

**CANADIAN SMALL CAP RESOURCE FUND  
2006 No. 1 LIMITED PARTNERSHIP**

Financial Statements  
**For the years ended December 31, 2008 and 2007**  
(Expressed in Canadian dollars)

## **Management's Responsibility for Financial Reporting**

The accompanying financial statements of Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership (the Partnership) have been prepared by the management of Canadian Small Cap Resource Fund 2006 No. 1 Management Ltd., the General Partner of the Partnership, and approved by the Board of Directors of the General Partner. The General Partner is responsible for the information and representations contained in these financial statements.

The General Partner maintains processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies, which management believes are appropriate for the Partnership, are described in note 2 to the financial statements.

The Board of Directors of the General Partner is responsible for reviewing the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Board of Directors approves the audited financial statements for publication.

PricewaterhouseCoopers LLP are the external auditors of the Partnership. They are appointed by the General Partner of the Partnership. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out on the next page.

On behalf of the General Partner of the Partnership,

Mr. Stephen Wilkinson  
CEO

March 31, 2009

**Auditors' Report**

**To the Partners of  
Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership**

We have audited the statements of net assets of Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership as at December 31, 2008 and 2007, the statement of investment portfolio as at December 31, 2008, and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the General Partner. 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 financial position of the partnership as at December 31, 2008 and 2007 and the results of its operations, changes in net assets and cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

*(signed) PricewaterhouseCoopers LLP*

**Chartered Accountants**  
Vancouver, British Columbia, Canada

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

### Statements of Net Assets

As at December 31, 2008 and 2007

(Expressed in Canadian Dollars)

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 1,270,076	\$ 854,661
Investments at fair value	685,968	4,789,890
Other receivable	-	15,011
<b>Total Assets</b>	<b>\$ 1,956,044</b>	<b>\$ 5,659,562</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 8 (i))	\$ 44,500	\$ 50,240
Due to General Partner (note 8 (h))	13,034	74,217
	<b>57,534</b>	<b>124,457</b>
<b>Net Assets</b>	<b>\$ 1,898,510</b>	<b>\$ 5,535,105</b>
<b>Number of partnership units outstanding (notes 1 and 4)</b>	<b>762,271</b>	<b>762,271</b>
<b>Net assets per partnership unit</b>	<b>\$ 2.49</b>	<b>\$ 7.26</b>

*On behalf of the Board of Directors of Canadian Small Cap Resource Fund 2006 No. 1 Management Ltd. as General Partner*

"Stephen Wilkinson"

Stephen Wilkinson  
Director

"Sargent Berner"

Sargent Berner  
Director

The accompanying notes are an integral part of these financial statements

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

### Statements of Operations

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

	2008	2007
<b>Investment income:</b>		
Interest income	\$ 17,996	\$ 32,131
<b>Expenses:</b>		
Unitholder administration and communication	97,207	75,875
General Partner fee (note 3 (a))	46,225	86,918
Audit fees	38,657	34,314
Portfolio Advisory fee (note 3 (b))	25,413	52,152
Legal fees	15,785	8,666
Agents' service commission (note 3(c))	8,471	17,384
Commissions and other portfolio transaction costs (note 3 (f))	7,292	41,445
Interest expense (note 3 (g))	-	45,007
	<b>239,050</b>	<b>361,761</b>
<b>Net investment loss</b>	<b>(221,054)</b>	<b>(329,630)</b>
<b>Realized (loss)/gain on sale of investments</b>	<b>(302,489)</b>	<b>1,503,845</b>
<b>Change in unrealized depreciation of investments</b>	<b>(3,113,052)</b>	<b>(1,273,207)</b>
<b>Decrease in net assets from operations</b>	<b>\$ (3,636,595)</b>	<b>\$ (98,992)</b>
<b>Net investment loss per unit</b>	<b>\$ (0.29)</b>	<b>\$ (0.43)</b>
<b>Realized (loss)/gain on sale of investments per unit</b>	<b>(0.40)</b>	<b>1.96</b>
<b>Change in unrealized depreciation of investments per unit</b>	<b>(4.08)</b>	<b>(1.67)</b>
<b>Decrease in net assets from operations per partnership unit</b>	<b>\$ (4.77)</b>	<b>\$ (0.14)</b>

The accompanying notes are an integral part of these financial statements

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Statements of Changes in Net Assets

