (p) the size of the Offering will directly affect the degree of diversification of the portfolio of Flow-Through Shares held by the Partnership and may affect the scope of investment opportunities available to the Partnership;
- (q) fluctuations in the value of the Units due to variations in the value of the securities held by the Partnership due to changes in the market value of securities, lack of assurance of a positive return, market prices for commodities and adverse fluctuations in foreign exchange rates;
- (r) because the Partnership will invest primarily in Flow-Through Shares issued by Resource Companies, its Net Asset Value may be more volatile than portfolios with a more diversified investment focus;
- (s) a Resource Company's property interests may be located in Canada and in foreign jurisdictions, and its exploration operations in such foreign jurisdictions may be affected by political and economic instability, and by changes in regulations or shifts in political or economic conditions that are beyond the Resource Company's control. New rules and regulations may be enacted or existing rules and regulations may be applied in a manner that could limit or curtail production or development of the Resource Company's operations. Amendments to current laws and regulations or more stringent enforcement of those laws and regulations could have a substantial adverse impact on the Resource Company's financial results;
- (t) the General Partner and the Manager will not always review engineering or other technical reports prior to making investments;
- (u) the loss of any of the management of the General Partner would likely have a material adverse effect on the management and business of the Partnership; and
- (v) various conflicts of interest exist or may arise between the Partnership and the General Partner and other entities of which affiliates of the General Partner are general partners of for which affiliates of the General Partner (including the Manager) act as managers. Some of these conflicts arise as a result of the power and authority of the General Partner to manage and operate the business and affairs of the Partnership. These conflicts of interest may have a detrimental effect on the business of the Partnership. See "Conflicts of Interest".

SELECTED FINANCIAL ASPECTS

The following tables set forth certain financial aspects, based on the estimates and assumptions set forth below and in the notes to the tables below, for a Limited Partner who is an individual (other than a trust), who has invested \$5,000 in the Partnership, assuming marginal income tax rates for each province and territory as set forth in Table 2. **Actual tax rates, tax deductions, money at risk and portfolio values could be significantly different from those shown below.**

The following calculations and assumptions do not constitute a forecast, projection, estimate of possible results, contractual undertaking or guarantee. An investment in Units is appropriate only for investors who have the capacity to absorb a loss of their entire investment. The tax benefits resulting from an investment in the Partnership are greatest for an investor whose income is subject to the highest marginal income tax rate. Investors acquiring Units with a view to obtaining tax advantages should obtain independent tax advice from a tax advisor who is knowledgeable in the area of income tax law.

In order to qualify for income tax deductions available and tax credits in respect of a particular year, an investor must be a Limited Partner at the end of the year. It is assumed that the Limited Partner holds the Units throughout all periods. Investors should be aware that these calculations are based on assumptions made by the General Partner which cannot be represented to be complete or accurate in all respects. 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 investor's present and future tax position and any change in

the market value of the portfolio of Flow-Through Shares held by the Partnership. The calculations do not take into account any subsequent reinvestment of any proceeds which may be realized by the Partnership in connection with dispositions of Flow-Through Shares. The following illustrations were prepared by the General Partner and are not based on an independent opinion rendered by an accountant or lawyer.

The amounts in the following tables are computed based on the following facts and assumptions:

- (a) the Partnership will issue Units having an aggregate maximum purchase price of \$30,000,000 and a minimum aggregate purchase price of \$1,000,000;
- (b) Available Funds of the Partnership (i.e. gross proceeds of the Offering less the Offering Expenses, Dealers' Fees, and Working Capital Reserve) will be invested in Flow-Through Shares that in turn expend such amounts on Eligible Expenditures that are renounced to the Partnership with an effective date in 2011;
- (c) the Management Fee is fully deductible. The Dealers' Fees and expenses of this Offering are deductible for income tax purposes at a rate of 20% per annum;
- (d) no portion of the purchase price will be financed with limited recourse financing; See "Certain Canadian Federal Income Tax Considerations – Limitation on Deductibility of Expenses or Losses of the Partnership";
- (e) marginal income tax rates for each province and territory have been used and 50% of capital gains are taxable in computing a Limited Partner's income;
- (f) Flow-Through Shares are anticipated to be held by the Partnership until at least January 1, 2012 and sold by the Partnership at their original purchase price. The General Partner may sell Flow-Through Shares (subject to the applicable hold periods) on behalf of the Partnership at any time if the General Partner determines that it is in the best interests of the Partnership to do so;
- (g) interest and dividend income earned by the Partnership net of operating expenses will be nil;
- (h) alternative minimum tax has not been considered; See "Certain Canadian Federal Income Tax Considerations – Alternative Minimum Tax"; and
- (i) it is assumed that no portion of the CEE is eligible for the federal 15% non-refundable investment tax credit for the Partnership. See "Certain Canadian Federal Income Tax Considerations – Investment Tax Credits". The impact of provincial tax credits, if any, has not been considered. No portion of the CEE related to oil & gas investments is eligible for the federal non-refundable investment tax credit.

TABLE 1
Maximum Tax Deductions Per \$5,000 Investment

Assuming a \$30,000,000 Offering (Maximum)

<u>Year</u>	<u>CEE Deductions</u>	<u>Other Deductions</u>	<u>Total Deductions</u>
2011	\$4,857	\$72	\$4,928
2012	0	151	151
2013 and beyond	<u>0</u>	<u>185</u>	<u>185</u>
Totals	<u>\$4,857</u>	<u>\$408</u>	<u>\$5,264</u>

Assuming a \$1,000,000 Offering (Minimum)

<u>Year</u>	<u>CEE Deductions</u>	<u>Other Deductions</u>	<u>Total Deductions</u>
2011	\$4,200	\$ 400	\$4,600
2012	0	550	550
2013 and beyond	<u>0</u>	<u>350</u>	<u>350</u>
Totals	<u>\$4,200</u>	<u>\$1,300</u>	<u>\$5,500</u>

TABLE 2
Money at Risk & Breakeven Calculations By Province

Highest Marginal Tax Rates

	<u>BC</u>	<u>AB</u>	<u>SK</u>	<u>MB</u>	<u>ON</u>	<u>QC</u>	<u>NS</u>	<u>NB</u>	<u>PE</u>	<u>NF</u>	<u>NT</u>	<u>NU</u>	<u>YT</u>
2011	43.70%	39.00%	44.00%	46.40%	46.41%	48.22%	50.00%	43.30%	47.37%	43.39%	43.05%	40.50%	42.40%
2012	43.70%	39.00%	44.00%	46.40%	46.41%	48.22%	50.00%	43.30%	47.37%	43.39%	43.05%	40.50%	42.40%

Assuming a \$30,000,000 Offering (Maximum)

	<u>BC</u>	<u>AB</u>	<u>SK</u>	<u>MB</u>	<u>ON</u>	<u>QC</u>	<u>NS</u>	<u>NB</u>	<u>PE</u>	<u>NF</u>	<u>NT</u>	<u>NU</u>	<u>YT</u>
Investment.....	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Less: Tax savings	\$ 2,300	\$ 2,053	\$ 2,316	\$ 2,442	\$ 2,443	\$ 2,538	\$ 2,632	\$ 2,279	\$ 2,493	\$ 2,284	\$ 2,266	\$ 2,132	\$ 2,232
Money at risk	<u>\$ 2,700</u>	<u>\$ 2,947</u>	<u>\$ 2,684</u>	<u>\$ 2,558</u>	<u>\$ 2,557</u>	<u>\$ 2,462</u>	<u>\$ 2,368</u>	<u>\$ 2,721</u>	<u>\$ 2,507</u>	<u>\$ 2,716</u>	<u>\$ 2,734</u>	<u>\$ 2,968</u>	<u>\$ 2,768</u>
Breakeven proceeds of disposition	\$ 3,455	\$ 3,661	\$ 3,441	\$ 3,330	\$ 3,330	\$ 3,244	\$ 3,158	\$ 3,473	\$ 3,285	\$ 3,469	\$ 3,484	\$ 3,597	\$ 3,513

Assuming a \$1,000,000 Offering (Minimum)

	<u>BC</u>	<u>AB</u>	<u>SK</u>	<u>MB</u>	<u>ON</u>	<u>QC</u>	<u>NS</u>	<u>NB</u>	<u>PE</u>	<u>NF</u>	<u>NT</u>	<u>NU</u>	<u>YT</u>
Investment.....	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Less: Tax savings	<u>\$ 2,404</u>	<u>\$ 2,145</u>	<u>\$ 2,420</u>	<u>\$ 2,552</u>	<u>\$ 2,553</u>	<u>\$ 2,652</u>	<u>\$ 2,750</u>	<u>\$ 2,382</u>	<u>\$ 2,605</u>	<u>\$ 2,386</u>	<u>\$ 2,368</u>	<u>\$ 2,228</u>	<u>\$ 2,332</u>
Money at risk ...	<u>\$ 2,597</u>	<u>\$ 2,855</u>	<u>\$ 2,580</u>	<u>\$ 2,448</u>	<u>\$ 2,447</u>	<u>\$ 2,348</u>	<u>\$ 2,250</u>	<u>\$ 2,619</u>	<u>\$ 2,395</u>	<u>\$ 2,614</u>	<u>\$ 2,632</u>	<u>\$ 2,773</u>	<u>\$ 2,668</u>
Breakeven proceeds of disposition ...	\$ 3,322	\$ 3,547	\$ 3,308	\$ 3,188	\$ 3,187	\$ 3,094	\$ 3,000	\$ 3,342	\$ 3,138	\$ 3,338	\$ 3,354	\$ 3,476	\$ 3,386

Notes:

Based on the foregoing estimates and assumptions, cash outlays by and income tax deductions and tax credits for the Limited Partners are estimated as follows:

- (1) The Partnership will incur costs that are deductible for income tax purposes, including the Dealers' Fees and the Offering Expenses. Offering Expenses (excluding Dealers' Fees) are expected to be not more than \$82,000; and on-going expenses are assumed to be a maximum of \$860,000 per annum in the case of the maximum Offering and \$160,000 per annum in the case of the minimum Offering.
- (2) Capital gains arising from the sale of Flow-Through Shares are allocated to Limited Partners effective December 31 of the applicable year.
- (3) Capital gains are expected to be realized upon the sale of Flow-Through Shares to pay for ongoing expenses of the Partnership. It is assumed that the maximum total tax deduction available is approximately 100% of the invested amount.
- (4) Marginal income tax rates for each province and territory set forth in Table 2 have been used. Future federal or provincial budgets may modify tax rates. The actual tax savings/cost for a Limited Partner will vary from these estimates set forth depending on the Limited Partner's actual marginal tax rate.
- (5) It is assumed that the gain included in calculating the capital gains tax in the year of disposition arises from the sale of Flow-Through Shares acquired in 2011. Upon disposition of the shares, it is assumed that 50% of the proceeds of disposition are taxable at the highest combined federal and provincial marginal tax rates for each province or territory. Additional sales of Flow-Through Shares for reinvestment in common shares of Resource Companies will result in additional capital gains tax in the year of disposition.
- (6) Money at risk is calculated as total investment by the Limited Partner in the Partnership less income tax savings from deductions and tax credits where applicable plus any income tax paid on allocations of capital gains from the Partnership realized to fund the payout of loans incurred to pay the Dealers' Fees and Offering Expenses and to fund post-2011 general and administrative expenses of the Partnership.
- (7) The calculations reflected in the foregoing tables do not take into account the possibility that the Proposed Loss Limitation Rule could apply. See "Certain Canadian Federal Income Tax Considerations" and "Risk Factors – Tax Related Risks".
- (8) It is assumed that the Partnership will not be a SIFT partnership for the purposes of the Tax Act.
- (9) The figures in the foregoing table may not add due to rounding.
- (10) It has been assumed that the Partnership will be dissolved prior to August 31, 2012.

The actual tax deductions and tax credits available to a Limited Partner may vary significantly from the amounts set out in Table 1 and Table 2 due to a variety of factors, including the failure of the Partnership to invest fully its Available Funds in Flow-Through Shares, amounts renounced by the Resource Companies to the Partnership failing to qualify as CEE, a reduction in CEE which may be renounced to the Limited Partners due to limited recourse borrowings by Limited Partners or changes in applicable income tax legislation. There is no assurance that all Available Funds of the Partnership will be committed to purchase Flow-Through Shares prior to January 1, 2012 or that amounts renounced by Resource Companies to the Partnership will qualify as CEE. In the event that any Limited Partner acquires Units using limited recourse borrowing for tax purposes, the amount of the Eligible Expenditures and/or losses allocated to all Limited Partners will be reduced. Either of these occurrences will reduce the amount of 2011 tax deductions and tax credits to which Limited Partners may be entitled. In addition, the alternative minimum tax could limit tax benefits available to a Limited Partner. See “Risk Factors”.

Any Available Funds that have not been committed by the Partnership to purchase Flow-Through Shares and other securities of Resource Issuers prior to January 1, 2012, plus accrued interest thereon, will be distributed by January 31, 2012 on a *pro rata* basis to Limited Partners of record on December 31, 2011.

The Partnership intends to invest its Available Funds in Flow-Through Shares such that its Limited Partners will be entitled to claim certain 2011 and 2012 tax deductions from income. Flow-Through Investment Agreements entered into by the Partnership will provide that Eligible Expenditures must be incurred not later than December 31 of the year following which such agreement is entered into and such Eligible Expenditures will be renounced to the Partnership with an effective date not later than December 31 of the year in which such agreement is entered into. Flow-Through Investment Agreements entered into by the Partnership with Resource Companies will require each such Resource Company to represent and warrant that neither it nor any person who does not deal at arm’s length with the Resource Company is a Limited Partner in the Partnership. In addition, each Resource Company will indemnify the Partnership against any tax payable in the event that CEE is not properly incurred or renounced in accordance with the terms of the relevant Investment Agreement.

The General Partner will provide a Limited Partner who is an eligible individual with the information required by such Limited Partner to file an application for any provincial investment tax credits available to such Limited Partner.

USE OF PROCEEDS FOR THE PARTNERSHIP

The gross proceeds of the Offering for the Partnership will be \$30,000,000 if the maximum Offering is completed and \$1,000,000 if the minimum Offering is completed. The Partnership will use its Available Funds: (i) to subscribe primarily for Flow-Through Shares; and (ii) to fund the ongoing management and operating fees and expenses of the Partnership by way of the Working Capital Reserve.

The following table sets out the gross proceeds of the Offering and the Available Funds for the Partnership in connection with each of the maximum and minimum Offering:

	<u>Maximum Offering</u>	<u>Minimum Offering</u>
CGS Flow-Through 2011 - 1 LP		
Gross Proceeds	\$30,000,000	\$1,000,000
Dealers’ Fees ⁽¹⁾	1,500,000	50,000
Estimated Offering Expenses ⁽²⁾	82,000	50,000
Working Capital Reserve ⁽³⁾	<u>860,000</u>	<u>160,000</u>
Available Funds	<u>\$27,558,000</u>	<u>\$740,000</u>

Notes:

- (1) Assumes that all Units will be sold through the Dealers. The Dealers’ Fees payable at Closing by the Partnership will be paid by the Partnership from the gross proceeds of the Offering received by the Partnership.
- (2) The expenses of this Offering will not exceed \$1,582,000 in the case of the Maximum Offering and \$100,000 in the case of the Minimum Offering. The General Partner has agreed that the total fees and offering expenses to be paid by the Partnership shall not exceed 5.27% of the gross proceeds in the case of the Maximum Offering and 10% of the gross proceeds in the case of the Minimum Offering, plus any applicable taxes, and the General Partner will pay for any excess amount. See “Fees and Expenses of the Partnership – Initial Fees and Expenses”.
- (3) The Working Capital Reserve will not exceed \$860,000 in the case of the maximum Offering and \$160,000,000 in the case of the minimum Offering. After December 31, 2011, the General Partner is authorized to fund the ongoing fees and expenses of the Partnership in excess of the initial Working Capital Reserve from sales of Flow-Through Shares.

Available Funds not committed to purchase Flow-Through Shares or other securities of Resource Issuers prior to January 1, 2012 will be returned by January 31, 2012 to the Limited Partners of record on December 31, 2011 on a *pro rata* basis. 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.

Dealers and FundSERV, as applicable, will hold subscription cheques and proceeds received from investors prior to the Initial Closing until subscriptions for the minimum Offering are received and other closing conditions of this Offering have been satisfied. If the minimum Offering is not subscribed for by December 31, 2011, subscription cheques and proceeds will be returned, without interest or deduction, to the investors.

