

Financial Statements

CGS Resource Fund Ltd.

June 30, 2011

(unaudited)

CGS Resource Fund Ltd.
Statements of Net Assets

	As at June 30, 2011 (unaudited) \$	As at December 31, 2010 (audited) \$
Assets		
Investments, at fair value (note 2)	7,699,493	10,146,947
Cash and cash equivalents	2,535,172	283,651
Dividends receivable	7,495	8,865
Due from broker	117,148	-
Other receivable	42	12,393
Income taxes receivable (note 6)	232,378	232,378
Refundable income taxes (note 6)	349,663	349,663
	10,941,391	11,033,897
Liabilities		
Management fees payable (note 4)	12,909	15,929
Performance fees payable (note 4)	23,851	98,060
Accounts payable and accrued liabilities	64,416	107,289
	101,176	221,278
Net assets, representing unitholders' equity	10,840,215	10,812,619
Net assets		
Class A Series A	8,967,178	10,812,619
Class D	1,873,037	-
Shares outstanding (note 5)		
Class A Series A	504,235	619,500
Class D	105,324	-
Net assets per share (note 10)		
Class A Series A	\$17.78	\$17.45
Class D	\$17.78	-

See accompanying notes

On behalf of the Board:

Clarence Chow
Director

Sandra Lutyck
Director

CGS Resource Fund Ltd.
Statements of Operations
For the six months ended June 30
(unaudited)

	2011	2010
	\$	\$
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Investment income		
Interest	4,717	-
Dividends	23,767	19,064
	<u>28,484</u>	<u>19,064</u>
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Expenses		
Management fee (note 4)	88,342	120,617
Performance fee (note 4)	23,851	36,018
Service fee (note 4)	20,357	28,910
Securityholder reporting costs	-	7,900
Audit fee	6,523	26,670
Transaction costs (note 7)	224,876	265,433
Legal fees	-	2,628
Custody fees	5,699	4,476
Other administrative expenses	60,501	53,175
	<u>430,149</u>	<u>545,827</u>
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Net investment loss	(401,665)	(526,763)
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Realized and unrealized gain (loss) on investments		
Realized gain on sale of investments	2,059,053	1,384,026
Change in unrealized depreciation of investments	(1,370,370)	(743,530)
Net gain on investments	688,683	640,496
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Increase in net assets from operations	287,018	113,733
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Increase in net assets from operations		
Class A Series A	264,253	113,733
Class D	22,765	-
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Increase in net assets from operations per share		
Class A Series A (553,762 shares; 2010 - 824,063 shares)	0.48	0.14
Class D (105,324 shares)	0.22	-
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See accompanying notes

CGS Resource Fund Ltd.
Statements of Changes in Net Assets
For the six months ended June 30
(unaudited)

	2011		Total
	Class A Series A	Class D	
Increase in net assets from operations	264,253	22,765	287,018
Capital transactions (note 5)			
Proceeds from issuance of Class D Shares	-	1,850,272	1,850,272
Paid on redemption of Class A Series A Shares	(2,109,694)	-	(2,109,694)
	(2,109,694)	1,850,272	(259,422)
Net increase (decrease) in net assets for the period	(1,845,441)	1,873,037	27,596
Net assets, beginning of period	10,812,619	-	10,812,619
Net assets, end of period	8,967,178	1,873,037	10,840,215
	2010		Total
	Class A Series A	Class D	
Increase in net assets from operations	113,733	-	113,733
Capital transactions (note 5)			
Paid on redemption of Class A Shares	(3,536,626)	-	(3,536,626)
	(3,536,626)	-	(3,536,626)
Net decrease in net assets for the period	(3,422,893)	-	(3,422,893)
Net assets, beginning of period	15,742,762	-	15,742,762
Net assets, end of period	12,319,869	-	12,319,869

See accompanying notes

CGS Resources Fund Ltd.