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

	2008	2007
<b>Net assets, beginning of year</b>	\$ 5,535,105	\$ 6,422,747
Adjustment resulting from adoption of CICA Section 3855 (notes 2 (i) and 11)	-	(26,379)
<b>Net assets, beginning of the year, adjusted</b>	<b>5,535,105</b>	<b>6,396,368</b>
<b>Decrease in net assets from operations</b>	<b>(3,636,595)</b>	<b>(98,992)</b>
<b>Partners' transactions:</b>		
Distribution of partnership capital (note 10)	-	(762,271)
	-	(762,271)
<b>Net assets, end of year</b>	<b>\$ 1,898,510</b>	<b>\$ 5,535,105</b>

The accompanying notes are an integral part of these financial statements

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

### Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

	2008	2007
<b>Cash provided by (used in):</b>		
Operating Activities:		
Decrease in net assets from operations	\$ (3,636,595)	\$ (98,992)
Realized loss/(gain) on sale of investments	302,489	(1,503,845)
Change in unrealized depreciation of investments	3,113,052	1,273,207
	<b>(221,054)</b>	<b>(329,630)</b>
Purchase of investments	<b>(50,000)</b>	(1,471,705)
Proceeds on sale of investments	<b>738,380</b>	3,986,841
Net change in non-cash balances related to operations	<b>(51,911)</b>	30,239
	<b>415,415</b>	2,215,745
<b>Cash flow from (used in):</b>		
Financing Activities:		
Repayment of promissory note	-	(762,000)
Distribution of partnership capital (note 10)	-	(762,271)
	-	(1,524,271)
<b>Increase in cash during the year</b>	<b>415,415</b>	691,474
<b>Cash and cash equivalent, beginning of year</b>	<b>854,661</b>	163,187
<b>Cash and cash equivalent, end of year</b>	<b>\$ 1,270,076</b>	854,661
<b>Cash and cash equivalents is comprised of:</b>		
Cash	\$ 71,289	\$ 854,661
Cash equivalents	1,198,787	-
	<b>\$ 1,270,076</b>	<b>\$ 854,661</b>
<b>Supplemental cash flow information:</b>		
Cash received during the year from interest	\$ 15,512	\$ 31,843
Cash paid during the year for interest	\$ -	\$ 46,980
<b>Supplemental disclosure with respect to cash flows (note 9)</b>		

The accompanying notes are an integral part of these financial statements

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

## Statement of Investments

As at December 31, 2008

(Expressed in Canadian Dollars)

Issuer	# of Common Shares	# of Warrants	Expiry Date of Warrants	Exercise Price of Warrants	Average Cost	Fair Value as at December 31, 2008	% of Portfolio as at December 31, 2008
<b>PUBLICLY-TRADED:</b>							
Arsenal Energy Inc.	139,090				\$ 152,999	\$ 25,734	3.75%
Avalon Ventures Ltd.	141,500				170,284	73,580	10.73%
Benton Resources Corp.	108,000				119,106	15,660	2.28%
Berkley Resources Inc.	560,000				504,000	19,600	2.86%
Black Panther Mining Corp. (formerly Venturex Explorations Inc.)	100,000				168,275	13,500	1.97%
Chalice Diamond Corp.	666,500				97,425	26,660	3.89%
Chalice Diamond Corp.	-	666,500	10-May-09	0.15	2,550	883	0.13%
Columbia Yukon Explorations Inc.	342,500				221,518	41,100	5.99%
CZM Capital Corp.	700,000				175,000	17,500	2.55%
Delta Uranium Inc.	300,000				150,000	19,500	2.84%
Eagle Plains Resources Ltd.	400,000				311,600	50,000	7.29%
Flying A Petroleum Ltd.	1,705,500				513,057	8,528	1.24%
Garson Gold Corp.	1,132,238				383,021	33,966	4.95%
Goldeye Explorations Inc.	827,000				124,006	16,540	2.41%
International Bethlehem Mining Corp.	1,500,000				341,925	22,500	3.28%
Moneta Porcupine Mines Inc.	1,102,000				132,199	49,590	7.23%
Patch International Inc.**	100,000				100,000	2,204	0.32%
Prize Mining Corp.	436,000				117,720	15,260	2.22%
Purepoint Uranium Group Inc.	342,800				233,104	20,568	3.00%
Red Rock Energy Inc.	357,000				249,900	24,990	3.64%
Sable Resources Ltd.*	292,000				224,898	58,400	8.51%
Sultan Minerals Inc.*	743,000				172,715	26,005	3.79%
Tyhee Development Corp.	760,000				412,613	91,200	13.30%
ValGold Resources Ltd. *	250,000				72,900	5,000	0.73%
					5,150,815	678,468	98.90%
<b>PRIVATELY-TRADED:</b>							
Optima Minerals Inc.	250,000				100,000	7,500	1.10%
<b>TOTAL</b>					<b>\$ 5,250,815</b>	<b>\$ 685,968</b>	<b>100.00%</b>