The proceeds from the issue of the Units will be paid to the Partnership at Closing and deposited in the Partnership's bank account and managed on behalf of the Partnership by the Manager. Pending the investment of Available Funds in Resource Companies, all such Available Funds will be invested in cash or Short-Term Securities. Interest earned by the Partnership from time to time on funds of the Partnership will accrue to the benefit of the Partnership with the exception of interest on Available Funds which remain uncommitted after December 31, 2011 and which will be distributed directly to the Limited Partners. The Partnership only intends to spend the Available Funds as stated, and funds may not be reallocated.

OIL AND GAS SECTOR

The following information on the oil & gas resource sector contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, strategy, indicators and expectations for the oil & gas resource sector and Resource Companies and other expectations, intentions and plans contained in this offering memorandum that are not historical fact. These statements reflect the General Partner's current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in the global economy, the impact of the current global credit crises, changes in general economic and business conditions, existing governmental regulations, supply, demand and other market factors. In light of the many risks and uncertainties surrounding the oil & gas resource sector, the forward-looking statements contained in this offering memorandum may not be realized.

The General Partner believes the current global economy can be divided into two categories. Firstly, developed countries are supporting their economic recoveries via expansionary fiscal and monetary policies, targeting moderate growth rates. Secondly, emerging countries are pursuing ways to grow their economies sustainably as they continue to expand. In general, governments are doing enough to help their economies move forward while, at the same time, a fragile global economy prevents them from overheating. The fundamental outlook for the energy sector differs based on whether one considers equity securities or the underlying commodities.

Oil Sector

The General Partner's outlook for oil prices in 2011 is largely unchanged from 2010 in that the price should remain range bound. The geopolitical risk in the Middle East has pushed oil to the high end of the expected trading range. The global economic recovery could be at risk if oil prices are too high. However, as oil supply looks uncertain, \$100 per barrel should persist until it is clear that the turmoil in Middle East has abated.

Oil stocks and emerging resource plays continue to attract the bulk of investor capital in the energy sector. While fundamentals may not justify the current oil price, turmoil in the Middle East and growing economies like China and India have driven many commodity prices higher. Companies with material exposure to crude have seen improved operating netbacks and balance sheets. Horizontal drilling, advances in completion techniques and high oil prices have encouraged oil exploration. The emergence of new resource plays, which are being unlocked with improvements in technology, should provide numerous investable sub themes in overlooked companies in the coming 12 to 36 months. The General Partner will seek to find compelling investment opportunities in this area, however, finding value and not paying too high a premium for oily stocks is the general partner's key to short and medium term performance.

Natural Gas

This year's colder than average winter has resulted in some record storage withdrawals. The run up in futures pricing into the end of the heating season has been surprising. It appears the market is becoming more divided as to where the gas price is headed in 2011. Some see the reduction in the gas rig count and stalling levels of supply seen in recent production data as price supportive, whereas many others believe that a number of wells in key plays awaiting completion, as well as the growing use of horizontal rigs should prove bearish. In general, gas prices in the medium term will be largely dependent on the storage level at the end of the summer season.

Although investors are cautioned not to expect a dramatic recovery, the General Partner believes the current risk/reward for investing in natural gas companies justifies increased exposure to the sector. The long term outlook for natural gas is favorable and we will look to buy on meaningful dips in the coming months, keeping our primary focus on valuation.

FLOW-THROUGH SHARE INVESTING

Overview

The Tax Act permits the issuance of flow-through shares for qualified resource exploration and renewable energy projects. Flow-through shares are a well known source of financing for oil & gas, energy and mineral resource companies. These common shares or rights to acquire shares are similar to other common shares or rights issued by the company, with one notable exception: the proceeds from flow-through shares must be spent on qualified resource exploration, referred to as “Canadian exploration expenses”. The resource company is permitted to “flow through” these expenses to the investor who can use these deductions against personal income.

Flow-through share partnerships provide an effective method for investing in the resource sector because investors are not burdened with finding and deciding which resource companies are qualified investments. The advantage with a partnership structure is that investors “pool” their money and rely on the professional manager retained by the partnership to review and select those resource companies with strong management and good upside potential.

Upon the dissolution of the partnership, investors are free to sell the investment for its fair market value (and pay the capital gains tax owing), or they can choose to retain their investment and defer any tax payable until the investment is sold. One common method for deferring the capital gains tax is to “roll over” the investment into a mutual fund corporation for sale at some future date.

Flow-Through Shares as Charitable Donations

By donating their flow-through share investment to a registered charity, an investor may be able to combine the tax benefits of a flow-through share with the preferential charitable deduction available for donations. **The possibility exists that this benefit may be eliminated with future tax legislation, and investors considering donating any Flow-Through Shares received on the dissolution of the Partnership should consult a tax advisor about their personal tax situation and the tax legislation in effect at the time of dissolution.**

THE PARTNERSHIP

The Partnership was formed pursuant to the provisions of the *Partnerships Act* (Alberta) on March 14th, 2011. The business of the Partnership is investing in a diversified portfolio of equity securities of Resource Companies.

The General Partner was incorporated under the laws of Alberta on February 24th, 2011.

The registered office of the Partnership and the General Partner is 2108, 335 8th Avenue SW, Calgary, Alberta T2P 1C9. The head office of the Partnership and the General Partner is 2108, 335 8th Avenue SW, Calgary, Alberta T2P 1C9.

The initial limited partner of the Partnership is Michael Janke. Mr. Janke is counsel to the Manager.

Investment Objectives and Strategies

The Partnership’s investment objective is to maximize total return and provide its Limited Partners with the opportunity for significant tax benefits through investment in a diversified portfolio of equity securities of Resource Companies in the oil & gas sector. The Partnership will invest primarily in Flow-Through Shares of Resource Companies, including junior issuers, in accordance with its Investment Guidelines and investment strategies outlined herein. Only investors seeking exposure to the oil & gas sector should invest in the Partnership.

In order to maximize the after-tax returns to Limited Partners, the Partnership intends to invest its Available Funds in Flow-Through Shares such that its Limited Partners will be entitled to claim certain tax deductions from 2011 and 2012 income for income tax purposes. Wherever possible, the General Partner intends to obtain incentives for the Partnership, such as share purchase warrants, in addition to purchasing Flow-Through Shares.

Any interest earned on money not yet disbursed by the Partnership and dividends or interest received on Flow-Through Shares or Short Term Securities purchased by the Partnership will accrue to the benefit of the Partnership. The Partnership may dispose of a portion of the Partnership's initial investment portfolio and purchase common shares of Resource Companies during 2011 with a view of providing capital gains to Limited Partners.

To reduce certain risks to Limited Partners, the General Partner will actively manage the Partnership's investment portfolio which may involve the sale of Flow-Through Shares and other securities and the reinvestment of the net proceeds from such dispositions. The General Partner may sell Flow-Through Shares (subject to applicable hold periods) at any time and invest the proceeds of the sale in other securities of Resource Companies, in bonds issued by Government Issuers or in Index-based Securities if it is of the opinion that it is in the best interests of the Partnership to do so.

Flow-Through Shares and other securities of certain Resource Companies purchased pursuant to exemptions from the prospectus requirements of applicable securities legislation will be subject to resale restrictions. It is expected that the resale restrictions applicable to substantially all of the Flow-Through Shares and other securities of Resource Companies purchased by the Partnership in any Canadian jurisdiction will expire after a four-month period. The Partnership may, in accordance with the by-laws, rules and policies of the applicable stock exchanges and where not prohibited by applicable law, sell securities held at such time by the Partnership and in respect of which the resale restrictions have not yet expired. The General Partner, on behalf of the Partnership, may borrow and sell free-trading shares of Resource Companies when an appropriate selling opportunity arises in order to "lock-in" the resale price of Flow-Through Shares or other securities of Resource Companies held in the Partnership's portfolio.

Registered dealers may receive from the Resource Companies with which the Partnership enters into Flow-Through Investment Agreements a fee based upon the aggregate subscription price of the Flow-Through Shares and other securities purchased by the Partnership and in some cases may also receive the right to purchase shares or other securities of such Resource Companies. In all such cases, the fee payable to the registered dealer will be paid from funds other than the funds invested in the Flow-Through Shares by the Partnership and the investment decision will be the responsibility of the General Partner.

The Partnership will acquire Flow-Through Shares in accordance with its Investment Guidelines. By investing in a number of Resource Companies, the Partnership will benefit from the reduced risks associated with portfolio diversification. The Partnership will invest in Resource Companies that will incur Eligible Expenditures and that: (i) represent good value in relation to the market price of the Resource Companies shares; (ii) have experienced management; (iii) have an exploration program in place; and (iv) offer potential for future growth.

To further enhance diversification and overall return potential, the Partnership may elect to invest up to 40% of its Net Asset Value in securities of private oil & gas companies. See "– Investment Guidelines".

Investment Guidelines

The Partnership will follow the Investment Guidelines for the Partnership set forth in the Partnership Agreement. For the purposes of the Investment Guidelines listed below, all amounts and percentage limitations will be determined on the date the relevant subscription or purchase agreement is entered into between the Partnership and a particular Resource Company, and any subsequent change in any applicable percentage resulting from changing Net Asset Values will not require the disposition of any security from the Partnership's portfolio. The Partnership's Investment Guidelines provide, among other things, as follows:

- (a) **Canadian Stock Exchange Listing.** Prior to January 1, 2012, the Partnership will endeavour to invest at least 60% of the Net Asset Value in securities of Resource Companies listed and posted for trading on the TSX, TSX Venture Exchange or Canadian National Stock Exchange. Commencing in 2012, the Partnership may be invested in up to 100% of the Net Asset Value in securities of such issuers listed and posted for trading on the TSX, TSX Venture Exchange or Canadian National Stock Exchange.
- (b) **Market Capitalization.** The Partnership will invest a minimum of 50% of the Net Asset Value in securities of Resource Companies whose market capitalization is at least \$10,000,000.
- (c) **Cash or Short-Term Securities.** Commencing in 2012, the Partnership may invest up to 100% of the Net Asset Value in cash or Short-Term Securities.

- (d) **Restriction on Short Sales.** The Partnership may only make short sales for hedging purposes against investments in its portfolio.
- (e) **Borrowing.** The Partnership may borrow up to 10% of the Net Asset Value to cover the issue expenses associated with the Partnership.
- (f) **No Control.** The Partnership will endeavour to limit each investment to no more than 20% of any class of securities of any one Resource Company.
- (g) **Diversification.** The Partnership will limit each investment to approximately 10% of the Net Asset Value in any one Resource Company. If, however, in the opinion of the General Partner, it would be in the best interests of the Partnership to invest above this limit, the Partnership may increase its investment in a particular Resource Company to a maximum of 20% of Net Asset Value.
- (h) **Illiquid Investments.** The Partnership may invest up to 40% of the Net Asset Value in securities of Resource Companies whose securities cannot be readily disposed of through market facilities on which public quotations in common use are widely available or are subject to resale restrictions that extend beyond the Termination Date.
- (i) **Purchasing Securities.** Subject to the securities purchased pursuant to “Illiquid Investments” above, the Partnership will not purchase securities other than through normal market facilities unless the purchase price thereof approximates the prevailing market price or is negotiated or established with Resource Companies who deal on an arm’s length basis with the Partnership, the General Partner and their respective affiliates.
- (j) **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, but this restriction will not apply to the purchase of securities which are paid for on an installment basis where the total purchase price and the amount of all such installments is fixed at the time the initial installment is paid and an appropriate cash reserve will be maintained in order to fund such deferred payments.
- (k) **Related Issuers.** The Partnership will not invest more than 10% of the Net Asset Value in Resource Companies that are Related Issuers; however the Partnership may not otherwise purchase securities from, sell securities to, or otherwise contract with the General Partner, the Manager or any of their respective affiliates, any officer, director, shareholder or partner of any of them, any person, trust, firm or corporation managed by the General Partner, the Manager or any of their respective affiliates, or any firm or corporation in which any officer, director or shareholder of the General Partner, the Manager or their respective affiliates may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity), unless such transactions are through normal market facilities, or, if not through normal market facilities, the purchase price approximates the prevailing market price.
- (l) **Arm’s Length with Limited Partners.** The Partnership will not invest in Flow-Through Shares of any Resource Company with which any Limited Partner does not deal at arm’s length within the meaning of the Tax Act.

General Investment Restrictions

- (a) **No Commodities.** The Partnership will not purchase or sell commodities if the intention is to take physical delivery of the commodity.
- (b) **No Mutual Funds.** The Partnership will not purchase the securities of any mutual fund other than in connection with the Mutual Fund Rollover Transaction.
- (c) **No Guarantees.** The Partnership will not guarantee the securities or obligations of any person.
- (d) **No Real Estate.** The Partnership will not purchase or sell real estate or interests therein.
- (e) **No Lending.** The Partnership will not lend money, provided that the Partnership may purchase: (i) Short-Term Securities pending the making of investments in accordance with the Investment Guidelines of the Partnership; and (ii) debt obligations which are convertible into equity securities of Resource Companies that meet

the investment objective, investment strategy and Investment Guidelines of the Partnership.

- (f) **No Derivatives.** The Partnership will not purchase or sell derivatives.
- (g) **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.
- (h) **No Mortgages.** The Partnership will not purchase mortgages.

FEES AND EXPENSES OF THE PARTNERSHIP

Initial Fees and Expenses

The Dealers' Fees and the Offering Expenses payable by the Partnership will be paid from the gross proceeds of the Offering received by the Partnership. The Partnership will pay to the Dealers a sales fee of up to \$1.25 (5.0%) for each Unit sold by the Dealers to an investor, in the case of the maximum Offering, an aggregate of \$1,500,000 and, in the case of the minimum Offering, an aggregate of \$50,000. The expenses of the Offering, which include the costs of creating and organizing the Partnership, the costs of printing and preparing this Offering Memorandum, legal expenses of the Partnership, marketing expenses, the Dealers' Fees and legal and other reasonable out-of-pocket expenses incurred by the General Partner and other incidental expenses, are estimated to be \$1,582,000 in the case of the maximum Offering and \$100,000 in the case of the minimum Offering. The General Partner has agreed that the total fees and expenses to be paid by the Partnership shall not exceed 5.27% of the gross proceeds in the case of the maximum Offering and 10% of the gross proceeds in the case of the minimum Offering, plus any applicable taxes, and the General Partner will pay for any excess amount. See "Certain Canadian Federal Income Tax Considerations".

Management Fee

In consideration for the Manager's services the Partnership will pay to the Manager a fee equal to 2.00% of the Net Asset Value of the Partnership, calculated and paid monthly in arrears, plus applicable taxes.

On-Going and Other Expenses

The Partnership will pay for all expenses (inclusive of applicable taxes) incurred in connection with its marketing, operation and administration. It is expected that these expenses will include: (a) mailing and printing expenses for periodic reports to Limited Partners; (b) fees payable to the General Partner for performing financial, record keeping, Limited Partner reporting and general administrative services; (c) fees payable to the auditors, valuers and legal advisors of the Partnership; (d) fees payable to the Custodian; (e) taxes and ongoing regulatory filing fees; (f) any reasonable out-of-pocket expenses incurred by the General Partner or its agents in connection with their ongoing obligations to the Partnership, including expenses in respect of any independent qualified persons retained to review any of investments; (g) expenses relating to portfolio transactions; and (h) any expenses which may be incurred upon the termination of the Partnership and rollover transaction to a mutual fund corporation. The Partnership estimates that these expenses will be approximately \$160,000 per annum in the case of the minimum Offering and \$860,000 per annum in the case of the maximum Offering. Such expenses will be funded through the Working Capital Reserve and proceeds from the sale of shares of Resource Companies. The General Partner currently intends to retain a Working Capital Reserve for the Partnership. The initial Working Capital Reserve will be \$160,000 in the case of the minimum Offering and \$860,000 in the case of the maximum Offering for the Partnership. In addition to the foregoing, the Partnership will also pay for all expenses incurred in connection with a Dissolution Transaction, including liquidation and partition expenses.

Performance Bonus

The Manager will be entitled to the Performance Bonus as an allocation of income from the Partnership. On the Performance Bonus Date, the Partnership shall distribute to the Manager, and in respect of the fiscal year in which such payment occurs, allocate to the Manager, an amount in respect of each Unit of the Partnership outstanding on the Performance Bonus Date equal to 20% of the amount by which the sum of (A) the Net Asset Value per Unit of the Partnership on the Performance Bonus Date and (B) all distributions per Unit of the Partnership on or prior to the Performance Bonus Date, exceeds \$25 (the Subscription Price per Unit).

