

# **BLUMONT AUGEN QUÉBEC LIMITED PARTNERSHIP 2008**

## **ANNUAL MANAGEMENT REPORT OF PARTNERSHIP PERFORMANCE**

**For the Year-Ended December 31, 2008**

This annual Management Report of Partnership Performance contains financial highlights but does not contain either semi-annual or annual financial statements for BluMont Augen Québec Limited Partnership 2008 (the "Partnership"). If you have not received a copy of the annual financial statements with the Management Report of Partnership Performance, you may obtain a copy of the semi-annual or annual financial statements, at no cost, by calling 866.473.7376, by writing to us at BluMont Capital Corporation, 70 University Avenue, Suite 1200, P.O. Box 16 Toronto, Ontario M5J 2M4 or by visiting our web site at [www.blumontcapital.com](http://www.blumontcapital.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the Fund.

### **Forward-Looking Information**

This Management Report of Partnership Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Partnership. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

Although the Partnership believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Partnership Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific that contributed to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Partnership's filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Management Report of Partnership Performance, and the Partnership undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **Management Discussion on Performance**

### **Investment Objectives and Strategies**

The Partnership's investment objectives are to achieve capital appreciation through investment in a diversified portfolio of flow-through shares and other securities of select resource companies and to maximize tax benefits for investors by purchasing flow-through shares of resource companies. The Partnership will invest primarily in resource companies that will incur Canadian exploration expense.

The Partnership's investment strategy is to invest in flow-through shares of resource issuers that represent good value in relation to the market price of the resource issuer's shares, have experienced and capable senior management, have a strong exploration program in place, and offer potential for future growth.

### **Investment Risk**

The Partnership is a speculative offering and is exposed to several risk factors that may affect its performance. The overall risk of the Partnership is as described in its prospectus dated February 27, 2008. Since then, the risk factors have not changed. There have been no significant changes since its inception which have had an impact on the overall risk of any investments in the Partnership.

### **Results of Operations**

The Partnership commenced operations subsequent to its closing on March 25, 2008. Consequently, the 2008 results do not reflect a full annual period of operations and have no comparative results. At December 31, 2008 the Partnership's trading Net Asset Value was \$6.49 per unit.

### **Loan Facility**

The Partnership entered into a term loan facility ("Facility") in the amount of \$721,200, which matured on the earlier of October 30, 2010 or the dissolution date of the Partnership. In light of the ongoing financial crisis the Manager in its advisory felt it prudent to repay the Facility in full. The Facility was repaid in full on November 11, 2009. The Facility was secured by a general security agreement and was subject to certain financial covenants. Interest was calculated at the bank's prime lending rate. The Facility was with a Canadian chartered bank and was solely for the purpose of funding a portion of the agents' fees and expenses of the offering, which have since been funded by cash in the Partnership.

### **Recent Developments**

The Partnership closed on March 25, 2008 after raising gross capital of \$7,212,000 (\$6,490,800 after issuance costs). As of December 31, 2008 the assets in the Partnership were fully invested.

The Partnership was being invested throughout the second half of 2008 as the crisis exploded in capital markets. More than 75% of the total portfolio was invested in the October-December period. However, several of the early investments were caught up in the market storm, and the share prices declined. With plummeting commodity prices investors began to panic, developing a strong aversion to mining stocks. Mining stocks, especially higher risk junior exploration stocks, were hard hit by the crisis.

The difficulties in the mining space were most severe in the small cap space. The S&P/TSX Venture Composite Index was down 77% in 2008, more than double the decline in the S&P/TSX Composite Index. In an already difficult environment, many investors were concerned that small cap mining companies would run out of cash to support their exploration activities. Even if they could continue to operate, their potential resource deposits were worth significantly less after commodity prices sold off.

During December 2008 tax-loss selling provided additional downward pressure on the share prices of junior exploration companies. Following the end of tax loss selling, share prices for many of these junior exploration companies have since rebounded off of their low levels established in mid-December 2008. Many micro-caps have continued to have access to capital, albeit limited capital, in the markets from flow-through share offerings and

private placements. In addition, many Quebec companies are in position to receive rebates, in the form of hard dollars, from the Quebec Government in 2009, providing these Quebec companies with extra cash to weather the storm. These companies have sufficient cash to continue drilling and exploration activities. Their costs have fallen, especially fuel costs, which makes their projects more viable. Many small cap mining companies were oversold and represent attractive risk-reward tradeoffs for investors, even at depressed commodity prices. Investors are taking notice of positive drilling results. Small cap mining stocks, including several of our portfolio holdings, that have released favourable drilling results in late December and January have seen their share prices react strongly.