\*Related to the General Partner through common directorship

\*\*Shares traded in US dollars

The accompanying notes are an integral part of these financial statements

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## 1) FORMATION OF PARTNERSHIP

Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership (the Partnership) was formed as a limited partnership under the Partnership Act (British Columbia) on March 2, 2006. The principal purpose of the Partnership is to invest in flow-through shares of resource sector issuers in accordance with the terms of the Limited Partnership Agreement.

The General Partner of the Partnership is Canadian Small Cap Resource Fund 2006 No. 1 Management Ltd. (the General Partner). Under the Limited Partnership Agreement between the General Partner and each of the limited partners, the General Partner is entitled to a 0.01% beneficial interest in the Partnership.

During the period ended December 31, 2006, the Partnership issued 762,271 units at \$10 per unit for gross proceeds of \$7,622,710. At December 31, 2008 the General Partner held no units in the Partnership.

The General Partner proposed to the limited partners at a special meeting of the limited partners held on June 23, 2008, one or more alternatives to the termination of the Partnership (Liquidity Alternatives). At the June 23, 2008 meeting it was decided, through extraordinary resolutions, to extend the terms of the Limited Partnership Agreement to June 30, 2009.

## 2) SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of Presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The Canadian dollar is the functional and reporting currency of the Partnership.

### b. Use of estimates

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 revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically by the General Partner and, as adjustments become necessary, they are reported in the statement of operations in the period in which they become known.

Significant areas involving the use of estimates include determining the estimated fair value of private investments and the fair value of warrants. In calculating estimated fair value, the General Partner makes maximum use of publicly available market-based inputs.

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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### 2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c. Allocation of Partnership income or loss

Income or loss is allocated 99.99% to the limited partners and 0.01% to the General Partner. These financial statements include only the assets, liabilities, and operations of the Partnership, and do not include other assets, liabilities, revenues or expenses, including income taxes, of the limited partners.

d. Investments

The Partnership's management estimates the fair value of investments based on the criteria outlined below:

(i) Publicly-traded investments

- (a) Securities that are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on the last quoted bid price at the statement of net assets date. If there were no trades at the statement of net asset date, management will estimate the fair value of the investments using a combination of the closing bid price on the last day the security traded, consideration of the time frame in which the investments were last traded, specific financial data and current market factors.
- (b) Securities that are traded on a recognized exchange but that are escrowed or otherwise legally restricted as to sale or transfer are recorded at amounts discounted from market value. In determining the discount for such investments, the Partnership considers the nature and length of the restriction, business risk of the investee company, its stage of development, market potential, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investment.
- (c) Warrants of companies whose shares trade on a recognized security exchange are recorded at their estimated fair value using a recognized valuation model.
- (d) The amounts at which the Partnership's publicly-traded investments could be disposed of currently may differ from carrying value based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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### 2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### d. Investments *(continued)*

##### (ii) Privately-held investments

(a) Securities in privately-held companies are valued using valuation techniques established by management, taking into consideration relevant information such as a significant subsequent equity financing by an unrelated, professional investor, or evidence of other value as indicated by the assessment of the financial condition of the investment based on third party financing, operational results, forecasts, and other developments since acquisition.

(b) Warrants of privately-held securities are recorded at their estimated fair value using a recognized valuation model, with management making maximum use of publicly available inputs, such as data from comparable companies which are publicly traded with appropriate adjustments to reflect the individual company circumstances and to reflect the fact that they are privately-held.

(c) The resulting values for non-publicly traded investments may differ from values that would be determined had a ready market existed. In addition, the amounts at which the Partnership's privately-held investments could be disposed of currently may differ from the carrying value assigned, and the differences could be material.