Value of	Amount Distributed	Amount Distributed
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<u>Portfolio Per Unit</u>	<u>to Limited Partners</u>	<u>to Manager</u>
Up to \$25	Up to \$25	NIL
Over \$25	\$25 plus 80% of value in excess of \$25	20% of value in excess of \$25

THE GENERAL PARTNER AND THE MANAGER

The General Partner was incorporated on February 24th, 2011 under the laws of Alberta to assist with the formation and organization of the Partnership and, thereafter, to manage the Partnership.

The Manager was incorporated on March 4, 2008 under the laws of Alberta. The principal business address of each of the General Partner and the Manager is 2108, 335 8th Avenue SW, Calgary, Alberta T2P 1C9 and their registered office is 2108, 335 8th Avenue SW, Calgary, Alberta T2P 1C9. The Manager is registered as a portfolio manager under the securities laws of Alberta and Ontario. The Manager is focused on the energy and energy related sectors of the market. Investment experience continues across all areas of the energy markets from start up, micro-cap private companies to large-cap international producers. The management team has significant operational experience in both public and private oil and gas companies, and provides investors with a unique combination of capital markets and technical operational expertise.

The General Partner is the general partner of the Partnership and has co-ordinated the organization and registration and established the Investment Guidelines of the Partnership. The General Partner will monitor the investment portfolio of the Partnership to ensure compliance with the Investment Guidelines. The Partnership has retained the Manager to provide investment, management, administrative and other services to the Partnership.

Management of the General Partner and the Manager

The name, municipality of residence, office, and principal occupation during the past five years of each of the directors and executive officers of the General Partner are set out in the table below:

Name and Municipality of Residence	Position(s) with the General Partner	Principal Occupation During the Last Five Years
Clarence Y. Chow (Calgary, Alberta)	Director, Chairman, President and Chief Executive Officer	Chairman, President, CEO of the Manager since 2008; and President of AGS Capital Management Ltd. since 2004. Mr. Chow has over 30 years of experience in managing and operating both private and publicly traded junior oil & gas companies. Prior to co-founding AGS Resource Management Ltd., AGS Capital Management Ltd, AGS Financial Management Ltd. and the Manager, Mr. Chow was the former President and CEO of Mountain Energy Ltd. and Justinian Explorations Ltd. He served as the Vice-President of Business Development at Morrison Petroleum Ltd, and is the former Chairman of the Canadian Petroleum Institute. Mr. Chow is currently a director of several oil & gas companies.
Sandra Lutyck (Calgary, Alberta)	Director and Corporate Secretary	Chief Financial Officer and Chief Compliance Officer of the Manager since 2008 and Treasurer and Corporate Secretary of AGS Capital Management Ltd. since 2004.
John A. Brussa (Calgary, Alberta)	Director	A partner of Burnet, Duckworth and Palmer LLP, Barristers and Solicitors, since 1987.
Miles Nagamatsu (Toronto, Ontario)	Chief Financial Officer	Chief Financial Officer of CGS Resource Fund Ltd. and President of Marlborough Management Limited. Mr. Nagamatsu is a Chartered Accountant and, since 1993, has acted as part-time Chief Financial Officer of public and private companies primarily in the mineral exploration and

Name and Municipality of Residence	Position(s) with the General Partner	Principal Occupation During the Last Five Years
		investment management sectors. Mr. Nagamatsu is currently a director and/or Chief Financial Officer of Northfield Metals Inc., Eoro Resources Ltd., Champion Minerals Inc., PC Gold Inc., Essex Oil Ltd. and Wavex International Inc. From 2004 to 2007, Mr. Nagamatsu was Chief Financial Officer of Lawrence Asset Management Inc. Mr. Nagamatsu has served in a volunteer capacity as Treasurer and Director of the Cystic Fibrosis Canada.

The name, municipality of residence, office, and principal occupation during the past five years of each of the directors and executive officers of the Manager are set out in the table below:

Name and Municipality of Residence	Position(s) with the Manager	Principal Occupation During the Last Five Years
Clarence Y. Chow (Calgary, Alberta)	Director, Chairman, President and Chief Executive Officer	Chairman, President, CEO of the Manager since 2008; and President of AGS Capital Management Ltd. since 2004. Mr. Chow has over 30 years of experience in managing and operating both private and publicly traded junior oil & gas companies. Prior to co-founding AGS Resource Management Ltd., AGS Capital Management Ltd, AGS Financial Management Ltd. and the Manager, Mr. Chow was the former President and CEO of Mountain Energy Ltd. and Justinian Explorations Ltd. He served as the Vice-President of Business Development at Morrison Petroleums Ltd, and is the former Chairman of the Canadian Petroleum Institute. Mr. Chow is currently a director of several oil & gas companies.
Sandra Lutyck (Calgary, Alberta)	Director, Vice-President, Chief Financial Officer and Chief Compliance Officer	Chief Financial Officer and Chief Compliance Officer of the Manager since 2008 and Treasurer and Corporate Secretary of AGS Capital Management Ltd. since 2004

The identified individuals in the tables above have held their respective positions with the General Partner and the Manager, as applicable, since the incorporation of these companies and none of such persons currently owns, directly or indirectly, any Units or proposes to own, directly or indirectly, any Units following the Initial Closing.

Management Agreement

Pursuant to the Management Agreement, the Manager will provide investment, management, administrative and other services to the Partnership. The Manager will receive the Management Fee and, if earned, the Performance Bonus from the Partnership for the provision of such services and will be entitled to reimbursement for certain expenses incurred on behalf of the General Partner or the Partnership. The Manager may also provide the Partnership with office facilities, equipment and staff as required and the Partnership will reimburse the Manager for the cost thereof.

The Manager has no obligation to the Partnership other than to render services under the Management Agreement honestly and in good faith and in the best interests of the Partnership and to exercise the degree of care, diligence and skill a reasonably prudent person would exercise in comparable circumstances.

The Management Agreement provides that the Manager will not be liable in any way to the Partnership if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Partnership has agreed to indemnify the Manager for any losses as a result of the performance of its duties under the Management Agreement. However, the Manager will incur liability, in cases of willful misconduct, bad faith, negligence or disregard of its duties or standards of care, diligence and

skill.

The Management Agreement, unless terminated as described below, will continue until the termination of the Partnership. In each case, either the Manager or the Partnership may terminate the Management Agreement upon 30 days' written notice of such termination, or upon written notice of such termination on the insolvency or bankruptcy of the other party or the failure of the other party to remedy a breach thereof within 7 days after notice of such breach, delivered to the Manager or the General Partner, as applicable.

In the event that the Management Agreement is terminated as provided above, the General Partner shall determine, at its sole discretion, whether to appoint a successor manager to carry out the activities of the Manager or to carry out such activities itself in which case the General Partner will be entitled to a fee no greater than that payable to the Manager under the Management Agreement.

Previous Flow-Through Limited Partnerships Managed by AGS/CGS

The Manager was formed by the key full-time principals of AGS Resource Management Ltd., which previously served as the portfolio adviser to several AGS Energy flow-through LP's from 2004 to 2007 (see summary below). As portfolio adviser to those previous partnerships, Clarence Y. Chow (President, AGS Resource Management Ltd.) was primarily responsible for providing portfolio recommendations and advice to the manager of such partnerships, and was a key element in the overall performance of each investment portfolio. See "Management of the General Partner and the Manager" above for additional details on the Manager and Mr. Chow.

The following table summarizes the past performance of CGS/AGS Energy Flow-Through Limited Partnerships since 2004 (issue price of \$25 per unit; after-tax return calculated using the highest marginal tax rate in Ontario of 46.41%):

<u>Name of Partnership</u>	<u>Invested Amount (\$25 per unit)</u>	<u>NAV at Rollover</u>	<u>Value at Rollover</u>	<u>After-Tax Return</u>
CGS Flow-Through 2010 LP	\$10,000	N/A	N/A	N/A
AGS Energy 2007 Flow-Through LP	\$10,000	\$11.39	\$4,556	-29%
AGS Energy 2006-2 Flow-Through LP	\$10,000	\$13.04	\$5,216	-20%
AGS Energy 2006-1 Flow-Through LP	\$10,000	\$11.42	\$4,568	-29%
AGS Energy 2005 Flow-Through LP	\$10,000	\$13.93	\$5,572	-15%
AGS Energy 2004 Flow-Through LP	\$10,000	\$29.95	\$11,980	77%
AVERAGE		\$15.95	\$6,378	-3.2%

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

Tax considerations ordinarily make the Units offered under this offering memorandum most suitable for those taxpayers whose income is 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 advisor who is knowledgeable in the area of income tax law.

Introduction

In the opinion of Janke Law Office, counsel to the Partnership, the General Partner and the Manager, the following summary fairly presents, as of the date of this offering memorandum, the principal Canadian federal income tax considerations for a Limited Partner who acquires Units pursuant to this Offering. This summary is applicable only to Limited Partners who for the purposes of the Tax Act and at all relevant times, are resident in Canada and who hold their Units and any shares acquired on a dissolution of the Partnership as capital property. Provided a Limited Partner does not hold Units in the course of carrying on a business of buying and selling securities and has not acquired Units as an adventure in the nature of trade, the Units will generally be considered to be capital property to the Limited Partner. This summary similarly assumes that the Flow-Through Shares acquired by the Partnership will be capital property to the Partnership.

Except as otherwise indicated, this summary assumes that recourse for any financing by a Limited Partner of the purchase 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 Limited Partner will, at all relevant times, deal at arm's length, for purposes of the Tax Act, with each of the Resource Companies with which the Partnership has entered into an Flow-Through Investment Agreement, and that not more

than 50% of the fair market value of all interests in the Partnership will at any time be owned by persons that are “financial institutions” as defined in subsection 142.2(1) of the Tax Act.

This summary is not applicable to Limited Partners 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 or drill for, or take, minerals, uranium, petroleum, natural gas, or other hydrocarbons, or to a Limited Partner an interest in which is a “tax shelter investment” within the meaning of the Tax Act.

This summary is based on the assumption that the Partnership is not, and will not at any material time be, a “specified person” within the meaning of section 6202.1 of the regulations under the Tax Act in relation to any Resource Company with which it has entered into an Flow-Through Investment Agreement.

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

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, and no representations with respect to the tax consequences to any particular purchaser are made. It is impractical to comment on all aspects of federal income tax laws which may be relevant to any prospective purchaser of Units. Accordingly, each prospective purchaser of Units should obtain independent advice from a tax advisor who is knowledgeable in the area of income tax law, regarding the income tax considerations applicable to investing in the Partnership based on the purchaser’s own particular circumstances. This summary does not address the deductibility of interest by a Limited Partner in respect of any borrowing used to acquire Units. A Limited Partner who intends to use borrowed funds to acquire Units should consult his or her own tax advisors in this regard.

This summary is based on the current provisions of the Tax Act and counsel’s understanding of the current published administrative practices of the CRA. This summary also takes into account all specific proposals to amend the Tax Act publicly announced by the Minister of Finance prior to the date of this offering memorandum (the “**Tax Proposals**”). This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental, or legislative decision or action, nor does it take into account provincial or foreign income tax legislation or considerations, which may differ materially from these described herein. There is no certainty that the Tax Proposals will be enacted in the form proposed, if at all.

Highlights

These highlights must be read in conjunction with the detailed summary of the income tax considerations which follows. In brief, a taxpayer who is a Limited Partner at the end of a fiscal year of the Partnership (which will be the calendar year) may, in computing income for the taxation year of the Limited Partner in which the fiscal year of the Partnership ends, subject, in each case, to the application of a number of rules in the Tax Act which restrict the ability of a Limited Partner to deduct certain expenses and losses (see “Limitation on Deductibility of Expenses or Losses of the Partnership”):

- (a) may deduct an amount up to 100% of CEE renounced to the Partnership and allocated to the Limited Partner by the Partnership effective in that fiscal year of the Partnership;
- (b) may deduct an amount up to 100% of CDE renounced to the Partnership which is deemed to be CEE incurred by the Partnership and allocated to the Limited Partner by the Partnership effective in that fiscal year of the Partnership; and
- (c) shall deduct the Limited Partner’s *pro rata* share of any losses of the Partnership (as computed for the purposes of the Tax Act) incurred in that fiscal year of the Partnership without taking into account the expenditures or deductions referred to above.

Canadian Exploration Expense and Canadian Development Expense

Provided that certain conditions in the Tax Act are satisfied, the Partnership will be deemed to incur CEE renounced to it by Resource Companies pursuant to Flow-Through Investment Agreements on the effective date of the renunciation. Provided that certain further conditions in the Tax Act are satisfied, certain CEE incurred by a Resource Company before January 1, 2013 can be renounced to the Partnership with an effective date of December 31, 2011 and the Partnership will be deemed to have incurred such CEE on December 31, 2011. Certain CEE incurred or to be incurred in 2012 will be eligible to be renounced effective December 31, 2011 provided that the Resource Company makes the renunciation to the Partnership by March 31, 2012. The Flow-Through Investment Agreements for Flow-Through Shares to be entered into during 2011 by the Partnership may permit a Resource Company to incur CEE at any time up to December 31, 2012, provided that the CEE qualifies for renunciation with an effective date in 2011.

In the case of certain expenses incurred for the purpose of developing petroleum or natural gas deposits in Canada (including certain drilling expenses), such expenses ordinarily characterized as CDE may be deemed to be CEE to a limit of \$1,000,000 annually per Resource Company whose “taxable capital” (as that term is defined in the Tax Act), together with the taxable capital of all corporations with which such Resource Company is “associated” (within the meaning of the Tax Act) at the relevant time, is not greater than \$15,000,000. Flow-Through Investment Agreements to be entered into during 2011 may permit a Resource Company to incur certain CDE, which will be deemed to be CEE, at any time up to December 31, 2012, provided that the CDE qualifies for renunciation as CEE with an effective date in 2011.

For purposes of the following discussion, all references to CEE include CDE renounced to the Partnership, which is deemed to be CEE incurred by the Partnership.

If CEE renounced before April 2012, effective December 31, 2011, is not, in fact, incurred in 2012, then the amount of CEE renounced to the Partnership will be reduced accordingly. The reduction will be effective as of December 31, 2011. However, none of the Limited Partners will be charged interest on any unpaid tax arising as a result of such reduction before May 2013.

A Limited Partner does not deduct directly CEE renounced to the Partnership and allocated to the Limited Partner in respect of a fiscal year of the Partnership. Rather, a Limited Partner who continues to be a Limited Partner at the end of a particular fiscal period, adds such CEE to the Limited Partner’s cumulative 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 the Limited Partner’s “at-risk amount” in respect of the Partnership at the end of the fiscal year. If the Limited Partner’s share of CEE is so limited, any excess will be added to the Limited Partner’s share, as otherwise determined, of the CEE incurred by the Partnership in the immediately following fiscal year, again subject to the at-risk amount limitation.

A Limited Partner may deduct in computing income from all sources for a particular taxation year, such amount as the Limited Partner may claim not exceeding 100% of the balance of the Limited Partner’s CCEE account at the end of that taxation year. The undeducted balance of a Limited Partner’s CCEE account may generally be carried forward indefinitely. A Limited Partner’s CCEE account is reduced by deductions claimed in prior years and by the Limited Partner’s share of any amount that the Limited Partner or the Partnership received or is entitled to receive as assistance in respect of the exploration or development activities to which the CEE relates. If, at the end of a taxation year, the reductions in calculating the Limited Partner’s CCEE account exceed the balance of that account at the beginning of the year and additions to it 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 by a Limited Partner will not result in the reduction of the Limited Partner’s CCEE account, and the sale by the Partnership or a Limited Partner of any Flow-Through Shares will not result in a reduction in any Limited Partner’s CCEE account.

Computation of Income of Limited Partners

The Partnership itself is not a taxable entity and is not required to file income tax returns except for an annual information return. However, each Limited Partner will be required to include in computing his or her income or loss for tax purposes for a taxation year, subject to the “at-risk” rules, the Limited Partner’s *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 the Limited Partner has received or will receive any distributions from the Partnership. The fiscal year of the Partnership ends on December 31 and will end upon the dissolution of the Partnership.