Statement of Investments

As at June 30, 2011

(unaudited)

	Number of shares	Average cost \$	Fair value \$
Common Stock			
Angle Energy Inc.	13,650	137,183	136,500
Border Petroleum Corp., Warrants (02 Aug 12) *	700,000	17,073	71,935
Border Petroleum Corp.	1,400,000	332,927	434,000
Calfrac Well Services Ltd.	12,000	402,600	381,000
Canyon Services Group Inc.	40,000	476,544	532,400
Cinch Energy Corp.	300,000	548,460	606,000
Crescent Point Energy Corp.	16,500	725,790	732,930
Freemont Resource Ltd. *	182,000	400,400	455,000
Freemont Resource Ltd., Class A *	200,000	220,000	500,000
EnCana Corp.	20,000	652,776	594,000
Horizon North Logistics Inc.	70,000	317,093	311,500
Hyperion Exploration Corp., Warrants (13 Apr 13) *	66,675	-	7,478
Iona Energy Inc.	550,000	329,999	261,250
MatRRix Energy Technologies Inc. *	500,000	500,000	500,000
Petrosands Resources (Canada) Inc.	540,000	297,000	118,800
Petrosands Resources (Canada) Inc., Warrants (22 Dec 15) *	540,000	-	64,627
Rock Energy Inc.	50,000	205,810	206,000
Seaview Energy Inc., Class A	200,000	274,000	196,000
Secure Energy Services Inc.	37,500	249,375	358,125
Timberrock Energy Corp.*	115,000	143,750	143,750
Tuscany International Drilling Inc.	77,000	117,810	69,300
Valeura Energy Inc.	923,000	299,975	221,520
Valeura Energy Inc., Warrants (24 Feb 16) *	461,500	-	44,788
Western Energy Services Corp	40,909	318,211	296,590
Wild Stream Exploration Inc.	20,000	234,000	228,000
Zodiac Exploration Inc.	300,000	369,510	228,000
		7,570,286	7,699,493
Transaction costs (note 2)		(22,082)	-
Total investments		7,548,204	7,699,493

*Fair value is determined by the use of estimation techniques as there is no quoted market value for this investment (note 2).

See accompanying notes

CGS Resource Fund Ltd.
Notes to Financial Statements
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1. ORGANIZATION OF THE FUND

CGS Resource Fund Ltd. (the “Fund”) was incorporated under the laws of the Province of Ontario on July 20, 2006 and commenced operations on July 28, 2006. The Fund is a mutual fund corporation with an investment objective to achieve long-term capital growth by investing primarily in equity securities of Canadian resource companies, particularly those engaged in oil and gas exploration and development and to a lesser extent, mining exploration. CGS Asset Management Ltd. (“Manager”) is the manager of the Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash invested in a money market fund. As at June 30, 2011, cash and cash equivalents consists of cash of \$506,242 and money market funds of \$2,028,930 (December 31, 2010 – cash of \$1 and money market funds of \$283,650).

Valuation of investments

Securities listed on a recognized public stock exchange are valued at their bid price on the valuation date. Investments in securities having no quoted market value are valued at estimated fair value as determined by the Manager. Estimated fair value is determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly manner over a reasonable period of time. The Manager uses estimation techniques to determine fair value, which may include arm’s length transactions, discounted cash flows, multiples of earnings or production and comparison with other securities that are substantially the same.

Certain investments are fair valued based on assumptions that may not be supported by observable market inputs. The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments as a portfolio.

Any difference between the fair value and the cost of the investments is recorded as unrealized appreciation or depreciation.

Investment transactions and income recognition

All investment transactions are accounted for on the trade date. Realized gains and losses from the investment transactions and unrealized appreciation or depreciation of investments are calculated on an average cost basis.

Income from investment transactions is recognized on an accrual basis. Interest income is accrued as earned and dividend income is recognized on the ex-dividend date.

Financial instruments

Cash and cash equivalents are carried at cost, which approximates fair value. The Fund’s other financial assets, which may include accrued interest, dividends receivable, amounts due from brokers and subscriptions receivable, are designated as loans and receivables, and carried at cost or amortized cost. The Fund’s other financial liabilities which may include operating expenses payable, amounts due to brokers, and subscriptions payable, are designated as such, and are carried at cost or amortized cost. Cost or amortized cost for these financial assets and liabilities approximates fair value.