The Partnership has rebounded since mid-December 2008 and into February 2009. Timing benefitted the Partnership as it was making most of its investments in late 2008, when small cap mining stocks had already been sold off considerably. As our portfolio holdings release positive drilling results and commodity prices continue to improve we expect the Partnership NAV to improve. The Partnership is among the top performing flow-through deals launched in 2008, as of February 5, 2009.<sup>1</sup>

During the current period, Augen Capital, the Flow-Through Consultant to the Partnership underwent changes in senior management and the board of directors. Augen's investment process continues to include consideration by both an investment committee and an advisory board comprised of external independent geologists.

#### **Commodity prices and their impact on the portfolio**

The financial crisis has now spread to the real economy. The macro economic indicators continue to deteriorate and the economic outlook is uncertain. Base metals prices have been depressed due to an uncertain demand outlook. This will weigh on the valuations of companies focused on the base metals, even as they report positive drilling results. Approximately 19% of the portfolio is invested in companies exploring for base metals.

We expect the price of gold to be strong through 2009. Approximately 52% of the portfolio is invested in companies that are focused on gold exploration. The strength of the gold price and positive drilling results through the turmoil is supporting the share prices of these gold focused holdings.

Uranium prices have not escaped the sell off in commodities; however, nuclear projects require long range planning. Demand for uranium is not as responsive to economic conditions as it is for other commodities. We believe that certain factors such as the dissipation of extra supply from a forced liquidation of uranium reserves by a troubled financial institution, and pending uranium demand that has been deferred as long as it possibly can be, will both combine to support higher uranium prices in 2009. This should bode well for our uranium holdings (approximately 14% of the portfolio) if their drilling results are positive.

#### **Portfolio Overview**

The Partnership was successful in investing entirely in mining companies with exploration activities in Quebec. The portfolio consists of 17 companies. The companies are all actively exploring high potential properties. Some of the companies have already released promising drilling results since our investment in 2008. The portfolio consists of 9 gold companies, 3 uranium companies, 3 base metals companies, 1 industrial mineral company and 1 diamond company.

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<sup>1</sup> According to publicly available information on GlobeFund, and company websites as of February 5, 2009.

## **Related Party Transactions**

### **Management Fees**

The General Partner is responsible for the management of the Partnership and is entitled to an annual management fee equal to 2.0% of the net assets of the Partnership, calculated weekly in arrears. The Partnership recorded management fees of \$95,095 plus GST during the period March 25, 2008 through December 31, 2008, which remains payable at the end of the period.

During the 2008 calendar year, the management fee has been accrued but will not be paid until 2009. In addition to absorbing \$27,090 in Partnership operating expenses during the period March 25, 2008 through December 31, 2008, the General Partner has agreed to advance payment for all remaining administrative Partnership costs on behalf of the Partnership. Pending payment or reimbursement by the Partnership, the advances will bear interest at the Prime Rate. The Partnership intends to pay these costs in 2009 using the proceeds of the sale of the portfolio assets of the Partnership. All fees and expenses payable to the flow-through consultant for its services will be borne by the portfolio manager and/or the General Partner and not by the Partnership. The flow-through consultant may also receive fees from certain Resource Companies with which the Partnership enters into share purchase agreements, a portion of which the flow-through consultant will pay to the portfolio manager.

## Financial Highlights

The following tables show selected key financial information about the Partnership and are intended to help you understand the Partnership's financial performance since inception. This information is derived from the Partnership's annual financial statements and is after all expenses have been charged to the Partnership.

### NET ASSET VALUE ("NAV") PER UNIT

As at December 31, 2008

	2008
Net Asset value, beginning of period <sup>1,2,7</sup>	\$ <u>10.00</u> <sup>2</sup>
Increase (decrease) from operations	
Total revenue	0.12
Total expenses	(1.22)
Realized gains (losses) for the period	-
Unrealized losses for the period	(2.75)
Total decrease from operations <sup>1</sup>	<u>(3.85)</u>
Distributions	
From income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	-
Total annual distributions	<u>-</u>
Net asset value, end of period <sup>1,7</sup>	\$ <u><u>6.15</u></u>

### RATIOS AND SUPPLEMENTAL DATA<sup>4</sup>

As at December 31, 2008

Net assets (000s)	\$4,434
Number of units outstanding	721,200
Management expense ratio <sup>3</sup>	4.33%
Management expense ratio before waivers or absorptions	5.05%
Portfolio turnover rate <sup>5</sup>	-
Trading expense ratio <sup>6</sup>	-

1. Net asset value is based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net asset value per unit.
2. The Partnership was formed on February 27, 2008 and commenced operation on March 25, 2008.
3. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. The management expense ratio is calculated in accordance with Part 15 of National Instrument 81-106.
4. Ratios and supplemental data, where applicable, are computed using the trading net asset value of the Partnership.