Each Limited Partner will generally be required to file an income tax return reporting the Limited Partner’s share of the income or loss of the Partnership. While the Partnership will provide each of its Limited Partners with information required for income tax purposes pertaining to such Limited Partner’s 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 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 one 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 at the end of the fiscal period of the Partnership which includes the effective date of the renunciation. Each such Limited Partner will be entitled to deduct directly through the Limited Partner's CCEE account, and not as a 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. As a result of the acquisition cost of the Flow-Through Shares being deemed to be nil, the amount of such capital gain generally will equal the proceeds of disposition of the Flow-Through Shares, net of reasonable costs of disposition.

The costs associated with the organization of the Partnership are not fully deductible either by the Partnership or by 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 the fiscal period in 2011).

Offering expenses and Dealers' Fees (to the extent they are reasonable in amount) will be deductible as to 20% in 2011 and each of the four subsequent years (subject to pro-ration for a fiscal period which is less than 365 days, such as the 2011 taxation 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, subject to the Proposed Loss Limitation Rule, 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 the Limited Partner's share of such expenses.

The Proposed Loss Limitation Rule limits a taxpayer's ability to deduct a loss from a business or property unless it is reasonable to expect that the taxpayer will realize a cumulative profit from that business or property over the period in which the taxpayer has carried on that business or can reasonably be expected to carry on that business or has held, or can reasonably be expected to hold that property. This rule could apply to losses realized by the Partnership or by the Limited Partners from the deduction of interest or Offering Expenses and the Dealers' Fees after the dissolution of the Partnership. The Proposed Loss Limitation Rule would not affect the ability of a Limited Partner to deduct an amount in respect of the Limited Partner's available CCEE pool from the Limited Partner's income. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the Proposed Loss Limitation Rule would be released for comment at an early opportunity. There can be no assurances that such alternative proposal would not adversely affect the Limited Partners.

Counsel has been advised by the General Partner that the Partnership intends to borrow sufficient funds to pay the expenses of the Offering and the Dealers' Fees. The unpaid principal amount of such borrowing will be deemed to be a limited-recourse amount of the Partnership, the effect of which will be to reduce, for the purposes of the Tax Act, the amount of expenses paid with the borrowing by such unpaid principal amount. As a result, the Partnership will not be permitted to deduct any portion of the amount by which such expenses are reduced in computing its income in the year the expenses are incurred. As the principal amount of such borrowing is repaid, the expenditures will be deemed to have been incurred to the extent of such repayment, provided the repayment is not part of a series of loans or other indebtedness. Therefore, such issue expenses and Dealers' Fees (to the extent they are reasonable in amount) will be deductible as to 20% in the year of repayment, and as to 20% in each of the four subsequent years. 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, subject to the Proposed Loss Limitation Rule. The adjusted cost base of a Limited Partner's Units will be reduced on dissolution of the Partnership by his or her share of such expenses.

To the extent that they are reasonable, the fees payable to the Manager will be deductible in the year in which the services to which they relate are rendered. The General Partner believes that such fees are reasonable within the meaning of the Tax Act.

Limitation on Deductibility of Expenses or Losses of the Partnership

Subject to the “at-risk” rules, a Limited Partner’s share of the loss of the Partnership for any fiscal year may be applied against his or her 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 twenty years and applied against taxable income of the Limited Partner in such other years.

The Tax Act contains certain provisions which limit the amount of deductions, including CEE and losses, that a Limited Partner may claim as a result of his or her investment in the Partnership to the amount that the Limited Partner has “at-risk” in respect thereof. Generally, the Limited Partner’s “at-risk” amount will be the amount actually paid for Units plus the amount of any Partnership income (including the full amount of any Partnership capital gains) allocated to such Limited Partner for completed fiscal years less the aggregate of the amount of any CEE allocated to the Limited Partner and the amount of any Partnership losses allocated to the Limited Partner for completed fiscal years and the amount of any distributions from the Partnership including any amounts returned to Limited Partners in respect of uncommitted funds.

The Tax Act contains additional rules that restrict the deductibility of certain amounts by persons who acquire a “tax shelter investment” for purposes of the Tax Act. The Units of the Partnership have been registered with CRA under the “tax shelter” registration rules and the Units are “tax shelter investments” for the purposes of the Tax Act. If a Limited Partner finances the acquisition of Units with a financing for which recourse is or is deemed to be limited (a “**limited recourse amount**”) within the meaning of the Tax Act, the CEE or other expenses incurred by the Partnership of which he or she is a member may be reduced by the amount of such financing to the extent that the financing can reasonably be considered to relate to such amounts. The Partnership Agreement provides that where CEE of the Partnership is so reduced the amount of CEE that would otherwise be allocated by the Partnership to the Limited Partner who incurs the limited recourse amount 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 amount. The cost of a Unit to a Limited Partner may also be reduced by the total of limited recourse amounts and at-risk adjustments that can reasonably be considered to relate to such Units. Any such reduction may reduce the amount of deductions otherwise available to Limited Partners to the extent that deductions are not reduced at the Partnership level as described above.

For the purposes of the Tax Act, a limited recourse amount is the unpaid principal amount of any indebtedness for which recourse is limited, and the unpaid principal amount of a debt is deemed to be a limited recourse amount unless:

- (a) the debt bears interest at a rate not less than the lesser of the rate prescribed by the Tax Act at the time the debt is incurred or the rate prescribed from time to time during the term of the indebtedness;
- (b) interest is paid in respect of the debt at least annually within 60 days of the end of the debtor’s tax year; and
- (c) *bona fide* written arrangements were made, at the time the debt was incurred, for repayment of principal and interest within a reasonable period not exceeding 10 years (which may include a demand loan).

Prospective purchasers who propose to finance the acquisition of their Units should consult their own advisors.

Income Tax Withholdings and Installments

Limited Partners who are employees and have income tax withheld at source from their employment income by their employer may prepare a submission to their Tax Services Office of the CRA requesting a reduction in such withholding at source by their employer, which request may be granted at the discretion of the CRA. In this way, Limited Partners may be able to obtain the tax benefits of the investment during the remainder of 2011 after their Closing.

Limited Partners who are required to pay income tax on an installment basis may, depending on the method used for calculating their installments, take into account their share, subject to the “at-risk” rules, of CEE and any loss of the Partnership of which they are a member in determining their installment remittances.

Disposition of Units

Subject to any adjustment required by the Tax Act, a Limited Partner’s adjusted cost base of a Unit for income tax purposes at any time will generally consist of the purchase price of the Unit, increased by any share of income of the Partnership allocated to the Limited Partner (including a pro rata share of the full amount of any capital gains realized by the Partnership) for fiscal periods ending before that time and reduced by any share of losses of the Partnership (including a pro rata share of the full amount of any capital losses realized by the Partnership) and CEE allocated to such Limited Partner for fiscal periods

ending before that time and the amount of any Partnership distributions made to such Limited Partner before that time. The amount of any negative adjusted cost base will be deemed to be a capital gain of a Limited Partner in the year in which the adjusted cost base becomes a negative amount.

A disposition of Units by a Limited Partner will result in a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of reasonable disposition costs, exceed (or are exceeded by) the adjusted cost base of the Units to the Limited Partner immediately prior to the disposition. One-half of any such capital gain (the “**taxable capital gain**”) will be included in the Limited Partner’s income for the year of disposition, and one-half of any such capital loss (the “**allowable capital loss**”) must be deducted by the Limited Partner against taxable capital gains for the year of disposition. Any excess of allowable capital losses over taxable capital gains of the Limited Partner for the year of disposition generally may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains in those other years to the extent and in the circumstances prescribed in the Tax Act.

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

A Limited Partner who is considering disposing of Units during a fiscal year of the Partnership should obtain tax advice before doing so since entitlement to a share of the Partnership’s loss and CEE may be affected by ceasing to be a Limited Partner before the end of the Partnership’s fiscal year.

Dissolution of the Partnership

If the Partnership is dissolved following the disposition of all or substantially all of its assets for cash proceeds, 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 the Limited Partner’s Units.

The Partnership Agreement also provides that upon dissolution of the Partnership, each Limited Partner will acquire an undivided interest in each property of the Partnership that has not been disposed of for cash proceeds. It is assumed that each such property (including Flow-Through Shares) will thereafter be partitioned and each Limited Partner will be allocated his or her *pro rata* share of each such property. Provided appropriate elections under the Tax Act are made and filed in a timely manner, the dissolution of the Partnership in these circumstances will constitute a disposition by a Limited Partner of the Limited Partner’s Units for proceeds equal to the greater of: (i) the adjusted cost base of the Units; and (ii) the aggregate of the cash proceeds distributed to the Limited Partner and the Limited Partner’s share of the cost amount to the Partnership of each property distributed. Provided that under the relevant law shares may be partitioned, it is the CRA’s position that shares may be partitioned on a tax-deferred basis. The cost to a Limited Partner of an undivided interest in a share will generally be equal to the Limited Partner’s *pro rata* share of the cost to the Partnership of that share. Since the adjusted cost base of Flow-Through Shares to the Partnership generally will be nil, a Limited Partner will generally acquire an undivided interest in Flow-Through Shares at an adjusted cost base of nil. Consequently, a subsequent disposition of Flow-Through Shares by such a Limited Partner will result in the Limited Partner realizing substantially the whole of the proceeds of disposition as a capital gain.

Transfer of Assets to a Mutual Fund Corporation

If the Partnership transfers its assets to CGS Resource in exchange for Class D Shares of CGS Resource (or any other mutual fund securities) pursuant to the Mutual Fund Rollover Transaction, provided the appropriate elections are made and filed in a timely manner, no taxable capital gains will be realized by the Partnership on the transfer. CGS Resource (or any other mutual fund corporation) generally will be deemed to acquire each asset of the Partnership at a cost equal to the lesser of the cost amount thereof to the Partnership and the fair market value of the asset at the transfer date. Provided that the dissolution of the Partnership takes place within 60 days after the transfer of the assets to CGS Resource (or the other mutual fund corporation) and certain other requirements in the Tax Act are satisfied, the shares of CGS Resource (or securities of the other redeemable mutual fund corporation) will be distributed to the Limited Partners at a cost for tax purposes equal to the adjusted cost base of the Units held by such Limited Partner (less any cash received) and a Limited Partner will generally not be subject to tax in respect of such transaction.

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 or her basic exemption which, in the case of an individual (other than certain trusts), is \$40,000. In computing his or her 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 15% 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. Generally, if the minimum tax so calculated exceeds the tax otherwise payable under the Tax Act (without regard to any federal surtax), the minimum tax will be payable.

Whether and to what extent the tax liability of a particular individual Limited Partner will be increased as a result of the application of the alternative minimum tax rules will depend on the amount of the Limited Partner's income, the sources from which it is derived, and the nature and amounts of any deductions and credits the Limited Partner 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 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 the Limited Partner's tax otherwise payable for any such year.

Prospective investors are urged to consult their tax advisors to determine the impact of the alternative minimum tax.

Tax Shelter

The federal tax shelter identification number for CGS Flow-Through 2011 - 1 LP is TS078444.

The identification number issued for this tax shelter must be included in any income tax return filed by the investor. 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.

DETAILS OF THE OFFERING

The Partnership will offer a minimum of 40,000 Units (\$1,000,000) and a maximum of 1,200,000 Units (\$30,000,000) at a price of \$25 per Unit. The minimum purchase per investor is 200 Units (\$5,000). Any investment in excess of \$5,000 per investor must be made in multiples of \$1,000 (40 Units). An investor whose offer to purchase is accepted by the General Partner will become a Limited Partner upon the entering of his, her or its name and other prescribed information in the record of Limited Partners on or as soon as possible after each Closing.

How to Purchase Units

The Units are being offered for sale on a "private placement" basis in reliance on exemptions from the prospectus and registration requirements of applicable Canadian securities laws. As a result, resale of the Units will be restricted in the manner provided by such securities laws. See "Resale Restrictions".

Investors may subscribe for Units by submitting a completed and signed Subscription Agreement and Power of Attorney Form to the General Partner, together with the purchase price by way of certified cheque, wire transfer or bank draft. **The Manager has also made arrangements to offer the Units through the investment fund order system, FundSERV.** Units will only be sold to individuals, corporations and trusts that are permitted to purchase them under applicable securities laws and who certify in the Subscription Agreement and Power of Attorney Form that such purchaser, or any ultimate purchaser for which such purchaser is acting as agent: (i) is an "accredited investor", as that term is defined in National Instrument 45-106 – *Prospectus and Registration Exemptions* of the Canadian Securities Administrators ("**NI 45-106**"); (ii) is an "eligible investor" or "exempt investor" and is relying on the "offering memorandum" exemption as provided for in Section 2.9 of NI 45-106; or (iii) is relying on the "minimum amount investment" exemption as provided for in Section 2.10 of NI 45-106. The "offering memorandum" exemption, as provided for in Section 2.9 of NI 45-106, is available in all Canadian provinces and territories except for Ontario. In jurisdictions where the "offering memorandum" exemption is available, except British

Columbia, New Brunswick, Nova Scotia and Newfoundland and Labrador, that jurisdiction will impose eligibility criteria on persons or companies investing under the “offering memorandum” exemption.

In British Columbia, Nova Scotia, New Brunswick and Newfoundland and Labrador, there is no eligibility criteria requirement and investors may purchase Units with a minimum total subscription price equal to \$5,000.

To acquire Units, an investor must deliver on or prior to the Closing, a duly completed and signed Subscription Agreement and Power of Attorney Form, together with payment (either by certified cheque, wire transfer or bank draft or settlement through the FundSERV system) in the amount of \$25 per Unit payable to “CGS Flow-Through 2011 - 1 LP”.

A subscriber will be entitled to receive written confirmation of ownership of Units subscribed for, subject to full payment for such Units. No certificates will be issued representing the Units.

In the case of all subscribers, the General Partner will hold your subscription funds in trust until midnight on the second business day after the day on which the General Partner receives your signed Subscription Agreement and Power of Attorney Form.

The General Partner, on behalf of the Partnership, reserves the right to reject any subscription in whole or in part. If a subscription for Units is rejected or accepted in part, the appropriate monies will be returned to the subscriber without interest or deduction. Subscription proceeds pursuant to the Offering will be received by the General Partner pending closing. If the Offering is not completed because the minimum Offering has not been met by December 31, 2011, all subscription funds will be returned to subscribers without interest or deduction as soon as possible.

Pursuant to the Subscription Agreement and Power of Attorney Form, an investor, among other things:

- (a) irrevocably, directly or indirectly through a Dealer, authorizes and consents to the disclosure of certain information to, and the collection and use by, the General Partner and its service providers, including such investor’s full name, residential address or address for service, email address, social insurance number or the corporation account number, as the case may be;
- (b) acknowledges that he, she or it is bound by the terms of the Partnership Agreement and liable for all obligations of a Limited Partner;
- (c) makes representations and warranties, including without limitation, representations and warranties as to the investor’s residency and limited recourse financing, set out in the Partnership Agreement, including the representations and warranties to the effect that he, she or it is not a “non-resident” of Canada for the purposes of the Tax Act, a “non-Canadian” within the meaning of the *Investment Canada Act* or a partnership (other than a “Canadian partnership” for the purposes of the Tax Act), and that he, she or it has not financed his, her or its acquisition of the Units with a financing for which recourse is or is deemed to be limited for the purposes of the Tax Act;
- (d) is deemed to represent and warrant that the investor is not a “financial institution” as that term is defined in subsection 142.2(1) of the Tax Act unless such investor has provided written notice to the contrary to the General Partner prior to the date of acceptance of the investor’s subscription for Units;
- (e) irrevocably nominates, constitutes and appoints the General Partner as his, her or its true and lawful attorney with the full power and authority as set out in the Partnership Agreement; and
- (f) covenants and agrees that all documents executed and other actions taken on behalf of the Limited Partners pursuant to the power of attorney set out in the Partnership Agreement will be binding upon such investor, and each investor agrees to ratify any of such documents or actions upon request by the General Partner.

An investor who is not an individual 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.

Power of Attorney

The Partnership Agreement contains a power of attorney coupled with an interest, the effect of which is to constitute it an irrevocable power of attorney. The scope of the power of attorney is generally limited to matters relating to an investment in

Units of the Partnership. The Subscription Agreement and Power of Attorney Form signed by each investor includes this power of attorney.

The power of attorney authorizes the General Partner on behalf of the Limited Partners of Partnership, among other things, to execute the Partnership Agreement, any amendments to the Partnership Agreement, and all instruments necessary to reflect the dissolution of the Partnership and partition of assets distributed to partners on dissolution, as well as any elections, determinations or designations under the Tax Act or taxation legislation of any province or territory with respect to the affairs of the Partnership or a Limited Partner's interest in the Partnership, including elections under subsections 85(2) and 98(3) of the Tax Act and the corresponding provisions of applicable provincial legislation in respect of the dissolution of the Partnership. By subscribing for Units of the Partnership, each investor acknowledges and agrees that he, she or it 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.