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The Fund measures the fair value of its financial assets and financial liabilities based on the classification of the fair values in a hierarchy comprising three levels, which reflects the significance of the inputs used in making the measurements, described as follows:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The most significant temporary difference is that between the reported market value of the investment portfolio of the Fund and its adjusted cost base (“ACB”) for income tax purposes. To the extent that the market value of the portfolio exceeds its ACB, a future tax liability arises. Since capital gains taxes payable by the Fund are refundable under the relevant provisions of the Act, the future tax liability is fully offset by these future refundable taxes. Conversely, when the ACB exceeds the portfolio’s market value, a future tax asset is generated. In such cases, a full valuation allowance is taken to offset this asset given the uncertainty that such future taxes will ultimately be realized.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically by management and, as adjustments become necessary, they are reported in the statement of operations in the period in which they become known.

3. RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

The Canadian Accounting Standards Board (“AcSB”) recently deferred the plan for investment companies to adopt the International Financial Reporting Standards (“IFRS”) to 2013. Accordingly, the Fund will implement IFRS for interim and annual financial statements relating to fiscal years beginning on January 1, 2012. The Manager is developing a changeover plan to meet the timetable published by the AcSB for changeover to IFRS. The key elements of the changeover plan include assessment of significant IFRS and Canadian GAAP differences, analysis and conclusion on accounting policy choices, identification of additional disclosure requirements under IFRS, and preparation of the 2012 financial statements in accordance with IFRS comparatives. The impact of IFRS will be mainly in the areas of additional notes disclosures in the financial statements. This present determination is subject to change if new standards or new interpretations of existing standards are issued that impact the Fund’s NAV per unit.

4. EXPENSES OF THE FUND

Management and service fees

The Fund pays an annualized management fee to the Manager, based on the average weekly net asset value of the Fund, accrued weekly and paid monthly.

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At the discretion of the Manager, the Fund pays an annualized service fee to dealers whose clients hold shares of the Fund, based on net asset value of the shares held by the clients, accrued weekly and paid quarterly.

The annualized fees associated with each class or series of shares are as follows:

	Class A		
	Series A	Series F	Class D
Management fee	2.00%	1.60%	2.00%
Service fee	0.40%	nil%	0.40%

Performance fees

If the Fund generates a return on investment equal to or greater than 6% in any fiscal period, then an annual performance fee shall be payable to the Manager equal to 20% of the increase in net asset value, calculated as the net asset value of the Fund at the end of the period, less the net asset value of the Fund at the beginning of the period, less issuances during the period, plus any redemptions during the period.

Operating expenses

The Fund pays all of its own operating expenses, including expenses relating to the carrying on of its business, including legal and accounting fees, interest, custodial fees, taxes and administrative costs relating to the issue and redemption of shares of the Fund and other shareholder administration services, as well as the cost of financial and other reports, and of complying with all applicable laws, regulations and policies and other expenses.

5. CAPITAL UNIT TRANSACTIONS

Authorized

- An unlimited number of Class A Shares, issuable in series.
- An unlimited number of Class A Shares, Series A.
- An unlimited number of Class A Shares, Series F.
- An unlimited number of Class D Shares.
- An unlimited number of common shares.

Class A shares

Issuance of shares

Class A shares may be issued for cash or property in one or more series in an unlimited number at a price per Class A Share equal to the net asset value per Class A Share. The Board of Directors of the Fund shall determine the designation, rights, privileges and conditions to be attached to each series of Class A Shares.

Ranking of Class A shares

Class A shares shall rank equally with all other classes of shares and every other series of Class A shares on payment of dividends and on a return of capital in the event of the liquidation and dissolution or wind-up of the Fund.

Voting

Subject to the Canada Business Corporations Act, Class A shareholders shall not be entitled to receive notice of or to attend any meetings of the shareholders and shall not be entitled to vote at any such meetings.

Dividends

Dividends may be paid in cash or in specie, as and when declared by the Board of Directors of the Fund.

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Redemptions

- a) Each Class A shareholder is entitled to redeem Class A shares at the net asset value per Class A share determined on the last business day of each week.
- b) Under certain conditions, the Fund may redeem Class A shares of any series at the net asset value per Class A share or suspend redemption of Class A shares.

