

## **Management Report of Fund Performance 2005 frontierAlt Resource 2005 Flow-Through Limited Partnership**

This management report highlights the performance of the frontierAlt Resource 2005 Flow-Through Limited Partnership (“the Partnership”) for the period ended June 30, 2007. The Partnership’s semi-annual financial statements (unaudited), which provides further details, are attached.

Limited Partners may contact us toll-free by calling 1-866-745-5545; by writing to us at frontierAlt Capital Corporation, 350 Bay Street, Suite 1300, Toronto, Ontario M5H 2S6 or by e-mailing us at [info@frontieralt.com](mailto:info@frontieralt.com) to request a copy of the Partnership’s proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

### **Investment objectives and strategies**

The Partnership invests in flow-through shares of resource companies engaged in either oil and gas, or mineral exploration, development or production in Canada with a view to achieving capital appreciation and maximizing the tax benefit of an investment in the Partnership units. The Partnership has established a diversified portfolio of such investments with an emphasis on companies engaged in oil and gas exploration, development or production.

### **Risk**

The Partnership was able to invest all available funds in flow-through shares by December 31, 2005 as disclosed in the prospectus.

### **Results of operations**

The Partnership began operations on December 14, 2005. From the commencement of operations to June 30, 2007, the General Partner, Portfolio Manager and the industry consultants retained by the Portfolio Manager evaluated possible investments and chose 29 companies to invest in at a total cost of \$7,253,774, comprising of twelve oil and gas companies for a total cost of \$3,808,680 and seventeen mining companies for a total cost of \$3,445,094.

As at June 30, 2007, the unrealized depreciation of investments was \$303,195. The energy companies had an unrealized depreciation of \$1,442,412 and the mining companies an unrealized appreciation of \$1,139,217. This immediate decline was anticipated since the oil and gas flow-through shares were issued at a premium to the existing market for non-flow-through common shares because of the strong interest in oil and gas exploration companies and the tax advantages attached to the flow-through shares.

### **Recent developments**

#### **Oil & Gas**

The energy market volatility in 2006 was not for the faint of heart, as illustrated by the S&P/TSX Capped Energy Index above. Oil prices finished the year at \$US61.05 per barrel, precisely where they started. However, the yearly trading range was dramatic with prices peaking mid-summer 30% higher than the start of the year at almost \$US80 per barrel. Natural gas prices experienced similar price volatility, declining 50% from the start of the year to reach lows in late September, followed by highs late in the fall that were 100% higher than the lows. At year end natural gas prices were 15% lower than the start of the year.

The S&P/TSX Capped Energy Index does not tell the real energy market story because it mutes the dismal market performance for most of the producer groups. Peters & Co. Limited monitors sub-groups within their broad based Peters Energy 100 Index ("PE 100"). The following sub-groups and their corresponding 2006 performance are included in the Peters & Co. data:

S&P/TSX Capped Energy Index	+ 1%
PE 100 Small Producers	- 12%
PE Natural Gas	- 24%
PE 100 Junior Producers	- 28%

Contrary to the robust 2005 energy markets, 2006 will be remembered as a year "hot money" fled the energy markets. Longer term, patient investors will look back at 2006 and will remember the year as an excellent entry point into the sector, in spite of the suffering brought on by commodity and stock price volatility during the year.

At the end of 2005 the average small and/or junior oil and gas producer traded at 160% of underlying net asset value, representing a significant goodwill premium based on the market's overly optimistic expectations. At the end of Q3/2006 these premiums had evaporated and several of the same producers were trading at discounts to their net asset values. Expectations that had been set by the 2005 oil and natural gas price rally clearly changed as commodity markets cooled off in 2006.

As 2006 progressed and commodity prices cooled, larger producers started indicating budget cutbacks were looming. This was seen as a "black cloud" for companies in the oil service sector, whose share prices fell to reflect pending decreases in activity. However, the "silver lining" in the "black cloud" is the opportunity this presents for junior producers and explorers.

During periods of high oil and gas prices, such as we had in 2005, the demand for oil field services escalates, along with the rates the service companies charge their customers. Rising oil field service costs were only part of the story in 2005; exploratory land tenures auctioned to the highest bidding oil and gas company escalated significantly as well. While these costs were clearly a deterrent, they were not the only operating impediment facing junior producers. Field operations were often delayed or not completed due to restricted access to services. Often it was difficult or impossible to get a drilling rig or service rig because they were tied up by major companies flush with cash.

### **Related party transactions**

frontierAlt Resource 2005 Inc. ("the General Partner") is entitled to an annual management fee of 2% of the net assets of the Partnership. The management fees for the six months ended June 30, 2007 were \$72,995.