PLAN OF DISTRIBUTION

The Partnership is offering a maximum of 1,200,000 Units and a minimum of 40,000 Units. The Units of the Partnership will be offered to accredited or eligible investors, subject to a minimum purchase of 200 Units, at a price of \$25 per Unit; and will be available through FundSERV under the code **CGS 111**. Alternatively, accredited or eligible investors or investors purchasing a prescribed minimum amount of Units may purchase units of the Partnership directly through the General Partner. The price per Unit of the Partnership was established by the General Partner. It is expected that the Initial Closing will take place on or about July 31st, 2011. If less than the maximum number of Units is subscribed for at the Initial Closing, one or more subsequent Closings may be held on or before December 31, 2011. The Partnership will pay to the Dealers a sales fee up to 5.0% of the selling price for each Unit sold to by the Dealers of an investor.

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

Dealers placing purchase orders through FundSERV will hold the Subscription Agreements and Power of Attorney Form and funds payable to the Partnership prior to the Initial Closing 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 December 31, 2010, subscription cheques and proceeds will be returned, without interest or deduction, to the investors.

The Closing of this Offering will occur only when:

- (a) all conditions for such Closing have been satisfied or waived; and
- (b) on the Initial Closing Date, subscriptions for at least 40,000 Units of CGS Flow-Through 2011 - 1 LP are accepted by the General Partner.

FLOW-THROUGH INVESTMENT AGREEMENTS

The General Partner, on behalf of the Partnership, will enter into Flow-Through Investment Agreements for the purchase of securities of Resource Companies. Generally, the Flow-Through Investment Agreements for the purchase of Flow-Through Shares provide that Resource Companies are to incur exploration and development expenditures that qualify as Eligible Expenditures. The General Partner will monitor on an ongoing basis the performance of the Resource Companies (including following up with Resource Companies to confirm that they incur and renounce to the Partnership Eligible Expenditures within the time frames outlined in the Flow-Through Investment Agreement). Where Available Funds of the Partnership have been committed to a Resource Company which is subsequently 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 Investment Agreement, the Partnership may use any portion or all of the committed but unexpended Available Funds to purchase any other securities issued by that Resource Company or make an investment in any other Resource Company where, in the discretion of the General Partner, making such an investment would be consistent with the investment objective, investment strategy and Investment Guidelines and it would be in the best interests of the Partnership to do so. These substitute securities would not constitute Flow-Through Shares.

The Partnership will endeavour on or before December 31, 2011 to use its Available Funds to subscribe primarily for Flow-Through Shares in contemplation of the Resource Companies incurring Eligible Expenditures and renouncing Eligible

Expenditures 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, 2011. Flow-Through Investment Agreements entered into by the Partnership will provide that Eligible Expenditures must be incurred not later than December 31 of the year following which such agreement is entered into and such Eligible Expenditures will be renounced to the Partnership with a effective date not later than December 31 of the year in which such agreement is entered into. See “Risk Factors - Tax Related”. The Flow-Through Investment Agreements may include rights of termination in favour of the Partnership and the Resource Companies that may be exercised in specified circumstances.

VALUATION OF INVESTMENTS

The Net Asset Value of the Partnership will be calculated after the close of business on the last day of each month that the Toronto Stock Exchange is open for trading (a “**Valuation Date**”). The Net Asset Value per Unit of the Partnership is the amount obtained by dividing the Net Asset Value of the Partnership as of a particular date by the total number of Units of the Partnership outstanding on that date. The Net Asset Value will be calculated on such Valuation Date by the General Partner by subtracting the aggregate amount of the Partnership’s liabilities (determined by the General Partner in accordance with normal business practices) from the aggregate of the Partnership’s assets. The Partnership’s assets will be valued in accordance with the following principles provided that, in any event, the aggregate value of the assets of the Partnership will be determined as required by applicable law (subject to any permitted exemptions):

- (a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash 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 (for the purposes of the foregoing, 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 (ii) 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 on a stock exchange will be the closing sale price on such date or, if there is no closing sale price, the simple average of the closing bid and the closing ask prices on such date, all as reported by any report in common use or authorized by such stock exchange;
- (c) the value of securities quoted in foreign currencies will be converted to Canadian dollars at the exchange rate at noon on such date as announced by the Bank of Canada;
- (d) the value of any security which is traded on an over-the-counter market will be the closing sale price on such date or, if there is no closing sale price, the simple average of the closing bid and the closing ask prices on such date, all as reported by the financial press or an independent reporting organization;
- (e) tax deductions which accrue to holders of Units shall not be taken into account in making such determination; and
- (f) 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 valued at cost or the fair value thereof determined in good faith in such manner as the General Partner from time to time adopts.

If an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the General Partner to be inappropriate under the circumstances, then notwithstanding such rules the General Partner will make such valuation as it considers fair and reasonable and, if there is an industry practice, in a manner consistent with industry practice for valuing such investment.

The Net Asset Value of the Partnership on each Valuation Date will be updated on a monthly basis and made available to Limited Partners on the Manager’s website at www.cgsam.com beginning on or about December 31, 2011. The contents of this website are not incorporated by reference herein, and the web address is given for informational purposes only.

The Net Asset Value of the Partnership will be calculated as described in this section for all other purposes, but will be

calculated in accordance with Canadian GAAP for the purposes of its financial statements (see below) for the financial year commencing on January 1, 2011. The financial statements of the Partnership will include a reconciliation of the net asset value contained in the financial statements to the net asset value used for other purposes.

REPORTING OBLIGATIONS AND FINANCIAL STATEMENTS

The General Partner will send to Limited Partners, on an ongoing basis, any notices that it is required to send pursuant to the Partnership Agreement.

The annual financial statements of the Partnership shall be audited by the Partnership's auditors in accordance with Canadian generally accepted auditing standards. The auditors will be asked to report on the fair presentation of the annual financial statements in accordance with Canadian generally accepted accounting principles. A copy of the audited financial statements of the Partnership will be made available to Limited Partners on or before 120th day after the end of the Partnership's fiscal year.

Information about the Partnership can be obtained at www.cgsam.com (including with respect to the Net Asset Value of the Partnership on each Valuation Date beginning on or about December 31, 2011). The contents of this website are not incorporated by reference herein, and the web address is given for informational purposes only.

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 may request a copy of the Partnership Agreement forming part of this Offering Memorandum.

The rights and obligations of the Limited Partners and the General Partner under the Partnership Agreement are governed by the laws of the Province of Alberta. Each investor will directly, or indirectly through a Dealer, submit an offer to purchase to the General Partner by completing a Subscription Agreement and Power of Attorney Form. An investor whose offer to purchase Units has been accepted by the General Partner will become a Limited Partner upon the amendment of the certificate of the Partnership and the register of limited partners maintained by the General Partner. At or as soon as possible after the Initial Closing, the interest of the initial limited partner will be redeemed by the Partnership in the amount of its capital contribution of \$25.

Units

The interest of the Limited Partners in the Partnership is divided into an unlimited number of Units, of which a maximum of 1,200,000 Units may be issued pursuant to this Offering. 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. Provided that the Mutual Fund Rollover Transaction is completed, it is expected that such assets will consist of Mutual Fund Shares. See "Mutual Fund Rollover Transaction". For each Unit of the Partnership purchased, a Limited Partner will be required to contribute \$25 to the capital of the Partnership. There are no restrictions as to the maximum number of Units that a Limited Partner is entitled to hold in the Partnership, subject to the approval of the General Partner. The minimum subscription for each Limited Partner is 200 Units. No fractional Units will be issued pursuant to this Offering.

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 within a specified period of not less than 15 days. 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 require these Limited Partners to sell their Units or a portion thereof within a specified period of not less than 15 days. The specified notice period shall also require the affected Limited Partner to notify the General Partner of the sale or disposition requested when completed. If a Limited Partner fails to comply with any such request, the General Partner shall have the right in either case to sell such Limited Partner's Units at their most recent Net Asset Value or the Partnership may redeem such Limited Partner's Units at the most recent Net Asset Value.

An investor who purchases Units, among other things, (i) irrevocably authorizes the provision of certain information to the

General Partner and its service providers for their collection and use, including such investor's full name, residential address or address for service, email address, social insurance number or business number, as the case may be, and, if applicable, the name and registered representative number of the representative of the Dealers responsible for such subscription and covenants to provide such information to the General Partner and, if applicable, the Dealers, (ii) acknowledges that he, she or it is bound by the terms of the Partnership Agreement and is liable for all obligations of a Limited Partner, (iii) makes the representations and warranties, including without limitation, representations and warranties as to his, her or its residency and limited recourse financing, set out in the Partnership Agreement, (iv) irrevocably nominates, constitutes and appoints the General Partner as his, her or its true and lawful attorney with the full power and authority as set out in the Partnership Agreement, and (v) covenants and agrees that all documents executed and other actions taken on behalf of him, her or it pursuant to the power of attorney will be binding on him, her or it, and agrees to ratify any such documents or actions requested by the General Partner.

The Partnership Agreement includes representations, warranties and covenants on the part of the investor that he, she or it is not a "non-resident" for the purposes of the Tax Act, a "non-Canadian" within the meaning of the *Investment Canada Act* or a partnership (other than a "Canadian partnership" for the purposes of the Tax Act), that he, she or it will maintain such status during such time as the Units are held by him, her or it and that his, her or its acquisition of the Units has not been financed with borrowings for which recourse is, or is deemed to be, limited within the meaning of the Tax Act. In the Partnership Agreement, each investor is deemed to represent and warrant that (i) the investor is not a "financial institution" as that term is defined in subsection 142.2(1) of the Tax Act and (ii) the investor is not a Resource Company and deals at arm's length within the meaning of the Tax Act with any Resource Company unless, in either case, such investor has provided written notice to the contrary to the General Partner prior to the date of acceptance of the investor's subscription for Units.

The General Partner is not required to subscribe for any Units or otherwise contribute capital to the Partnership.

Fees and Operating Expenses

The Partnership shall pay: (a) to the Manager, the fees described under "Fees and Expenses of the Partnership – Management Fee" and "Fees and Expenses of the Partnership – Performance Bonus"; (b) to the Dealers, a sales fee of 5.0% of the selling price for each Unit for which an offer to purchase is accepted by the General Partner; and (c) the expenses of this Offering, which are estimated to be \$1,582,000 in the case of the maximum Offering and \$100,000 in the case of the minimum Offering, provided that the General Partner has agreed that the total fees and offering expenses to be paid by the Partnership shall not exceed 5.27% of the gross proceeds in the case of the maximum Offering and 10% of the gross proceeds in the case of the minimum Offering, plus any applicable taxes, and the General Partner will pay for any excess amount.

The Partnership will reimburse the General Partner, or its agents or subcontractors, for all expenses (inclusive of applicable taxes) incurred in connection with the marketing, operation and administration of the Partnership in accordance with the Partnership Agreement. It is anticipated that these expenses will include: (a) mailing and printing expenses for periodic reports to Limited Partners; (b) fees payable to the General Partner for performing financial, record keeping, and Limited Partner reporting and general administrative services; (c) fees payable to the manager, auditors, valuers and legal advisors of the Partnership; (d) fees payable to the Custodian; (e) taxes and ongoing regulatory filing fees; (f) any reasonable out-of-pocket expenses incurred by the General Partner or its agents in connection with their ongoing obligations to the Partnership, including expenses in respect of any independent qualified persons retained to review any investments; (g) expenses relating to portfolio transactions; and (h) any expenses which may be incurred upon the termination of the Partnership. The Partnership estimates that these expenses will be approximately \$160,000 per annum in the case of the minimum Offering and \$860,000 per annum in the case of the maximum Offering (but excluding amounts advanced by the General Partner which are in addition to the operating and administrative expenses). Such fees will be funded through the Working Capital Reserve and proceeds from the sale of shares of Resource Companies. The General Partner currently intends to retain a Working Capital Reserve for the Partnership. The Working Capital Reserve will be \$160,000 in the case of the minimum Offering and \$860,000 in the case of the maximum Offering for the Partnership. In addition to the foregoing, the Partnership will also pay for all expenses incurred in connection with a Dissolution Transaction, including liquidation and partition expenses.

See "Fees and Expenses of the Partnership".

Term

The Partnership will continue until the Termination Date, unless sooner dissolved in accordance with the terms of the Partnership Agreement.

Net Income and Loss

Commencing in January 2012, the Partnership will, as soon as practicable and in any event within 60 days of the end of the previous fiscal year, subject to the Performance Bonus, allocate *pro rata* among the Limited Partners of record of the Partnership on the last day of such fiscal year 99.99% of the Net Income and Net Loss (as each are defined in the Partnership Agreement) of the Partnership and 100% of any Eligible Expenditures renounced to the Partnership for such period. 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 after payment of all liabilities of the Partnership. 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 certain deductions from income for income tax purposes as described under "Certain Canadian Federal Income Tax Considerations".

Allocation of Eligible Expenditures

The Partnership will allocate all Eligible Expenditures renounced to it by Resource Companies with an effective date in a particular fiscal year *pro rata* to the Limited Partners of record of the Partnership on the last day of that fiscal year, and will make such filings in respect of such allocations as are required by the Tax Act. If Eligible Expenditures of the Partnership are reduced by the limited recourse financing of a particular Limited Partner, such reduction will first reduce that Limited Partner's *pro rata* share of the Eligible Expenditures. See "Limited Recourse Financings".

Distributions

Any Available Funds that have not been committed by the Partnership to purchase Flow-Through Shares and other securities prior to January 1, 2012, plus accrued interest thereon, will be distributed by January 31, 2012 on a *pro rata* basis to Limited Partners of record on December 31, 2011. The General Partner may, on behalf of the Partnership, sell Flow-Through Shares or any other securities in the Partnership's portfolio at any time if it is of the opinion that it is in the best interests of the Partnership to do so. The Partnership Agreement provides that except for the Performance Bonus, the Partnership will not make distributions of net earnings, unless otherwise determined appropriate by the General Partner, in its discretion. There can be no assurance that any such distributions will occur or, if they do occur, be sufficient to satisfy a Limited Partner's tax liability for the year arising from his or her status as a Limited Partner.

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 where, in the discretion of the General Partner, it would be in the best interests of the Partnership to do so. 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 degree of 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 has 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 will 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 will be mailed or made available by the General Partner to each Limited Partner within 120 days (or such shorter period as may be required under any applicable legislation) following the end of each fiscal year. Each statement will be accompanied by a narrative report describing the affairs and operations of the Partnership. The General Partner may, in its sole discretion, seek exemptions relieving the Partnership from its quarterly reporting requirements under applicable securities laws and is authorized to do so under the Partnership Agreement.

In addition, the General Partner shall, by March 31 of each year, forward to each Limited Partner of record of the Partnership on December 31 of the preceding year such information as is necessary to enable the Limited Partner to complete his or her income tax reporting relating to his or her 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 of the Partnership with a financing for which recourse is or is deemed to be limited for the purposes of the Tax Act, 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 or other expenses incurred by the Partnership are so reduced, the amount of Eligible Expenditures or other deductions 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.

See “Certain Canadian Federal Income Tax Considerations – Limitations on Deductibility of Expenses or Losses of the Partnership”.

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 management or 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 *Partnerships Act* (Alberta) or equivalent filings under the legislation of other jurisdictions. Limited Partners may also lose the protection of limited liability if the Partnership operates, owns property, or incurs obligations, or otherwise carries on business, in a province or territory of Canada which does not recognize the limited liability conferred under the *Partnerships Act* (Alberta).

The General Partner will indemnify and hold harmless each Limited Partner from and against all losses, liabilities, expenses and damages suffered or incurred by the 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 act or omission of such Limited Partner or a change in any applicable legislation. However, the General Partner has only nominal assets. Consequently, it is unlikely that the General Partner will have sufficient assets to satisfy any claims pursuant to this indemnity.

Except in the event of a loss of limited liability, no Limited Partner will be obligated to pay any additional assessment or make any further capital contribution on or with respect to the Units held or purchased by him or her; 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. See “Risk Factors”.