Class D Shares

Issuance of shares

Class D shares will only be issued in connection with an exchange transaction, pursuant to which, a limited partnership will transfer its qualifying assets to the Fund on a tax-deferred basis in exchange for Class D shares and then distribute the Class D shares to the limited partners on a tax-deferred basis.

Ranking of Class D shares

Class D shares shall rank equally with all other classes of shares and every other series of Class A shares on payment of dividends and on a return of capital in the event of the liquidation and dissolution or wind-up of the Fund.

Voting

Subject to the Canada Business Corporations Act, Class D shareholders shall not be entitled to receive notice of or to attend any meetings of the shareholders and shall not be entitled to vote at any such meetings.

Dividends

Dividends may be paid in cash or in specie, as and when declared by the Board of Directors of the Fund.

Redemptions

- a) Commencing on the second Valuation Date following the date of issuance of Class D shares, each Class D shareholder is entitled to redeem Class D Shares at the net asset value per Class D Share determined on the last business day of each week.
- b) Class D shares outstanding on December 31 in each year (or such earlier date as the Manager may determine), will automatically be redeemed on a tax deferred basis into Class A Series A shares on a NAV-equivalent basis.
- c) Under certain conditions, the Fund may redeem Class D Shares at the net asset value per Class D Share or suspend redemption of Class D shares.

Common Shares

Dividends

The Fund will pay dividends after providing for the full dividend on the Class A and Class D Shares.

Liquidation, Dissolution or Winding-up

The common shares are entitled to receive the remaining property of the Fund after providing for the holders of the Class A and Class shares.

Notice and Voting

The holders of common shares shall be entitled to receive notice of and to attend and vote at all shareholder meetings and have the right to one vote in person or by proxy.

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Issued

Share transactions of the Fund for the year ended December 31, 2010 and six months ended June 30, 2011 were as follows:

	Number of shares			
	Class A			Class D
	Series 1	Series A	Series F	
Outstanding, December 31, 2009	980,617	-	-	-
Class A Series 1 exchanged for Class A Series A	(980,617)	980,617	-	-
Redeemed	-	(361,117)	-	-
Outstanding, December 31, 2010	-	619,500	-	-
Issued for net assets of CGS Flow-Through 2010 LP	-	-	-	105,324
Redeemed	-	(115,265)	-	-
Outstanding, June 30, 2011	-	504,235	-	105,324

On February 12, 2010, all outstanding Class A Series 1 shares were converted to Class A Series A shares.

On June 30, 2011, the Fund acquired the net assets of CGS Flow-Through 2010 LP in exchange for 105,324 Class D shares with a fair value of \$1,850,272

Unitholders' equity is considered to be the source of capital for the Fund. The Fund's objectives are managing capital to safeguard the Fund's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, and to provide an adequate return to unitholders commensurate with the level of risk while maximizing the distributions to shareholders.

The Fund does not have any externally imposed capital requirements. The Manager believes that the current level of distributions, capital and capital structure is sufficient to sustain ongoing operations. The Manager actively monitors the cash position and financial performance of the Fund to ensure there are resources to meet current distribution and redemption levels.

6. INCOME TAXES

The Fund presently qualifies as a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and the Ontario Corporation Tax Act. As a mutual fund corporation, taxable dividends received from taxable Canadian corporations are subject to a tax of 33 1/3%. Such taxes are fully refundable on payment of taxable dividends to its shareholders on a basis of \$1 for every \$3 of dividends paid. Any such tax is reported as an amount receivable until recovered through payment to shareholders of dividends out of net investment income.

Interest income and foreign dividends, net of applicable expenses, are taxed at full corporate rates with credits, subject to certain limitations, for foreign taxes paid.

For the years ended December 31, 2010 and 2009, the Fund was subject to tax at full corporate rates on 50% of its net realized capital gains. This tax can be eliminated or recovered by "capital gains redemptions" [as defined in the Act] by the Fund, making payments to its shareholders of a capital gains dividend out of the Fund's realized but undistributed capital gains, or by a combination of both. Consequently, no amount has been included for this tax in the provision for income taxes for the current or prior year, and the amount of the tax is reported as an amount receivable until recovered through capital gains redemptions or payment of capital gains dividends.