#### e. Cash and cash equivalents

Cash is comprised of cash and demand deposits with original maturities of three months or less, is held with a Canadian Chartered Bank and with the Partnership's Portfolio Advisor and has been measured at fair value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### f. Income and expense recognition

Securities transactions are recorded on a trade date basis. Dividend income is recognized on the ex-dividend date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the statement of operations and calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains and losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. Interest is recorded on an accrual basis. All costs directly attributable to revenue generation are expensed as incurred.

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## 2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- g. Increase (decrease) in net assets from operations per partnership unit

The increase (decrease) in net assets from operations per partnership unit in the statements of operations represents the change in net assets from investment operations for the period, divided by the average number of units outstanding during the year.

- h. Issuance costs

Expenses related to the offering of partnership units have been accounted for as a reduction of net assets.

- i. Foreign currency translation

The fair value of foreign investments denominated in foreign currencies is translated into Canadian dollars at exchange rates prevailing at the close of each valuation day. Purchases and sales of securities denominated in foreign currencies and the related income are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

- j. Reconciliation of net asset value (NAV)

The Partnership determines the fair value of its investments for purposes of preparing financial statements by following the recommendations contained in CICA Handbook Section 3855 *Financial Instruments – Recognition and Measurement*, which, as described above, requires the use of bid prices for securities owned and traded in an active market. Pursuant to National Instrument 81-106 *Investments Funds: Continuous Disclosure* (NI 81-106), an investment fund must also follow Canadian GAAP when determining its net asset value for all other purposes. The Canadian Securities Administrators (CSA) interim relief from complying with Section 3855, for the purposes of calculating and reporting of net asset value for other than GAAP NAV (referred to as Net asset value or Trading NAV) was incorporated into the amended NI 81-106 issued in September 2008. Accordingly, the net asset value computed by the Partnership for all other purposes follows its historic methods of valuing listed securities at their last traded price. A reconciliation as at December 31, 2008 between the Trading NAV and the net assets calculated in accordance with Section 3855 of an investment fund (Net assets or GAAP NAV) has been provided in note 11.

- k. New accounting policies

### Capital disclosures

On January 1, 2008, the Partnership adopted CICA Section 1535 *Capital Disclosures*. This section specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Partnership has discussed this disclosure in note 7.

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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### 2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### k. New accounting policies *(continued)*

##### Financial Instruments – *Disclosures and Presentation*

On January 1, 2008, the Partnership adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. They modify and improve requirements pertaining to disclosures and maintain the requirements in connection with presentation. These new sections give greater importance to disclosures in terms of the nature and scope of the risks associated with financial instruments, and the way the entity manages these risks. The adoption of the new standards did not impact the reported net asset value of the Partnership. The Partnership has included disclosures recommended by the sections in note 6.

##### Accounting Changes

On January 1, 2008, the Partnership adopted revised *CICA Section 1506 Accounting Changes*, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information. There is no material impact to the Partnership's audited annual financial statements for the year ended December 31, 2008 as a result of implementing this new standard.

##### General Standards of Financial Statement Presentation

On January 1, 2008, the Partnership adopted the amendments of CICA Section 1400, *General Standards of Financial Statement Presentation*. Section 1400 was amended to include requirements to assess and disclose the entity's ability to continue as a going concern. In the General Partner's opinion, the adoption of this standard had no material impact on the financial statements of the Partnership.

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## 2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### I. Recent Accounting Pronouncements

#### International Financial Reporting Standards

The Canadian Accounting Standards Board (“AcSB”) in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over a five-year transitional period.

In February 2008 the AcSB announced that 2011 is the changeover date for publicly-accountable enterprises to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Partnership for the year ended December 31, 2010. As the Partnership is expected to be dissolved before December 31, 2010, the Partnership is not expected to have to implement IFRS accounting and disclosure requirements.