Mutual Fund Rollover Transaction

Prior to or on June 30, 2012, the Partnership intends to complete the Mutual Fund Rollover Transaction pursuant to which Limited Partners will receive redeemable Class D Shares of CGS Resource, or securities of another mutual fund corporation that is deemed acceptable from a tax and capital appreciation standpoint. CGS Resource, a corporation managed by the Manager, is qualified as an open-end mutual fund corporation. The Partnership intends to complete the Mutual Fund Rollover Transaction pursuant to the terms of the Transfer Agreement. The Transfer Agreement is assignable by CGS Resource, and Partnership assets may be transferred to any other open-end mutual fund corporation managed by the Manager or other party. The completion of the Mutual Fund Rollover Transaction will be subject to the receipt of all approvals that may be necessary and the other conditions set forth in the Transfer Agreement. **There can be no assurance that the Mutual Fund Rollover Transaction will be implemented on or before June 30, 2012.**

In the event a Mutual Fund Rollover Transaction is not completed on or before August 31, 2012, the Partnership will be

dissolved and the net assets of the Partnership will be distributed to its Limited Partners and the General Partner in the form of cash or other assets (the “**Dissolution Transaction**”). In connection with a Dissolution Transaction, the General Partner may (or may instruct the Manager to): (a) take steps to convert all or any part of the assets of the Partnership to cash; (b) pay or provide for the payment of the debts and liabilities of the Partnership, liquidation expenses and the Performance Bonus allocation; and (c) distribute the remaining assets of the Partnership as to 0.01% to the General Partner and as to 99.99% among the Limited Partners of record the Partnership on the date of dissolution, proportionate to the number of Units held by them. Alternatively, the General Partner may, after the payment of the debts and liabilities of the Partnership, liquidation expenses and the Performance Bonus allocation, cause the Partnership to distribute to each partner an undivided interest in each asset of the Partnership as contemplated by subsection 98(3) of the Tax Act on a tax-deferred basis and take steps to partition such undivided interests. See “Risk Factors”.

Dissolution

Unless dissolved earlier upon the occurrence of certain events stated in the Partnership Agreement, the Partnership will continue until the Termination Date and thereupon will terminate and the net assets of the Partnership will be distributed to its Limited Partners and the General Partner unless the Mutual Fund Rollover Transaction is implemented as described above. Prior to the Termination Date of the Partnership, or such other termination date as may be agreed upon, (a) the General Partner or the Manager, on behalf of the General Partner, will, in its discretion, take steps to convert all or any part of the assets of the Partnership to cash; and (b) the net assets will be distributed *pro rata* to the partners. 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 termination of the Partnership to a date not later than three months after the Termination Date if the General Partner or the Manager have been unable to convert all of the portfolio assets of the Partnership to cash and the General Partner determines that it would be in the best interests of the Limited Partners to do so. Should the liquidation of certain securities of the Partnership not be possible or should the General Partner consider such liquidation not to be appropriate prior to the Termination Date, such securities will be distributed to partners *in specie*, on a *pro rata* basis, subject to all necessary regulatory approvals and thereafter such property will, if necessary, be partitioned. See “Risk Factors”.

Upon the dissolution of the Partnership, the General Partner shall, after payment or provision for the payment of the debts and liabilities of the Partnership and liquidation expenses, distribute to each Limited Partner an undivided interest in each asset of the Partnership. The General Partner will receive a 0.01% undivided interest in each asset and each Limited Partner will receive an undivided interest in each property equal to 99.99% multiplied by the proportionate number of Units owned by the Limited Partner.

Transfers of Units

Only whole Units are transferable. A Limited Partner may transfer all or part of his or her Units by delivering to the transfer agent for the Units a form of transfer and power of attorney, substantially in the form annexed as Schedule “A” to the Partnership Agreement, duly completed and 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 and to grant the power of attorney provided for in the Partnership Agreement. A transferee who executes the transfer will be required to represent and warrant that he, she or it is not a “non-resident” within the meaning of the Tax Act, is not a “non-Canadian” within the meaning of the *Investment Canada Act* and is not a partnership (other than a “Canadian partnership” for the purposes of the Tax Act) and will be required to covenant to maintain such status during such time as the Units are held by him, her or it. A transferee executing the transfer will also be required to represent and warrant that their acquisition of the Units from the transferor was not financed through borrowings for which recourse is or is deemed to be limited within the meaning of the Tax Act and that the transferee is not a Resource Company which has entered into an Flow-Through Investment Agreement with the Partnership and that the transferee deals at arm’s length with any such Resource Company. The transferee will also be required to disclose whether the transferee is or is not a “financial institution” as that term is defined in subsection 142.2(1) of the Tax Act. If the transferee is a “financial institution” or the General Partner believes that it is, the General Partner may reject the transfer. The transferee will furthermore ratify and confirm the power of attorney given to the General Partner in the Partnership Agreement. See “Allocation of Eligible Expenditures” and “Limited Recourse Financings”.

The General Partner has the right to reject any transfer for any reason 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 through borrowings for which recourse is or is deemed to be limited within the meaning of the Tax Act. Pursuant to the provisions of the Partnership Agreement, when the transferee has been registered as a Limited Partner under the *Partnerships Act* (Alberta), 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, her or it 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 any debts as they became due.

Meetings

The Partnership will not be required to hold annual general meetings, but 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, 10% or more of the Units of the Partnership 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 for the Partnership consists of two or more partners present in person or represented by proxy and representing not less than 10% of the Units then outstanding in the case of an ordinary resolution and 15% of the Units then outstanding in the case of an Extraordinary Resolution. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a written request of Limited Partners, shall be cancelled, but otherwise will be adjourned to such date as selected by the Chair of the meeting. In the event that such meeting is adjourned for less than 30 days, the General Partner will not be required to give notice of the adjourned meeting to the Limited Partners other than by an announcement made at the initial meeting that is adjourned. The partners present at any adjourned meeting will constitute a quorum for purposes of considering any business that might have been dealt with at the original meeting. 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* (Alberta)) and affiliates of the General Partner, and any director or officer of such persons, who hold Units of the Partnership will 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 of the Partnership 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 the Limited Partners, 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 or performance bonus payable to the Manager or the General Partner's share of the 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 the General Partner, 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 correcting or supplementing any provision which may be defective or inconsistent with another provision. Such amendments may be made only if they will not materially affect the interest of any Limited Partner.

Removal of General Partner

The General Partner may not be removed as general partner of the Partnership other than by an Extraordinary Resolution of the Limited Partners, and only if the General Partner is in breach or default of the provisions of the Partnership Agreement and, if capable of being cured, such breach 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 as general partner of the Partnership shall consist of two or more partners of the Partnership present in person or represented by proxy and representing not less than 15% of the Units of the Partnership outstanding.

Power of Attorney

The Partnership Agreement contains a power of attorney coupled with an interest, the effect of which is to constitute it an irrevocable power of attorney. The power of attorney authorizes the General Partner on behalf of the Limited Partners, among other things, to execute the Partnership Agreement, any amendments to the Partnership Agreement and all instruments necessary to reflect the dissolution of the Partnership and partition of assets distributed to partners on dissolution, as well as any elections, determinations or designations under the Tax Act or taxation legislation of any province or territory with respect to the affairs of the Partnership or a Limited Partner's interest in the Partnership, including elections under subsections 85(2) and 98(3) of the Tax Act and the corresponding provisions of applicable provincial legislation in respect of the dissolution of the Partnership. By purchasing Units of the Partnership, each investor acknowledges and agrees that he or

she 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. **By subscribing for Units of the Partnership, each investor acknowledges and agrees that he or she has given such power of attorney and will ratify any and all actions taken by the General Partner pursuant to such power of attorney.**

RISK FACTORS

This is a speculative offering and investors should not invest in Units unless they can absorb the loss of some or all of their investment. Investors should consult with their own professional advisors to assess the legal, tax and other aspects of an investment prior to investing in Units. There is no assurance of a positive return on a Limited Partner's original investment. Investors should consider the risk factors specified in this offering memorandum, including the following risk factors, before purchasing Units.

Reliance on the Manager and the General Partner

Limited Partners must rely entirely on the discretion of the General Partner in entering into Flow-Through Investment Agreements with Resource Companies, in determining (in accordance with the Partnership's Investment Guidelines) the composition of the portfolio of securities of Resource Companies to be owned by the Partnership, and in determining the timing of the disposition of such securities (including Flow-Through Shares) owned by the Partnership. Flow-Through Shares may be issued to the Partnership at prices greater than the market prices of comparable ordinary common shares not qualifying as Flow-Through Shares, and Limited Partners must rely entirely on the discretion of the General Partner in negotiating the pricing of those securities and on the knowledge and expertise of the General Partner. None of the management of the General Partner will devote his or her full time to the business and affairs of the Partnership or General Partner. Limited Partners who are not willing to rely on the discretion of the General Partner, or would second-guess investment decisions made by the General Partner, should not purchase Units.

Dependence on Key Personnel

The loss of any of the management of the General Partner would likely have a material adverse effect on the management and business of the Partnership.

Conflicts Of Interest

Various conflicts of interest exist or may arise between the Partnership and the General Partner and other entities of which affiliates of the General Partner are general partners of for which affiliates of the General Partner (including the Manager) act as managers. See "Conflicts of Interest". Some of these conflicts arise as a result of the power and authority of the General Partner to manage and operate the business and affairs of the Partnership. These conflicts of interest may have a detrimental effect on the business of the Partnership.

The General Partner will not engage in any business other than acting as general partner for the Partnership. The General Partner's affiliates may, and probably will, engage in other business ventures (the "**Conflicting Ventures**"), including, without limitation, acting as general partners, or directors or officers of general partners, of other limited partnerships or entities which invest in Flow-Through Shares of Resource Companies or other tax-advantaged investment vehicles. Neither the Partnership nor any partners shall by virtue of the Partnership Agreement or otherwise have any right, title or interest in or to such Conflicting Ventures.

Affiliates of the General Partner may, and probably will, earn finder's fees, placement fees and due diligence fees (collectively, "**Commissions**", paid by resource companies in the form of monetary commissions, options, shares, rights to purchase shares, and/or share purchase warrants, without limitation) in consideration of its evaluation of resource companies and negotiation of terms with respect to flow-through financing from such companies, and shall have no duty to account for such fees to the Partnership, the General Partner or any of the Limited Partners. Such fees shall be in line with normal practice and with levels prevailing in similar transactions where investment bankers and others who are at arm's length to the General Partner earn finder's fees, commissions and due diligence fees. All such fees will be paid from funds other than funds invested by the Partnership in Flow-Through Shares. Affiliates of the General Partner may, and probably will, engage in advising with respect to securities of issuers other than the Partnership, some or all of which may be competing with the Partnership for investors as well as Flow-Through Share opportunities with Resource Companies.

Moreover, the General Partner may make decisions to dispose of Flow-Through Shares held by the Partnership in the same Resource Companies in which Conflicting Ventures may wish to acquire Flow-Through Shares. Conversely, the General

Partner may wish to acquire Flow-Through Shares or other securities in the same Resource Companies in which Conflicting Ventures already hold securities, and which securities the Conflicting Ventures wish to dispose of.

The Partnership may acquire Flow-Through Shares in Resource Companies which are controlled by directors, officers or securityholders of the General Partner or affiliates of the General Partner.

The services of the directors and officers of the General Partner are not exclusive to the Partnership, and the directors and officers of the General Partner may, from time to time, engage in the promotion, management or investment management of another fund or partnership, including future partnerships and other funds, partnerships or entities which invest primarily in flow-through shares.

The services of the Manager are not exclusive to the Partnership.

Any of the aforementioned conflicts of interest, as well as other, may be difficult, if not impossible, to resolve equitably.

Potential Indemnification Obligations

Under certain circumstances, the Partnership might be subject to significant indemnification obligations in respect of the General Partner, the Manager or certain parties related to them. The Partnership may not carry insurance to cover such potential obligations and none of the foregoing parties are obliged to maintain insurance for losses for which the Partnership has agreed to indemnify them. Any indemnification paid by the Partnership would reduce the Net Asset Value of the Partnership and, by extension, the Net Asset Value per Unit for each class of Units.

Marketability of Units and Resale Restrictions

There is no market through which the Units may be sold and purchasers may not be able to resell Units purchased under this offering memorandum. No market for the Units is expected to develop. The Units are being sold on a private placement basis and any resale of the Units must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require re-sales to be made in accordance with exemptions from registration and prospectus requirements of applicable securities laws. See “Resale Restrictions”.

Blind Pool

This is a blind pool offering. As of the date hereof, the Partnership has not entered into any Flow-Through Investment Agreements to acquire Flow-Through Shares or other securities of Resource Companies or selected any Resource Companies in which to invest. However, the Partnership may, prior to the Initial Closing, enter into Flow-Through Investment Agreements with one or more Resource Companies, provided such agreements will be conditional upon the completion of the Initial Closing of the Offering. Following the Initial Closing, the Partnership will enter into additional Flow-Through Investment Agreements.

Lack of Operating History

The Partnership and the General Partner are newly established with no previous operating history and will have, prior to the Closing of this Offering, limited assets. The General Partner will at all material times thereafter only have nominal assets. While the General Partner has agreed to indemnify the Limited Partners in certain circumstances, it is unlikely that the General Partner will have sufficient assets to satisfy any claims pursuant to such indemnity.

Liquidity of Securities of Resource Companies

The Net Asset Value of Units of the Partnership will vary in accordance with the value of the securities acquired by the Partnership. 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, the Manager or the Partnership, and there is no assurance that an adequate market will exist for securities acquired by the Partnership and such securities may lack market liquidity which may impact upon their value and upon their marketability when they are distributed to holders of Units of the Partnership in connection with the Mutual Fund Rollover Transaction or a Dissolution Transaction.

The Mutual Fund Rollover Transaction, Dissolution Transaction and Resale Restrictions

There can be no assurance that the Mutual Fund Rollover Transaction will be implemented for the Partnership. There is no assurance that the Mutual Fund Rollover Transaction can be completed in a tax-deferred manner or result in the distribution to Limited Partners of securities of CGS Resource (or any other acceptable mutual fund corporation) that are not subject to resale restrictions. In the event that the Mutual Fund Rollover Transaction is not completed, a Dissolution Transaction may not be available on a tax-deferred basis or may result in the distribution to Limited Partners of securities that are subject to resale restrictions.

For example, if the Partnership is unable to dispose of all investments prior to the implementation of the Dissolution Transaction, Limited Partners may receive securities or other interests of Resource Companies upon the dissolution of the Partnership, which may be subject to resale and other restrictions under applicable securities law.

Sector Specific Risks

The business activities of Resource Companies are speculative and may be adversely affected by factors outside the control of the Partnership, the General Partner or the Manager. Resource Companies may not hold or discover commercial quantities of petroleum or natural gas and their profitability may be affected by adverse fluctuations in oil and gas prices, demand for oil and gas, general economic conditions and cycles, unanticipated depletion of reserves or resources, native land claims, liability for environmental damage, competition, imposition of tariffs, duties or other taxes and government regulation, as applicable.

Because the Partnership will invest in securities issued by Resource Companies only, the Net Asset Value of the Partnership may be more volatile than portfolios with a more diversified investment focus.

Size of Offering and Concentration Risk

The size of the Offering will directly affect the degree of diversification of the portfolio of Flow-Through Shares held by the Partnership and will affect the scope of investment opportunities available to the Partnership. In addition, if only the minimum Offering is sold, the General Partner's ability to negotiate with Resource Companies will be impaired and therefore the intended business and investment strategy of the Partnership will not be fully met.

The Partnership intends to invest the Available Funds in Flow-Through Shares of Resource Companies engaged in resource exploration, development and/or production in Canada. Concentrating its investment in this manner may result in the value of the Units fluctuating to a greater degree than portfolios with a more diversified investment focus.

Flow-Through Shares and Available Funds

There can be no assurance that the General Partner or the Manager will, on behalf of the Partnership, commit all Available Funds of the Partnership for investment in Flow-Through Shares by December 31, 2011. Any Available Funds of the Partnership not committed to purchase Flow-Through Shares prior to January 1, 2012 will be returned by January 31, 2012 to the Limited Partners of record of the Partnership on December 31, 2011. If uncommitted funds are returned in this manner, Limited Partners of the Partnership will not be entitled to claim the anticipated deductions from income for income tax purposes.

There can be no assurance that Resource Companies will honour their obligation to incur and renounce Eligible Expenditures and notwithstanding that such Resource Companies will have indemnified the Partnership for such failure, the Partnership may not be able to recover any losses suffered as a result of such a breach of such obligation by a Resource Company.