5. The Partnership's portfolio turnover rate can indicate how actively the Partnership's investment advisor manages the portfolio of investments. A portfolio turnover rate of 100% is equivalent to the Partnership buying and selling all of its securities in its portfolio once in the course of the period. The higher a partnership's portfolio turnover rate in a period, the greater the trading costs payable by the Partnership in the period and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the partnership.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
7. The relief granted to investment funds by Canadian securities regulatory authorities from complying on an interim basis with CICA Handbook Section 3855 ("Section 3855") results in a difference between the Trading NAV and the GAAP NAV due to the differences in valuation techniques of certain investments. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) or 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 Trading NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry. The provisions of Section 3855 have been applied retrospectively without restatement of prior periods. Accordingly, the net asset value at the beginning of the current period has been adjusted.

The impact of the adoption of Section 3855 on the net asset value per share of the Fund is as follows:

<b>As at December 31, 2008</b>	<b>Per Unit (\$)</b>
Net asset value (Trading NAV), end of year	6.49
Section 3855 adjustment	(0.34)
Net asset value (GAAP NAV), end of year	6.15

## **Past Performance**

The performance information does not take into account fees for sales, redemptions, distributions, or other optional charges that would have reduced returns or performance, nor does it take into account any tax benefits realized by investors. The performance data presented here should not be compared to performance data provided in the Partnership's sales and marketing materials, as these publications provide returns on an after-tax basis assuming an investor is an Ontario resident in the highest marginal tax bracket.

## **Year-by-Year Returns**

The Partnership commenced operation on March 25, 2008. Since the Partnership has not been in operation for a full financial year, a bar chart illustrating year by year returns cannot be provided.

## **Annual Compound Returns**

The Partnership commenced operation on March 25, 2008. Since the Partnership has not been in operation for a full financial year, a table illustrating annual compound returns cannot be provided.

## **About Fund Performance**

Since the Partnership invests in flow-through shares, which are typically issued at a premium to the market price of the common shares due to the tax-saving benefits, attributed to the purchaser, it is not meaningful to analyze or compare the portfolio performance without considering all Canadian tax implications.

The Partnership has focused its portfolio on emerging market capitalization companies engaged in resource exploration in Canada. The Partnership expects to maintain a disciplined, long-term focus on investing in Canadian exploration companies.

### Summary of Investment Portfolio as at December 31, 2008

The summary of investment portfolio below includes information regarding the Partnership as a whole. This summary may change due to ongoing portfolio transactions of the Partnership and a quarterly update is available by contacting BluMont Capital at 866.473.7376 or by visiting BluMont Capital's website at [www.blumontcapital.com](http://www.blumontcapital.com) or SEDAR's website at [www.sedar.com](http://www.sedar.com).

### Top 25 Holdings

Issuer	Country	Sector		% of Net Assets
Alexis Minerals Corporation Flow-Through Shares	Canada	Materials	Metals & Mining	12.50%
Uracan Resources Limited Flow-Through Shares	Canada	Materials	Metals & Mining	11.50%
Metanor Resources Inc. Flow-Through Shares	Canada	Materials	Metals & Mining	11.40%
Northern Star Mining Corporation Flow-Through Shares	Canada	Materials	Metals & Mining	10.60%
Royal Nickel Corporation	Canada	Materials	Metals & Mining	8.50%
Stornoway Diamond Corporation Flow-Through Shares	Canada	Materials	Metals & Mining	7.70%
Explor Resources Inc. Flow-Through Shares	Canada	Materials	Metals & Mining	6.40%
Ophiravencap Inc. Flow-Through Shares	Canada	Financials	Metals & Mining	6.10%
Cogitore Resources Inc. Flow-Through Shares	Canada	Materials	Metals & Mining	5.60%
Cogitore Resources Inc. Flow-Through Shares	Canada	Materials	Metals & Mining	4.60%
Cartier Resources Inc. Flow-Through Shares	Canada	Materials	Metals & Mining	4.50%
d'Arrianne Resources Inc. Flow-Through Shares	Canada	Materials	Metals & Mining	3.20%
Donner Metals Limited Flow-Through Shares	Canada	Materials	Metals & Mining	3.20%
Golden Hope Mines Limited	Canada	Materials	Metals & Mining	2.10%
Quest Uranium Corporation Flow-Through Shares	Canada	Materials	Metals & Mining	1.50%
Alexandria Minerals Corporation	Canada	Materials	Metals & Mining	1.50%
First Gold Exploration Inc. Flow-Through Shares	Canada	Materials	Metals & Mining	1.20%
Uranium Bay Resources Inc.	Canada	Materials	Metals & Mining	0.80%
<b>Total</b>				<b>102.9%</b>
<b>Total Transactional Net Asset Value (000)</b>				<b>\$ 4,678</b>

### Sector Exposure as at December 31, 2008

Sector	Canadian Exposure	Total Exposure	Number of Positions
Materials	102.9%	102.9%	17