## 3) EXPENSES OF THE PARTNERSHIP

- a. The General Partner is entitled to an annual fee of 1.25% of the NAV of the Partnership, as defined.
- b. The Portfolio Advisor, Bolder Investment Partners, Ltd, is entitled to an annual fee of 0.75% of the NAV of the Partnership, as defined.
- c. An annual service fee is payable to agents equal to 0.25% of the NAV of the Partnership, as defined.
- d. On dissolution of the Partnership or implementation of a Liquidity Alternative (the payment due date), the General Partner and the Portfolio Advisor will each be entitled to an incentive bonus of an amount calculated as 10% of the amount by which:
  - (i) the Net Asset Value per unit at the payment date, plus
  - (ii) all distributions per unit on or prior to the payment date plus 10% per annum, compounded annually from the date of distribution, exceeds
  - (iii) the sum of \$10 plus appreciation thereon of 12% per annum, compounded annually from the closing of the sale of the units.

As at December 31, 2008 this threshold had not been reached; accordingly, no provision for the incentive bonus has been accrued.

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## 3) EXPENSES OF THE PARTNERSHIP *(continued)*

- e. The Partnership will pay all costs for the offering of units in the Partnership and all costs of administration of the Partnership.
- f. Commissions and other portfolio transaction costs incurred during the year totalled \$7,292 (2007: \$41,445) and they reflect trading commissions incurred on securities bought and sold during the period.
- g. Interest expense incurred during the year ended December 31, 2008 totalled \$NIL (2007: \$45,007) as the promissory note was repaid in 2007 in accordance with its terms.

## 4) PARTNERSHIP UNITS

All partnership units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Partnership and the right to one vote at any meeting of the limited partners. All units were issued in 2006.

The Partnership completed two closings in 2006 by issuing in the aggregate 762,271 units for gross proceeds of \$7,622,710 less issuance costs of \$962,430 for net proceeds of \$6,660,280. No further units were issued or redeemed since.

## 5) INCOME TAXES

No provision for income taxes has been recorded in the accompanying financial statements as the annual income (loss) of the Partnership is allocated to unit holders, who are responsible for any income taxes applicable thereto.

## 6) FINANCIAL INSTRUMENTS

### Investment Objective

The investment objective of the Partnership is to provide its limited partners with a tax assisted investment in a diversified portfolio of flow-through shares of resource issuers engaged in mineral or oil and gas exploration in Canada, with a view to (i) earning income, (ii) maximizing the tax benefit of an investment in units, (iii) preserving capital and (iv) achieving capital appreciation for its limited partners.

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## 6) FINANCIAL INSTRUMENTS *(continued)*

### Investment Strategy

The Partnership's investment strategy entails investing in a diversified portfolio of flow-through shares of resource issuers that will incur, and renounce to the Partnership, Canadian exploration expenses which the Partnership intends to flow through to limited partners. The Partnership's principal strategy is to invest in flow-through shares of intermediate and junior resource issuers that have experienced and capable senior management, well planned exploration programs, and superior potential for future growth, where such flow-through shares can be acquired at attractive prices.

Management of the investment portfolio may involve the sale of flow-through shares or other securities held by the Partnership and the reinvestment of the net proceeds from any such dispositions in flow-through shares and other shares of resource issuers or in high quality liquid investments.

### Financial instruments risk management

The Partnership's financial instruments consist of cash and cash equivalents, investments, amounts due to the General Partner and accounts payable and accrued liabilities. As a result, the Partnership is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include market risk, currency risk, interest rate risk, credit risk and liquidity risk.

These risks and related risk management practices employed by the Partnership are discussed below:

#### (i) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market prices. The investments of the Partnership are subject to market fluctuations and the risk inherent in the financial markets. The maximum risk resulting from purchased securities held by the Partnership is limited to the fair value of these investments. The General Partner moderates this risk through careful selection of securities within the investment objective and strategy. The Partnership's investments are concentrated in the Canadian natural resources sector. The Partnership's overall market positions are monitored on a daily basis by management of the General Partner and are reviewed on a quarterly basis by the Board of Directors.

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

### 6) FINANCIAL INSTRUMENTS *(continued)*

#### (i) Market Risk *(continued)*

The Partnership's overall exposure is managed by the investment restrictions outlined in the prospectus which states that the Partnership will not purchase more than 9.99% of the issued and outstanding voting securities of any investment. The Partnership's investments as at December 31, 2008 comprise:

