

Financial Statements

CGS Resource Fund Ltd.
(formerly AGS Lawrence Resource Fund Ltd.)
December 31, 2009

AUDITORS' REPORT

To the Shareholders of
CGS Resource Fund Ltd (formerly AGS Lawrence Resource Fund Ltd.)

We have audited the statements of net assets of **CGS Resource Fund Ltd (formerly AGS Lawrence Resource Fund Ltd.)** [the "Fund"] as at December 31, 2009 and 2008 and the statements of operations, changes in net assets, and investments for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2009 and 2008 and the results of its operations and changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
March 19, 2010.

Ernst & Young LLP

Chartered Accountants

CGS Resource Fund Ltd.
(formerly AGS Lawrence Resource Fund Ltd.)
Statements of Net Assets
As at December 31

	2009	2008
	\$	\$
Assets		
Investments, at fair value (note 2)	4,076,505	9,041,657
Cash and cash equivalents	11,717,098	5,520,346
Dividends receivable	-	11,730
Other receivable	7,994	-
Income taxes receivable (note 6)	349,800	-
Refundable income taxes (note 6)	668,197	845,611
	16,819,594	15,419,344
Liabilities		
Management fees payable (note 4)	23,675	21,105
Performance fees payable (note 4)	946,520	-
Accounts payable and accrued liabilities	106,637	124,049
Distribution payable	-	664,870
Income taxes payable (note 6)	-	529,931
	1,076,832	1,339,955
Net assets, representing unitholders' equity	15,742,762	14,079,389
Class A Shares outstanding (note 5)	980,617	1,166,438
Net assets per Class A Share	\$16.05	\$12.07

See accompanying notes

On behalf of the Board

Clarence Chow
Director

John Brussa
Director

CGS Resource Fund Ltd.
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Statements of Operations
For the years ended December 31

	2009	2008
	\$	\$
Investment income		
Interest	97,081	60,319
Dividends	37,345	101,087
	134,426	161,406
Expenses		
Management fee (note 4)	270,586	197,180
Performance fee (note 4)	1,023,002	38,176
Service fees (note 4)	66,418	47,049
Securityholder reporting costs	15,198	4,106
Audit fee	56,865	36,280
Transaction costs (note 7)	462,032	119,203
Independent Review Committee fees	7,903	11,237
Custody fees	18,492	14,784
Other administrative expenses	148,350	72,235
	2,068,846	540,250
Net investment loss	(1,934,420)	(378,844)
Realized and unrealized gain (loss) on investments		
Realized gain (loss) on sale of investments	1,793,032	(2,257,320)
Change in unrealized appreciation (depreciation) of investments	4,905,851	(3,247,436)
Net gain (loss) on investments	6,698,883	(5,504,756)
Increase (decrease) in net assets from operations	4,764,463	(5,883,600)
Increase (decrease) in net assets from operations per Class A Share (1,184,805 units; 2008 - 759,458 units)	4.02	(7.75)

See accompanying notes

CGS Resource Fund Ltd.
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Statements of Changes in Net Assets
For the years ended December 31

	2009	2008
	\$	\$
Increase (decrease) in net assets from operations	4,764,463	(5,883,600)
Capital transactions (note 5)		
Proceeds from issuance of Class A Shares	5,934,073	29,349,366
Paid on redemption of Class A Shares	(9,035,163)	(13,138,499)
	(3,101,090)	16,210,867
Distribution to unitholders	-	(664,870)
Net increase in net assets for the year	1,663,373	9,662,397
Net assets, beginning of year	14,079,389	4,416,992
Net assets, end of year	15,742,762	14,079,389

See accompanying notes

CGS Resources Fund Ltd.
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Statement of Investments
As at December 31, 2009

	Number of Shares	Average Cost \$	Fair Value \$
Common Stock			
Angle Energy Inc.	46,900	179,627	314,230
Arsenal Energy Inc.	300,000	185,430	207,000
Bellamont Exploration Ltd.	400,000	248,000	280,000
Bellatrix Exploration Ltd.	178,600	274,623	473,290
Berens Energy Ltd.	600,000	1,050,735	1,212,000
Enterra Energy Trust	200,000	360,290	410,000
Midway Energy Ltd.	125,000	358,750	370,000
Tourmaline Oil Corp.*	45,249	647,500	723,985
Wild Stream Exploration Inc.	20,000	90,336	86,000
		3,395,291	4,076,505
Transaction costs (note 2)		(11,219)	-
Total Investments		3,384,072	4,076,505

See accompanying notes

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

CGS Resource Fund Ltd.
(formerly AGS Lawrence Resource Fund Ltd.)
Notes to Financial Statements
December 31, 2009

1. ORGANIZATION OF THE FUND

CGS Resource Fund Ltd. (formerly AGS Lawrence Resource Fund Ltd.) (the “Fund”) was incorporated under the laws of the Province of Ontario on July 20, 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 explorations. The Fund commenced operations on July 28, 2006. Lawrence Asset Management Inc. was the manager (“Manager”) and CGS Resource Management Ltd. was the consultant (“Consultant”) of the Fund until December 18, 2009, after which, CGS Asset Management Ltd. (“CGS”) was 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. 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.

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.

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Notes to Financial Statements
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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.

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 generally accepted accounting principles ("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 year. 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 year in which they become known.