Flow-Through Share Premiums

Flow-Through Shares may be issued to the Partnership at prices that exceed the market prices of similar common shares that do not permit CEE to be renounced in favour of the holders. Competition for the purchase of Flow-Through Shares may increase the premium at which such shares are available for purchase by the Partnership. Limited Partners must rely entirely on the discretion of the General Partner and the Manager in negotiating the pricing of Flow-Through Shares.

Changes in Net Asset Values

The purchase price per Unit paid by a Subscriber at a Closing subsequent to the Initial Closing may be less than or greater than the aggregate Net Asset Value per Unit at the time of purchase. The value of the Units may fluctuate due to variations in

the value of investments held by the Partnership. Fluctuations in the market values of portfolio investments may occur for a number of reasons beyond the control of the Partnership and the Manager, including fluctuations in market prices for commodities and foreign exchange rates and other risks described herein. The Partnership invests primarily in Flow-Through Shares issued by Resource Companies. Accordingly, the investment portfolio of the Partnership may be more volatile than portfolios with a more diversified investment focus.

Global Economic Downturn

In the event of a continued general economic downturn or a recession, there can be no assurance that the business, financial condition and results of operations of the Resource Companies in which the Partnership invests would not be materially adversely affected.

Environmental Regulation

A Resource Company's operations may be subject to environmental regulations enacted by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced or used in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition on the Resource Company of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that has led to stricter standards and enforcement and greater fines and penalties for non-compliance. The cost of compliance with government regulations may reduce the profitability of a Resource Company's operations. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect a Resource Company's financial condition, results of operations or prospects.

Government Regulation

A Resource Company's resource exploration or resource operations are subject to government legislation, policies and controls relating to prospecting, land use, trade, environmental protection, taxation, rate of exchange, return of capital and labour relations. A Resource Company's resource property interests may be located in foreign jurisdictions, and its exploration operations in such jurisdictions may be affected in varying degrees by political and economic stability, and by changes in regulations or shifts in political or economic conditions that are beyond the Resource Company's control. Any of these factors may adversely affect the Resource Company's business and/or its resource property holdings. Although a Resource Company's exploration activities may be carried out in accordance with all applicable rules and regulations at any point in time, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Resource Company's operations. Amendments to current laws and regulations governing the operations of a Resource Company or more stringent enforcement of such laws and regulations could have a substantial adverse impact on the financial results of the Resource Company.

Possible Tax Deductions

The ability of the Partnership to achieve, and the Investor to realize, the income tax deductions set forth under the heading "Maximum Tax Deductions" in "Selected Financial Aspects", which deduction scenarios are heavily qualified by the assumptions and notes thereunder, is entirely dependent upon the ability of the Partnership to dispose of the Flow-Through Shares at a sale price greater than their adjusted cost base. However, the business activities of Resource Companies are highly speculative and may be adversely affected by factors outside the control of those issuers, which will affect the marketability and value of the underlying Flow-Through Shares and there is no guarantee that the required quantity of Flow-Through Shares will be available for purchase by the Partnership. Resource Companies may not hold or discover commercial quantities of petroleum or natural gas or obtain or maintain access to adequate resources and their profitability may be affected by adverse fluctuations in commodity prices, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, native land claims, liability for environmental damage, competition, imposition of tariffs, duties or other taxes and government regulation, as applicable. Because the Partnership will invest primarily in securities issued by issuers engaged only in resource businesses (including junior issuers), the value may be more volatile than portfolios with a more diversified investment focus. Also, the value may fluctuate with underlying market price for commodities produced by those sectors of the economy.

Tax authorities may disagree with the characterization of gains realized by the participation on the sale of Flow-Through Shares as being on capital account rather than on income account or with the classification of the Eligible Expenditures made

by Resource Companies, and any such re-characterization or reclassification, as the case may be, resulting from such disagreement will reduce the return on an investment in the Units.

Tax-Related

The tax benefits resulting from an investment in the Partnership are greatest for an investor whose income is subject to the highest marginal income tax rate. Federal or provincial income tax legislation may be amended, or its interpretation changed, so as to alter fundamentally the tax consequences of holding or disposing of Units or the Flow-Through Shares issued to the Partnership. There can be no assurance that the Tax Proposals will be enacted as proposed.

There can be no assurance that Flow-Through Investment Agreements for the purchase of Flow-Through Shares utilizing all of the Available Funds will be entered into with Resource Companies on or before December 31, 2011 or that all committed funds will be expended on Eligible Expenditures. Either of these occurrences would reduce the amount of the Eligible Expenditures allocated to Limited Partners.

There is a further risk that expenditures incurred by a Resource Company may not qualify as CEE or that CEE incurred will be reduced by other events including failure to comply with the provisions of the Flow-Through Investment Agreements or with applicable income tax legislation. There is no guarantee that Resource Companies will comply with the provisions of the Flow-Through Investment Agreements, or with the provisions of applicable income tax legislation with respect to the nature of expenses renounced to the Partnership. The Partnership may also fail to comply with applicable legislation. There is no assurance that Resource Companies will incur all CEE before January 1, 2013 or renounce CEE equal to the price paid for them. These factors may reduce or eliminate the return on a Limited Partner's investment in Units.

If CEE renounced within the first three months of 2012 effective December 31, 2011 is not in fact incurred in 2012, the Partnership's, and consequently, the Limited Partners', CEE may be reassessed by CRA effective as of December 31, 2011 in order to reduce the Limited Partners' deductions with respect thereto. However, none of the Limited Partners will be charged interest on any unpaid tax as a result of such reduction for any period before May 2013.

If a Limited Partner finances the acquisition of the Units of the Partnership with a 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 possibility exists that a Limited Partner will receive allocations of income without receiving cash distributions from the Partnership in the year sufficient to satisfy the Limited Partner's tax liability for the year arising from his, her or its status as a Limited Partner.

The Partnership intends to borrow funds to pay the Dealers' Fees and other expenses of issue which will be deemed to be a limited-recourse amount for the purposes of the Tax Act. As a result, these expenses will not be deductible until the year in which the limited recourse indebtedness is repaid. The possibility exists that the CRA may attempt to attribute the limited recourse indebtedness to reduce CEE renounced to the Partnership and allocated to the Limited Partners. There can be no assurance that the borrowing strategy employed by the Partnership will enhance returns to it and it could reduce returns.

The Proposed Loss Limitation Rule could, among other things, adversely affect a Limited Partner who has borrowed funds in connection with the acquisition of Units or the deduction by the Partnership of expenses. The summary set out under the heading "Canadian Federal Income Tax Considerations" does not address the deductibility of interest by Limited Partners and any Limited Partner who has borrowed money to acquire units should consult his or her own tax advisor in this regard. The Proposed Loss Limitation Rule should not affect the ability of a Limited Partner to deduct an amount in respect of the Limited Partner's available cumulative CEE account against the Limited Partner's income in a year. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the Proposed Loss Limitation Rule would be released for comment at an early opportunity. There can be no assurances that such alternative proposal would not adversely affect the Limited Partners.

If any Limited Partner is not a resident of Canada at the time of the dissolution of the Partnership, any distribution of undivided interests in the assets of the Partnership may not be effected on a tax-deferred basis.

Certain CEE deductions will be disallowed to the Partnership in respect of a Resource Company where a Limited Partner does not deal at arm's length with such Resource Company. In addition, if a Limited Partner that is a corporation is related (for purposes of the Tax Act) to a Resource Company in which the Partnership invests, the renunciation of CDE that could

otherwise be deemed to be CEE in respect of such issuer will be prohibited. See “Certain Canadian Federal Income Tax Considerations.”

The Partnership intends to treat its gains from dispositions of Flow-Through Shares as capital gains, although there can be no assurance that this treatment will be respected by the CRA.

If investments in the Partnership become listed or traded on a stock exchange or other public market, the Partnership could become subject to the rules in the Tax Act relating to “specified investment flow-throughs” (the “**SIFT Rules**”). If the SIFT Rules were to apply to the Partnership, the tax consequences to the Partnership and Limited Partners would be materially, and in some respects adversely, different.

The federal alternative minimum tax may limit tax benefits to Limited Partners.

No Dividends or Cash Distributions

The Partnership does not expect to pay, but is not precluded from paying, dividends or other cash distributions to Limited Partners prior to the dissolution of the Partnership.

Lack of Suitable Investments

The General Partner may not be able to identify a sufficient number of investments in Flow-Through Shares to fully invest the Available Funds by December 31, 2011, and, therefore, capital may be returned to Limited Partners and Limited Partners may be unable to claim anticipated deductions from income for income tax purposes. In such event, the tax advantages available to Limited Partners will be reduced accordingly.

To obtain the tax advantages for Limited Partners as described herein, the Partnership is required to enter into Flow-Through Investment Agreements with Resource Companies in respect of the Available Funds by December 31, 2011. No assurance can be given that there will be a sufficient number of Resource Companies willing to enter into such agreements on or before December 31, 2011. If the Partnership is unable to enter into Flow-Through Investment Agreements by December 31, 2011 for the full amount of the Available Funds, the General Partner will cause to be returned to each Limited Partner by January 31, 2012 such Limited Partner’s share of the amount of the shortfall, except to the extent that such funds are expected to be used to finance the operations of the Partnership. In such event, the tax advantages available to Limited Partners will be reduced accordingly.

Liability of Limited Partners

Limited Partners may lose their limited liability in certain circumstances, including by taking part in the control or management 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 of capital 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. While the General Partner has agreed to indemnify the Limited Partners in certain circumstances, the General Partner has only nominal assets, and it is unlikely that the General Partner will have sufficient assets to satisfy any claims pursuant to such indemnity.

Limited Partners remain liable to the Partnership for the return 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.

No Review by Regulatory Authorities

This Offering Memorandum constitutes a private offering of the Units in Canada pursuant to prospectus and registration exemptions under the securities laws of Canadian provinces and territories. This offering memorandum is not, and under no circumstances is to be construed as, a prospectus, advertisement, or public offering of Units. Neither this Offering Memorandum or any other material relating to this Offering has been reviewed or considered by the Alberta Securities Commission, Revenue Canada, or any other governmental or regulatory authority.

CONFLICTS OF INTEREST

The General Partner and the Manager

The Manager is entitled to receive the Management Fee and the Performance Bonus from the Partnership. See “Fees and Expenses of the Partnership”. In addition, the General Partner holds an undivided 0.01% interest in the Partnership. Certain directors, officers and security holders of the General Partner and the Manager may also be or become directors or officers of the Resource Companies in which the Partnership invests. Certain directors, officers and security holders of the General Partner and the Manager (and their respective affiliates) may own shares in the Resource Companies in which the Partnership invests.

Directors of the General Partner and the Manager may from time to time be associated with other companies or entities which may give rise to conflicts of interest. In accordance with the *Business Corporations Act* (Alberta), directors who have a material interest in any person who is a party to a material contract or proposed material contract with the General Partner and the Manager are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors of the General Partner are required to act honestly and in good faith with a view to the best interests of the General Partner.

Affiliates of the General Partner and the Manager may engage in the promotion, management or investment management of any other fund or partnership, including other funds, partnerships or entities which invest primarily in Flow-Through Shares and Resource Companies in which the Partnership invests and may receive fees from such companies. In addition, affiliates of the General Partner and the Manager may be entitled to receive fees, and in some cases, rights to purchase shares in connection with the sale of Flow-Through Shares to the Partnership. See “Risk Factors – Conflicts of Interest”.

The Dealers

The Dealers will receive a fee of 5.0% (\$1.25) for each Unit sold in connection with this Offering as described under “Plan of Distribution”.

The Dealers may provide corporate finance or financial advisory services to any other funds, partnerships or entities which invest primarily in Flow-Through Shares, including Resource Companies in which the Partnership invests and may receive fees from such companies.

Investment Opportunities

The General Partner, the Manager and their respective affiliates are not in any way limited or affected in their ability to carry on other business ventures for their own account and for the account of others and currently engage and may in the future engage in the same business activities or pursue the same investment opportunities as the Partnership. Conflicts of interest may arise from time to time in allocating investment opportunities, timing investment decisions and exercising rights in respect of and otherwise dealing with such securities of Resource Companies. There is no obligation on the General Partner or the Manager, or their respective officers, directors and affiliates to present any particular investment opportunity to the Partnership and such persons may recommend to others such investment opportunity. The General Partner and the Manager may from time to time disclose to such affiliates information regarding potential investment opportunities for the Partnership. Where conflicts of interest arise with respect to investment opportunities, the Manager will address such conflicts of interest with regard to the investment objectives of each of the parties involved and will act in accordance with the duty of care owed to each of them.

PROMOTER

The General Partner and Manager may be considered 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 amounts paid to the Manager as described under “Fees and Expenses of the Partnership”.

AUDITOR, TRANSFER AGENT AND REGISTRAR, CUSTODIAN

The auditor of the Partnership and the General Partner is Ernst & Young LLP, Chartered Accountants, of 1000, 440 2nd Avenue SW, Calgary, Alberta T2P 5E9.

SGGG Fund Services Inc. will act as transfer agent and registrar for the Partnership at 60 Yonge Street, Suite 1200, Toronto, Ontario M5E 1H5 (Tel: (416) 967-0038; Fax: (416) 967-1969).

RBC Dexia Investor Services Trust will act as custodian pursuant to the terms of the Custodian Agreement.

LEGAL MATTERS AND PROCEEDINGS

Legal matters in connection with the Offering will be passed upon by Janke Law Office on behalf of the Partnership, the General Partner and the Manager.

To the best of the knowledge of the General Partner, there are no legal proceedings outstanding, or threatened against, the General Partner or the Partnership.

ENGLISH LANGUAGE

Upon receipt of this document, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

RESALE RESTRICTIONS

The distribution of Units is being made only on a private placement basis and is exempt from the requirement that the Partnership prepare and file a prospectus with the relevant Canadian securities regulatory authorities. Accordingly, in addition to any restrictions set out in the Partnership Agreement (see "Summary of the Partnership Agreement"), any resale of the Units must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction and which may require that resales be made in accordance with exemptions from the registration and prospectus requirements of applicable securities laws. In addition, Limited Partners selling Units of the Partnership may have reporting and other obligations. Purchasers are advised to seek legal advice prior to any resale of the Units.

For trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Saskatchewan and Yukon: These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

For trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Saskatchewan and Yukon: Unless permitted under securities legislation, you cannot trade the securities before the date that is 4 months and a day after the date the Partnership becomes a reporting issuer in any province or territory of Canada.

For trades in Manitoba: Unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless: (a) the Partnership has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (b) you have held the securities for at least 12 months. The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

RIGHTS OF ACTION FOR DAMAGES OR RESCISSION

If you purchase these Units you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

(a) Two Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so, you must send a notice to the General Partner by midnight on the 2nd business day after you sign the agreement to buy securities.

(b) Statutory Rights of Action in the Event of a Misrepresentation

Securities legislation in certain of the Canadian provinces provides purchasers of securities pursuant to an offering memorandum (such as this offering memorandum) with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum and any amendment to it contains a “Misrepresentation”. Where used herein, “**Misrepresentation**” means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

Ontario

Section 130.1 of the *Securities Act* (Ontario) provides that every purchaser of securities pursuant to an offering memorandum (such as this offering memorandum) shall have a statutory right of action for damages or rescission against the issuer and any selling security holder in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and any selling security holder provided that:

- (i) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer and the selling security holders, if any;
- (ii) the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (iii) the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- (iv) in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of an action for damages, the earlier of: (i) 180 days after the date that the purchaser first had knowledge of the facts giving rise to the cause of action; or (ii) three years after the date of the transaction that gave rise to the cause of action.

This offering memorandum is being delivered in reliance on the exemption from the prospectus requirements contained under section 2.3 of NI 45-106 (the “**accredited investor exemption**”). The rights referred to in section 130.1 of the *Securities Act* (Ontario) do not apply in respect of an offering memorandum (such as this offering memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the accredited investor exemption if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank (each as defined in NI 45-106);
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

Saskatchewan

Section 138 of *The Securities Act, 1988* (Saskatchewan), as amended (the “**Saskatchewan Act**”) provides that where an offering memorandum (such as this offering memorandum) or any amendment to it is sent or delivered to a purchaser and it contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a security covered by the offering memorandum or any amendment to it is deemed to have relied upon that misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for rescission against the issuer or a selling security holder

on whose behalf the distribution is made or has a right of action for damages against:

- (a) the issuer or a selling security holder on whose behalf the distribution is made;
- (b) every promoter and director of the issuer or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- (d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the offering memorandum or the amendment to the offering memorandum; and
- (e) every person who or company that sells securities on behalf of the issuer or selling security holder under the offering memorandum or amendment to the offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- (i) if the purchaser elects to exercise its right of rescission against the issuer or selling security holder, it shall have no right of action for damages against that party;
- (ii) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;
- (iii) no person or company, other than the issuer or a selling security holder, will be liable for any part of the offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;
- (iv) in no case shall the amount recoverable exceed the price at which the securities were offered; and
- (v) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation.