		British Columbia		Alberta		Ontario		Other		Total
<b>Public</b>										
Minerals	\$	398,412	\$	65,260	\$	85,630	\$	-	\$	549,302
Oil & Gas		28,129		25,732		-		2,204		56,065
Other		48,111		24,990		-		-		73,101
<b>Private</b>										
Minerals		7,500		-		-		-		7,500
Oil & Gas		-		-		-		-		-
Other		-		-		-		-		-
<b>Total</b>	\$	<b>482,152</b>	\$	<b>115,982</b>	\$	<b>85,630</b>	\$	<b>2,204</b>	\$	<b>685,968</b>

During the fourth quarter of 2008, global stock markets experienced significant turbulence due to a convergence of adverse credit, liquidity and economic developments. As the Partnership predominantly invests in equity securities, exposure to market risk and returns has been impacted by the general market downturn. The Portfolio Advisor has managed the overall Partnership exposure by adherence to the overall investment restrictions of the Partnership.

At December 31, 2008, the Partnership's market risk is impacted by market prices and the commodity, oil and gas prices. If market prices for the resource sector increased by 10%, assuming all other variables remain constant, this would have increased net assets by \$69,000.

#### (ii) Currency Risk

Currency Risk is the risk that arises from the change in price of one currency against another. The Partnership holds one security that is denominated in a currency other than Canadian dollar. This security is converted to the Partnership's functional currency (Canadian dollar) in determining fair value, and fair value is subject to fluctuations relative to the strengthening or weakening of the functional currency. As at December 31, 2008, had the Canadian dollar strengthened or weakened by 3% in relation to the U.S. dollar, with all other variables held constant, the impact on net assets would not have been significant. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be significant. Cash and cash equivalent, investments and liabilities are all denominated in the Canadian currency. Therefore, the Partnership's exposure to currency risk is minimal.

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## 6) FINANCIAL INSTRUMENTS *(continued)*

### (iii) Interest Rate Risk

Interest rate risk is the risk borne by an interest-bearing financial instrument that is attributed to interest rate fluctuations. The majority of the Partnership's investments and liabilities are non-interest bearing. As a result, the Partnership is not subjected to a significant amount of risk relative to fluctuations in the prevailing market interest rate levels. As at December 31, 2008 the Partnership invested excess cash in demand deposits with maturities of less than three months and the interest rate was fixed for this period.

### (iv) Credit Risk

Credit risk is the risk of loss due to failure of a counterparty to satisfy its obligations. The Partnership's only credit risk concentration is the demand deposits and the cash held by the Portfolio Advisor. The Partnership limits its exposure to credit losses by investing excess cash in high-credit-quality issuers and maintaining minimum balances with the Portfolio Advisor.

All transactions in listed securities are settled upon delivery using approved brokers. The risk of default is considered minimal, as the delivery of those securities sold is made only when the broker has received payment. Payment is made on purchase and when the security is received by the broker. The trade will fail to consummate if either party fails to meet the obligations.

Transactions in private placements are performed by either brokered or non-brokered placements. Brokered placements are indemnified by the brokers and thus the risk of default is considered minimal, as the delivery of those securities sold is made only when the broker has received payment. Payment is made on purchase and when the security is received by the broker. Non-brokered placements may or may not use lawyers to intermediate the transactions and as such the risk of default is higher than that of brokered deals. However, this risk is mitigated by the experience and the review process of each transaction by the Board of Directors and the Portfolio Advisor.

The Portfolio Advisor monitors the Partnership's credit position regularly, and the Board of Directors reviews it on a periodic basis. The Partnership has not identified any past due assets or receivables as at December 31, 2008.

### (v) Liquidity Risk

Liquidity risk is the risk that the Partnership will not be able to generate sufficient cash resources to fulfill its payment obligations. The Partnership invests in securities that are or will be readily tradable in an active market. The Partnership also invests in early stage resource companies which may be publicly listed securities but thinly traded or in privately held companies. The Partnership is able to readily dispose of securities if necessary to fund the Partnership's obligations in the normal course of operations. Under the terms of the Limited Partnership Agreement there are no redemptions permitted until the dissolution of the Partnership.

# Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## 7) MANAGEMENT OF CAPITAL

The Partnership's objectives when managing capital (defined as Partnership Equity plus Loan Facility) are:

- a. To ensure that the Partnership maintains the level of working capital necessary to meet the requirements of its operations and loan facility;
- b. To allow the Partnership to respond to changes in economic and/or marketplace conditions by maintaining the Partnership's ability to purchase new investments;
- c. To optimize the limited partners':
  - (i) Income tax deductions through the acquisition of flow-through investments; and
  - (ii) Unit value by capitalizing on investment opportunities;
- d. To ensure that the obligations to the limited partners for distributions are met.