Adoption of new accounting standards

Effective on January 1, 2009, the Fund adopted the recent amendments to CICA 3862, Financial Instruments – Disclosures. Disclosures about fair value of Financial Instruments, requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Fund's financial instruments are recorded at fair value or at amounts that approximates fair value in the financial statements.

Amendments to CICA 3862, Financial Instruments – Disclosures, establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows.

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.

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Level 2 Inputs other than quoted prices that is observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

Credit risk and the fair value of financial assets and liabilities

In January 2009, the Emerging Issues Committee (EIC) issued a new abstract, EIC-173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC concluded that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative financial instruments. There has been no impact on the financial statements from the adoption of this accounting policy.

Capital disclosures

Effective January 1, 2008 the Fund adopted the CICA Handbook Section 1535: Capital Disclosures ("Section 1535"). Section 1535 specifies the disclosure of the information about a legal entity's capital and how it is managed. The Manager has policies and procedures in place to manage the capital of the Fund in accordance with the Fund's investment objectives, strategies, and restrictions as detailed in the prospectus. Refer to note 4 for disclosure of the Fund's capital and how it is managed.

3. RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") recently confirmed the plan to adopt the International Financial Reporting Standards ("IFRS") in 2011. All publicly accountable enterprises will be required to implement IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. CGS Asset Management Ltd. 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 2011 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 fees

The Fund paid the Manager and the Consultant, in total, an annual management fee equal to 2% of the average weekly net asset value of the Fund up to December 31, 2009, after which the Fund will pay CGS an annual management fee of 2% of the average weekly net asset value of the Fund. Management fees are accrued weekly and are paid monthly in arrears at 1/12th of the annual rate based on the average weekly net asset value of the Fund.

A trailer commission, at the discretion of the Manager, will be payable to each dealer whose clients hold shares. The trailer commission will accrue weekly and be paid at the end of each calendar quarter and will be equal to 0.40% annually of the net asset value of the shares held by the clients of the dealer.

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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.

Performance fees

If the Fund generates a return on investment equal to or greater than 6% in any year, 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 year, less the Net Asset Value of the Fund at the beginning of the year, less issuances during the year, plus any redemptions during the year.

5. CAPITAL UNIT TRANSACTIONS

Authorized

An unlimited number of Class A Shares, issuable in series.

An unlimited number of Class A Shares, Series 1.

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.

Redemptions

- a) Each Class A shareholder is entitled to redeem Class A Shares at any time 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.

Common Shares

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Dividends

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

Issued

Class A Shares, Series 1

Share transactions of the Fund for the year ended December 31, 2009 and December 31, 2008 were as follows:

	<u>Number of shares</u>	<u>Number of shares</u>
Shares outstanding, beginning of year	1,166,438	270,818
Shares issued for investments:		
On merger with AGS 2007-1	478,354	-
On merger with AGS 2006-1	-	777,240
On merger with AGS 2006-2	-	1,019,040
Shares redeemed	(664,175)	(900,660)
Shares outstanding, end of year	<u>980,617</u>	<u>1,166,438</u>

In 2009 the Fund acquired the net assets of AGS Energy 2007-1 in exchange for 478,354 units with a fair value of \$5,934,073.

Unitholders' equity is considered to be the source of capital for the Fund. The Fund 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.

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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, 2009 and 2008, 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.

7. BROKERAGE COMMISSIONS

The Fund paid \$462,032 (2008 - \$119,203) in brokerage commissions and transaction costs on investment portfolio transactions during the year. There were no soft dollar amounts included in these payments.

8. RELATED PARTY DISCLOSURES

A director of the Fund is also a director of Angle Energy Inc.

9. 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 December 31, 2009.

	Financial Assets at fair value as at December 31, 2009			
	Level 1	Level 2	Level 3	Total
Equities - Long	3,352,520	-	723,985	4,076,505
Mutual Funds	11,430,473	-	-	11,430,473
	<u>14,782,993</u>	<u>-</u>	<u>723,985</u>	<u>15,506,978</u>

The following is a reconciliation of Level 3 fair value measurements from December 31, 2008 to December 31, 2009:

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	Fair value measurements using level 3 inputs		
	Equities - long	Bonds	Debt securities
Balance at December 31, 2008	1,136,956	-	-
Net purchases and sales	(575,629)	-	-
Net transfers in (out)	-	-	-
Gains (Losses)	-	-	-
Realized	272,153	-	-
Unrealized	(109,495)	-	-
Balance at December 31, 2009	723,985	-	-

10. 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:

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

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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 December 31, 2009, 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 \$203,825 (2008 - \$452,083).

11. NET ASSETS AND NET ASSET VALUE

For investments that are traded in an active market where quoted prices are readily and regularly available, CICA 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 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 asset value per unit and net assets per unit.

As at December 31, a reconciliation of these two per unit amounts is as follows:

<u>Net assets per unit</u>		<u>Net asset value per unit</u>	
<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
\$ 16.05	\$ 12.07	\$ 16.09	\$ 12.19

12. SUBSEQUENT EVENTS

Effective February 10, 2010, the name of the Fund was changed from AGS Lawrence resource Fund Ltd. to CGS Resource Fund Ltd.

Effective February 12, 2010, the Fund offered for sale Class A Series A shares and Class A Series F shares ("collectively, the "Class A Shares"). All outstanding Class A Series 1 shares were converted to Class A Series A shares at that date. The fees associated with the Class A shares are as follows:

	Class A Series A shares	Class A Series F shares
Management fee	2%	1.6%
Service fee	0.40%	nil%

13. 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.

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14. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.