In addition, no person or company, other than the issuer or selling security holder, will be liable if the person or company proves that:

- (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or
- (b) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which the Partnership or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in Section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser is deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the

verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any other action, other than an action for rescission, the earlier of: (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

New Brunswick

Section 150 of the *Securities Act* (New Brunswick) provides that where an offering memorandum (such as this offering memorandum) contains a Misrepresentation, a purchaser who purchases securities shall be deemed to have relied on the Misrepresentation if it was a Misrepresentation at the time of purchase and:

- (a) the purchaser has a right of action for damages against the issuer and any selling security holder(s) on whose behalf the distribution is made; or
- (b) where the purchaser purchased the securities from a person referred to in paragraph (a), the purchaser may elect to exercise a right of rescission against the person, in which case the purchaser shall have no right of action for damages against the person.

This statutory right of action is available to New Brunswick purchasers whether or not such purchaser relied on the Misrepresentation. However, there are various defences available to the issuer and the selling security holder(s). In particular, no person will be liable for a Misrepresentation if such person proves that the purchaser purchased the securities with knowledge of the Misrepresentation when the purchaser purchased the securities. Moreover, in an action for damages, the amount recoverable will not exceed the price at which the securities were offered under the offering memorandum and any defendant will not be liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the Misrepresentation.

If the purchaser intends to rely on the rights described in (a) or (b) above, such purchaser must do so within strict time limitations. The purchaser must commence an action to cancel the agreement within 180 days after the date of the transaction that gave rise to the cause of action. The purchaser must commence its action for damages within the earlier of:

- (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action; or
- (ii) six years after the date of the transaction that gave rise to the cause of action.

Nova Scotia

The right of action for damages or rescission described herein is conferred by Section 138 of the *Securities Act* (Nova Scotia). Section 138 of the *Securities Act* (Nova Scotia) provides, in relevant part, that in the event that an offering memorandum (such as this offering memorandum), together with any amendment thereto, or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) contains a Misrepresentation, the purchaser will be deemed to have relied upon such Misrepresentation if it was a Misrepresentation at the time of purchase and has, subject to certain limitations and defences, a statutory right of action for damages against the issuer and, subject to certain additional defences, every director of the issuer at the date of the offering memorandum and every person who signed the offering memorandum or, alternatively, while still the owner of the securities purchased by the purchaser, may elect instead to exercise a statutory right of rescission against the issuer, in which case the purchaser shall have no right of action for damages against the issuer, directors of the issuer or persons who have signed the offering memorandum, provided that, among other limitations:

- (a) no action shall be commenced to enforce the right of action for rescission or damages by a purchaser resident in Nova Scotia later than 120 days after the date on which the initial payment was made for the securities;
- (b) no person will be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, no person will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser.

In addition, a person or company, other than the issuer, will not be liable if that person or company proves that:

- (i) the offering memorandum or amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (ii) after delivery of the offering memorandum or amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any Misrepresentation in the offering memorandum or amendment to the offering memorandum the person or company withdrew the person's or company's consent to the offering memorandum or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or
- (iii) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting: (1) to be made on the authority of an expert; or (2) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (A) there had been a Misrepresentation, or (B) the relevant part of the offering memorandum or amendment to offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Furthermore, no person or company, other than the issuer, will be liable with respect to any part of the offering memorandum or amendment to the offering memorandum not purporting: (a) to be made on the authority of an expert; or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation or (ii) believed that there had been a Misrepresentation.

If a Misrepresentation is contained in a record incorporated by reference into, or deemed incorporated by reference into, the offering memorandum or amendment to the offering memorandum, the Misrepresentation is deemed to be contained in the offering memorandum or an amendment to the offering memorandum.

Alberta

Section 204 of the *Securities Act* (Alberta) provides that if an offering memorandum contains a Misrepresentation, a purchaser who purchases a security offered by the offering memorandum is deemed to have relied on the representation, if it

was a Misrepresentation at the time of the purchase, and has a right of action: (a) for damages against (i) the issuer, (ii) every director of the issuer at the date of the offering memorandum, and (iii) every person or company who signed the offering memorandum, and (b) for rescission against the issuer, provided that:

- (a) if the purchaser elects to exercise its right of rescission, it shall cease to have a right of action for damages against the person or company referred to above;
- (b) no person or company referred to above will be liable if it proves that the purchaser had knowledge of the Misrepresentation;
- (c) no person or company (other than the issuer) referred to above will be liable if it proves that the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of the person or company;
- (d) no person or company (other than the issuer) referred to above will be liable if it proves that the person or company, on becoming aware of the Misrepresentation in the offering memorandum, withdrew the person's or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it;
- (e) no person or company (other than the issuer) referred to above will be liable if, with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, the person or company proves that the person or company did not have any reasonable grounds to believe and did not believe that: (i) there had been a Misrepresentation; or (ii) the relevant part of the offering memorandum (A) did not fairly represent the report, opinion or statement of the expert, or (B) was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (f) the person or company (other than the issuer) will not be liable if with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company: (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no Misrepresentation, or (ii) believed there had been a Misrepresentation;
- (g) in no case shall the amount of recoverable exceed the price at which the securities were offered under the offering memorandum; and
- (h) the defendant will not be liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the Misrepresentation.

Section 211 of the *Securities Act* (Alberta) provides that no action may be commenced to enforce these rights more than:

- (i) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action, or
- (ii) in the case of any action, other than an action for rescission, the earlier of: (A) 180 days from the day that the plaintiff first had knowledge of the facts giving rise to the cause of action, or (B) three years from the day of the transaction that gave rise to the cause of action.

The foregoing summary is subject to the express provisions of the applicable securities laws and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions. Such provisions may contain limitations and statutory defences on which the Partnership and others may rely. The rights of action for damages or rescission discussed above are in addition to, and without derogation from, any other right or remedy which purchasers may have at law.

Manitoba, Prince Edward Island, Newfoundland and Labrador, Yukon, Nunavut and the Northwest Territories

In Manitoba, *The Securities Act* (Manitoba), in Prince Edward Island the *Securities Act* (Prince Edward Island), in Newfoundland and Labrador, the *Securities Act* (Newfoundland and Labrador), in Yukon, the *Securities Act* (Yukon), in Nunavut, the *Securities Act* (Nunavut) and in the Northwest Territories, the *Securities Act* (Northwest Territories), each

provide a statutory right of action for damages or rescission to purchasers resident in Manitoba, Prince Edward Island, Newfoundland and Labrador, Yukon, Nunavut and the Northwest Territories, respectively, in circumstances where this offering memorandum or an amendment hereto contains a Misrepresentation, which rights are similar, but not identical, to the rights available to Ontario purchasers.

(c) Contractual Rights of Action in the Event of a Misrepresentation

British Columbia

Notwithstanding that the *Securities Act* (British Columbia) each the regulatory regime in British Columbia does not provide, or require the Partnership to provide, to purchasers resident in that jurisdiction any rights of action in circumstances where this offering memorandum or an amendment hereto contains a Misrepresentation, the Partnership hereby grants to such purchasers contractual rights of action. If there is a Misrepresentation in this offering memorandum, the purchaser has a contractual right to sue the Partnership: (a) to cancel the purchaser's agreement to buy these securities, or (b) for damages.

This contractual right to sue is available to you whether or not you relied on the Misrepresentation. However, in an action for damages, the amount you may recover will not exceed the price that you paid for your Units and will not include any part of the damages that the Partnership proves does not represent the depreciation in value of the Units resulting from the Misrepresentation. The Partnership has a defence if it proves that you knew of the Misrepresentation when you purchased the Units.

If a purchaser intends to rely on the rights described above, the purchaser must do so within strict time limitations. The purchaser must commence his, her or its action to cancel the agreement within 180 days after the purchaser signs the agreement to purchase the Units. The purchaser must commence his, her or its action for damages within the earlier of 180 days after learning of the Misrepresentation and three years after the purchaser signed the agreement to purchase the Units.

AUDITORS' CONSENT

We have read the confidential offering memorandum of CGS Flow-Through 2011 - 1 LP (the "**Limited Partnership**") dated June 24, 2011 relating to the issue and sale of Limited Partnership Units of the Limited Partnership. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned offering memorandum of our report to the directors of CGS Flow-Through 2011 - 1 GP Ltd., in its capacity as general partner of the Limited Partnership, on the balance sheet of the Limited Partnership as at June 20, 2011. We also consent to the use in the above-mentioned offering memorandum of our report to the directors of CGS Flow-Through 2011 - 1 GP Ltd. on the balance sheet of CGS Flow-Through 2011 - 1 GP Ltd. as at June 20, 2011. Our reports are dated June 24, 2011.

(signed) "Ernst & Young LLP"

Calgary, Canada
June 24, 2011

Ernst & Young LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Directors of
CGS FLOW-THROUGH 2011 - 1 GP LTD.,
in its capacity as general partner of
CGS FLOW-THROUGH 2011 - 1 LP

We have audited the accompanying balance sheet of **CGS Flow-Through 2011 - 1 LP** as at June 20, 2011 and a summary of significant accounting policies and other explanatory information (together "the financial statement").

Management's responsibility for the financial statement

Management of CGS Asset Management Ltd. is responsible for the preparation and fair presentation of this financial statement in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. 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 the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statement 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 statement.

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

Opinion

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of **CGS Flow-Through 2011 - 1 LP** as at June 20, 2011 in accordance with Canadian accounting standards for private enterprises.

(signed) "Ernst & Young LLP"

Calgary, Canada
June 24, 2011

Ernst & Young LLP
Chartered Accountants

**CGS FLOW-THROUGH 2011 - 1 LP
BALANCE SHEET
June 20, 2011**

ASSET

CASH \$25

PARTNER'S CAPITAL

ISSUED AND FULLY PAID PARTNERSHIP UNITS

Initial limited partner

1 limited partnership unit (Note 1)..... \$25

Subsequent event (Note 3)

See accompanying notes to the balance sheet

Approved by the Directors of CGS Flow-Through 2011 - 1 GP Ltd., as General Partner.

(signed) "Clarence Y. Chow"

Clarence Y. Chow
Director

(signed) "Sandra Lutyck"

Sandra Lutyck
Director

CGS FLOW-THROUGH 2011 - 1 LP
NOTES TO BALANCE SHEET
June 20, 2011

1. FORMATION OF PARTNERSHIP

CGS Flow-Through 2011 - 1 LP (the “**Partnership**”) was formed as a limited partnership under the laws of the Province of Alberta on March 14th, 2011, and has not yet commenced operations. The principal purpose of the Partnership is to achieve capital appreciation primarily through investment in equity securities (including flow-through shares) of resource companies.

The general partner of the Partnership is CGS Flow-Through 2011 - 1 GP Ltd. (the “**General Partner**”) which is a promoter of the Partnership in connection with the offering of units of the Partnership (the “**Units**”). Under the Amended and Restated Limited Partnership Agreement between the General Partner and each of the limited partners (the “**LPA**”), the General Partner is entitled to a 0.01% beneficial interest in the Partnership. At June 20, 2011, the General Partner held no Units in the Partnership.

At the date of formation of the Partnership, 1 Unit was issued to Michael Janke, counsel to CGS Asset Management Ltd., for \$25 cash.

Under the LPA, the Partnership will be dissolved on or about August 31, 2012.

This financial statement is prepared in accordance with Canadian accounting standards for private enterprises.

2. EXPENSES OF THE PARTNERSHIP

CGS Asset Management Ltd. (the “**Manager**”) is entitled to a management fee equal to 2.00% of the net asset value of the Partnership, calculated and paid monthly in arrears, plus applicable taxes. The Manager and the General Partner are related by virtue of common ownership and management.

The Manager is also entitled to a performance bonus (the “**Performance Bonus**”), payable on the earlier of (the “**Performance Bonus Date**”): (i) the business day prior to the implementation of an alternative to the termination of the Partnership; and (ii) August 31, 2012, of an amount in respect of each Unit of the Partnership outstanding on the Performance Bonus Date equal to 20% of the amount by which the sum of (A) the net asset value per Unit on the Performance Bonus Date and (B) all distributions per Unit of the Partnership on or prior to the Performance Bonus Date, exceeds \$25 (the Subscription Price per Unit).

The Partnership will pay all costs relating to the proposed offering of Units in the Partnership, limited to 5.27% of the gross proceeds received in the case of the maximum proposed offering and 10% of the gross proceeds received in the case of the minimum proposed offering, plus any applicable taxes (refer to Note 3).

3. SUBSEQUENT EVENT

The Partnership commenced a private placement of Units by way of a confidential offering memorandum dated June 24, 2011 in all provinces and territories of Canada for gross proceeds of a minimum of \$1,000,000 and a maximum of \$30,000,000. As of June 24, 2011, the Partnership has not held a closing, and holds, on behalf of prospective investors, subscription cheques and proceeds pending the initial closing.

INDEPENDENT AUDITORS' REPORT

To the Directors of **CGS FLOW-THROUGH 2011 - 1 GP LTD.**

We have audited the accompanying balance sheet of **CGS Flow-Through 2011 - 1 GP Ltd.** as at June 20, 2011 and a summary of significant accounting policies and other explanatory information (together "the financial statement").

Management's responsibility for the financial statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. 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 the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statement 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 statement.

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

Opinion

In our opinion, this financial statement presents fairly, in all material respects, the financial position of **CGS Flow-Through 2011 - 1 GP Ltd.** as at June 20, 2011 in accordance with Canadian accounting standards for private enterprises.

(signed) "Ernst & Young LLP"

Calgary, Canada
June 24, 2011

Ernst & Young LLP
Chartered Accountants

CGS FLOW-THROUGH 2011 - 1 GP LTD.
BALANCE SHEET
June 20, 2011

ASSET

CASH \$10

SHAREHOLDER'S EQUITY

CAPITAL STOCK

Authorized

Unlimited number of common shares

Issued and fully paid

100 common shares (Note 1) \$10

Commitment (Note 3)

See accompanying notes to the balance sheet

Approved by the Directors.

(signed) "Clarence Y. Chow"

Clarence Y. Chow
Director

(signed) "Sandra Lutyck"

Sandra Lutyck
Director

CGS FLOW-THROUGH 2011 - 1 GP LTD.
NOTES TO BALANCE SHEET
June 20, 2011

1. INCORPORATION

CGS Flow-Through 2011 - 1 GP Ltd. (the “**Company**”) was incorporated on February 24th, 2010 under the provisions of the *Business Corporations Act* (Alberta), and has not yet commenced operations. On incorporation, the Company issued 100 common shares for \$10 in cash. The Company’s primary business activity is to act as General Partner of CGS Flow-Through 2011 - 1 LP (the “**Partnership**”).

This financial statement is prepared in accordance with Canadian accounting standards for private enterprises.

2. MATERIAL TRANSACTIONS

The Company is the general partner of the Partnership and has a 0.01% beneficial interest in the Partnership.

3. COMMITMENT

In connection with a proposed offering of limited partnership units of the Partnership, the Company has committed to pay any related offering expenses and dealers’ fees that, in total, exceed 5.27% of the gross proceeds received in the case of the maximum offering and 10% of the gross proceeds received in the case of the minimum offering, plus any applicable taxes.

CERTIFICATE OF THE PARTNERSHIP

Dated: June 24th, 2011

This Offering Memorandum does not contain a misrepresentation.

CGS FLOW-THROUGH 2011 - 1 LP,

by its general partner, CGS FLOW-THROUGH 2011 - 1 GP LTD.

(signed) "Clarence Y. Chow"

Per: _____

Name: Clarence Y. Chow
Title: Director, Chairman, President and
Chief Executive Officer

(signed) "Sandra Lutyck"

Per: _____

Name: Sandra Lutyck
Title: Director and Corporate Secretary

(signed) "John A. Brussa"

Per: _____

Name: John A. Brussa
Title: Director

(signed) "Miles Nagamatsu"

Per: _____

Name: Miles Nagamatsu
Title: Chief Financial Officer



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