The Partnership manages its capital and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Partnership maintains or adjusts the components of its capital to enable it to meet its objectives by:

- (i) Realizing proceeds from the disposition of its investments;
- (ii) Borrowing funds in the form of advances from related parties;

The Partnership is not subject to any capital requirement imposed by a regulator. It is required to maintain a guaranteed investment certificate as collateral for its loan facility. There were no changes in the Partnership's approach to capital management during the period. The Partnership's management is responsible for the management of capital and monitors the Partnership's requirements on a daily basis. The Partnership expects that its current capital resources will be sufficient to discharge its liabilities as at December 31, 2008.

The Partnership considers the partnership equity and loans outstanding as part of its capital. The Partnership is not subject to any externally imposed capital requirements.

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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### 8) RELATED PARTY TRANSACTIONS

The following transactions occurred with related parties and are recorded at the exchange amount being the price agreed between the parties:

- a. The General Partner was paid \$46,225 during the year ended December 31, 2008 (2007: \$86,918) for management fees;
- b. The General Partner was reimbursed \$NIL during the year ended December 31, 2008 (2007: \$15,000) for administrative costs attributable to the Partnership and this amount is disclosed in unitholder communication and administration expense;
- c. A private corporation controlled by two directors of the parent corporation of the General Partner was paid \$40,000 during the year ended December 31, 2008 (2007: \$40,000) for accounting and financial service fees. This amount is disclosed in unitholder communication and administration expense;
- d. A private corporation controlled by a director of the parent corporation of the General Partner was paid \$NIL during the year ended December 31, 2008 (2007: \$6,250) for unitholder administration and communication fees;
- e. The parent corporation of the General Partner was reimbursed \$19,966 during the year ended December 31, 2008 (2007: \$68) for unitholder administration and communication costs;
- f. A corporation of which a director of the parent corporation of the General Partner is a partner was paid legal fees during the year ended December 31, 2008 of \$10,723 (2007: \$NIL);
- g. Investments purchased in companies related through common directorships during the year ended December 31, 2008 were \$NIL (2007: \$158,750) and investments disposed in companies related through common directorships during the year ended December 31, 2008 were \$172,185 (2007: \$165,960) for proceeds of \$194,169 (2007: \$379,387);
- h. The General Partner is due a balance as at December 31, 2008 of \$13,034 (2007: \$74,217). The balance is unsecured, non-interest bearing and due in the normal course of operations; and
- i. The parent corporation of the General Partner is due a balance as at December 31, 2008 of \$5,090 (2007: \$NIL) and the amount is included in accounts payable and accrued liabilities. The balance is unsecured, non-interest bearing and due in the normal course of operations.

## Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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### 9) SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no significant non-cash financing activities during the fiscal year ended December 31, 2008 and 2007.

### 10) PARTNERSHIP DISTRIBUTION

During the fiscal year ended December 31, 2008, the Partnership made no cash distributions (2007: \$762,271).

### 11) RECONCILIATION OF NET ASSET VALUE

In accordance with the decision made by the CSA, a reconciliation between the net asset value and the net assets of an investment fund is required for the financial reporting periods. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices for long positions and ask prices for short positions 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, 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. These changes account for the difference between net asset value and net assets. Accordingly, an adjustment "Transitional adjustment on application of Section 3855" has been reflected in the Statements of Changes in Net Assets for the year ended December 31, 2007. The reconciliation below is as at December 31, 2007:

	Net assets (GAAP NAV)	Increase using closing prices for value	Net asset value (Trading NAV)	Transitional adjustment on application of Section 3855
per unit	\$7.26	\$0.16	\$7.42	\$(0.03)
Total	\$5,535,105	\$122,118	\$5,657,223	\$(26,379)

As at December 31, 2008, the reconciliation of GAAP NAV to Trading NAV is:

	Net assets (GAAP NAV)	Increase using closing prices for value	Net asset value (Trading NAV)
per unit	\$2.49	\$0.07	\$2.56
Total	\$1,898,510	\$52,355	\$1,950,865

# **Canadian Small Cap Resource Fund 2006 No. 1 Limited Partnership**

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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## **12) COMPARATIVE FIGURES**

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