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7. BROKERAGE COMMISSIONS

The Fund paid \$224,876 (2010 - \$265,433) in brokerage commissions and transaction costs on investment portfolio transactions during the period. There were no soft dollar amounts included in these payments.

8. FAIR VALUE DISCLOSURE

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See note 2 for a discussion of the Fund's policies regarding this hierarchy.

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010:

Financial assets at fair value as at June 30, 2011				
	Level 1	Level 2	Level 3	Total
Equities-long	5,911,915	-	1,787,578	7,699,493
Money market funds	2,028,930	-	-	2,028,930
	<u>7,940,845</u>	<u>-</u>	<u>1,787,578</u>	<u>9,728,423</u>

Financial assets at fair value as at December 31, 2010				
	Level 1	Level 2	Level 3	Total
Equities-long	9,955,991	47,206	143,750	10,146,947
Money market funds	283,650	-	-	283,650
	<u>10,239,641</u>	<u>47,206</u>	<u>143,750</u>	<u>10,430,597</u>

The following is a reconciliation of Level 3 fair value measurements from December 31, 2009 to June 30, 2011:

	Fair value measurements using Level 3 inputs		
	Equities-long	Money market funds	Debt securities
Balance, December 31, 2009	723,985	-	-
Net purchases and sales	(647,500)	-	-
Net transfers in (out)	143,750	-	-
Gains (losses)			
Realized	-	-	-
Unrealized	(76,485)	-	-
Balance, December 31, 2010	<u>143,750</u>	<u>-</u>	<u>-</u>
Net purchases and sales	1,101,074	-	-
Net transfers in (out)	-	-	-
Gains (losses)			
Realized	-	-	-
Unrealized	542,754	-	-
Balance, June 30, 2011	<u>1,787,578</u>	<u>-</u>	<u>-</u>

9. FINANCIAL RISK MANAGEMENT

The Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. These risks and related risk management practices employed by the Fund are discussed below:

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Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to a significant amount of interest rate risk due to fluctuations in the prevailing level of market interest rates. Excess cash amounts are invested in short-term securities.

Credit risk

The Fund's only credit risk is short-term debt securities. The Fund limits its exposure to credit loss by placing its cash and short-term investments in securities that have high credit quality. The Manager performs ongoing credit risk evaluation of counterparties.

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Currency risk

The Fund has no material currency risk as all of its assets, liabilities, revenues, and expenses are denominated in Canadian dollars.

Liquidity risk

The Fund's exposure to liquidity risk is concentrated in the weekly redemptions of units. The Fund primarily invests in securities that are traded in active markets and can be readily disposed of in a timely manner. In addition, the Fund retains sufficient cash and cash equivalent positions to maintain liquidity.

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The investments of a fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The Manager moderates this risk through portfolio diversification and careful selection of securities. The Manager monitors the Fund's overall market positions on a daily basis with investment positions maintained within established ranges.

As at June 30, 2011, had the fair values of the portfolio investments increased or decreased by 5%, with all other variables held constant, this would have increased or decreased net assets by approximately \$384,975 (December 31, 2011 - \$507,347).

10. NET ASSETS AND NET ASSET VALUE

For investments that are traded in an active market where quoted prices are readily and regularly available, CICA Handbook Section 3855 requires bid prices (for investments held) and ask prices (for investments sold short) to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining net asset value. For investments that are not traded in an active market, CICA Handbook Section 3855 requires the use of specific valuation techniques, rather than the use of best estimates by virtue of general practice in the investment funds industry. These changes account for the difference between net assets per share (Canadian GAAP) and net asset value per share as defined by National instrument 81-106 ("NI 81-106").

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The difference between these two per share amounts is as follows:

	June 30, 2011	December 31, 2010
	\$	\$
Net assets per share (Canadian GAAP)		
Class A Series A	17.78	17.45
Class D	17.78	-
Net asset value per share (NI 81-106)		
Class A Series A	17.57	17.42
Class D	17.57	-

11. FILING OF FINANCIAL STATEMENTS

The Fund is relying on section 2.11 of National Instrument 81-106 to not file its financial statements with the Canadian Securities Administrators.