Included in the total issue costs of \$320,936, is an amount of \$132,197 paid to frontierAlt Investment Management Corporation, the owner of all the shares of the General Partner, as a reimbursement for costs incurred in creating and organizing the Partnership and marketing Partnership units.

As at June 30, 2007, frontierAlt Investment Management Corporation continued to owe \$11,465 to the Partnership.

During the period, the Partnership incurred administrative and filing fees amounting to \$11,004 to KeiData Back Office Solutions, a wholly owned subsidiary of frontierAlt Investment Management Corporation. \$6,235 is included in accounts payable.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the six month and each of the past year ended December 31 as applicable. The information is derived from the Fund's unaudited semi-annual financial statement and audited financial statement.

### frontierAlt Resource 2005 Flow-Through Limited Partnership

Net Asset Value (NAV) per Unit	Jun. 2007	Dec. 2006	Dec. 2005
<b>Net asset value, beginning of period</b>	\$ 7.04	\$ 7.93	\$ 10.00
Agents fees	0.00	0.00	(0.75)
Issue costs	0.00	0.00	(0.33)
	<u>7.04</u>	<u>7.93</u>	<u>8.92</u>
<b>Increase (decrease) from operations:</b>			
Total revenue	0.06	0.04	-
Total expenses	(0.11)	(0.29)	(0.05)
Realized gains (losses)	0.40	(1.23)	-
Unrealized gains (losses)	0.15	0.59	(0.94)
<b>Total increase (decrease) from operations (1)</b>	<u>0.50</u>	<u>(0.88)</u>	<u>(0.99)</u>
<b>Distributions:</b>			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains	-	-	-
Return of capital	-	-	-
<b>Total Annual Distributions</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net asset value, end of period</b>	<u>\$ 7.54</u>	<u>\$ 7.04</u>	<u>\$ 7.93</u>

(1) Net asset value and distributions are 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.

## Ratios and Supplemental Data

	Jun. 2007	Dec. 2006	Dec. 2005
Net assets (000's) (1)	\$ 7,338	\$ 6,852	\$ 7,713
Number of units outstanding	973,220	973,220	973,220
Management expense ratio (2)	3.12%	3.63%	13.60%
Management expense ratio before waivers or absorptions	3.12%	3.63%	15.70%
Portfolio turnover rate (3)	26.44%	49.00%	0.00%
Trading expense ratio (4)	0.12%	64.00%	0.00%
Closing market price or pricing NAV (if applicable)	\$ 7.54	\$ 7.04	\$ 7.93

(1) This information is provided as at period end shown.

(2) 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.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

(4) 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.

## Management fees

The General Partner is entitled to an annual management fee of 2% of the net assets of the Partnership. This fee is paid monthly in arrears and is based on the net asset value at the end of the month for which it is charged.

## Past performance

For the six months period ended June 30, 2007, the limited partnership appreciated by 7.1%.

## Summary of Investment Portfolio

Other assets less other liabilities	-0.3%
	<u>3.9%</u>

### Sector Allocation

Materials	63.6%
Energy	21.1%
Income Trust - Energy	11.4%
	<u>96.1%</u>
Net Assets	<u>100.0%</u>

### Top 25 Investments

<b>Issuer</b>	<b>Percentage of Fund</b>
Franconia Minerals Corporation	18.6%
Donner Metals Ltd.	6.4%
Houston Lake Mining Inc.	5.8%
Pengrowth Energy Trust	5.0%
Baltic Resources Inc.	4.8%
Strateco Resources Inc.	4.4%
Greentree Gas & Oil Ltd.	4.1%
PrimeWest Energy Trust	4.0%
Grand Banks Energy Corporation	4.0%
Atlanta Gold Inc.	3.8%
Temex Resources Corp.	3.4%
Wildcat Exploration Ltd.	3.2%
Kinross Gold Corporation	3.0%
Knight Resource	2.7%
Houston Lake Mining Inc. Warrants Dece	2.6%
Junex Inc.	2.5%
Peyto Energy Trust	2.5%
Platinex Inc.	2.4%
Emerald Bay Energy Inc.	2.4%
Blue Parrot Energy Inc.	2.3%
Intrepid Mines Limited	2.2%
Laurion Mineral Exploration Ltd.	2.0%
Talisman Energy Inc.	2.0%
Allyn Resources Inc.	0.9%
Arapahoe Energy Corporation	0.7%
	<u>95.5%</u>

This Summary of Investment Portfolio may change due to the ongoing portfolio transactions of the Fund and a quarterly update is available at [www.frontieralt.com](http://www.frontieralt.com). The weightings of the positions are calculated based on total net asset value of the portfolio as at June 30, 2007.