

**CANADIAN SMALL CAP RESOURCE FUND
2007 No. 1 LIMITED PARTNERSHIP**

Financial Statements

**For the year ended December 31, 2008 and for the period from inception on December 18,
2006 to December 31, 2007**

(Expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

The accompanying financial statements of Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership (the Partnership) have been prepared by the management of Canadian Small Cap Resource Fund 2007 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 2007 No. 1 Limited Partnership

We have audited the statements of net assets of Canadian Small Cap Resource Fund 2007 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 year ended December 31, 2008 and for the period from inception on December 18, 2006 to December 31, 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 year ended December 31, 2008 and for the period from inception on December 18, 2006 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia, Canada

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Statements of Net Assets

As at December 31, 2008 and 2007

(Expressed in Canadian Dollars)

	2008	2007
Assets		
Investments at fair value	\$ 1,479,060	\$ 13,660,386
Cash	11,537	112,189
Other receivable	-	32,106
Total Assets	\$ 1,490,597	\$ 13,804,681
Liabilities		
Promissory note (note 5)	\$ 128,750	\$ 1,030,000
Accounts payable and accrued liabilities	33,900	43,506
Due To General Partner (note 8 (h))	9,962	108,979
	172,612	1,182,485
Net Assets	\$ 1,317,985	\$ 12,622,196
Number of partnership units outstanding (notes 1 and 4)	1,031,354	1,031,354
Net assets per partnership unit	\$ 1.28	\$ 12.24

Subsequent event (note 5)

On behalf of the Board of Directors of Canadian Small Cap Resource Fund 2007 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 2007 No. 1 Limited Partnership

Statements of Operations

(Expressed in Canadian Dollars)

	Year ended December 31, 2008	From inception on December 18, 2006 to December 31, 2007
Investment income:		
Interest income	\$ 6,287	\$ 18,383
Expenses:		
Unitholder administration and communication	127,771	91,617
General Partner fee (note 3 (a))	87,206	78,158
Interest expense (note 3 (f))	72,052	32,756
Portfolio Advisory fee (note 3 (b))	43,604	39,079
Audit fees	37,965	25,000
Commissions and other portfolio transaction costs (note 3 (e))	29,078	1,834
Legal fees	7,109	1,012
	404,785	269,456
Net investment loss	(398,498)	(251,073)
Realized gain on sale of investments	301,331	156,926
Change in unrealized (depreciation)/appreciation of investments	(11,207,044)	3,697,870
(Decrease)/increase in net assets from operations	\$ (11,304,211)	\$ 3,603,723
Net investment loss per unit	\$ (0.39)	\$ (0.24)
Realized gain on sale of investments per unit	0.29	0.15
Change in unrealized (depreciation)/appreciation of investments per unit	(10.87)	3.58
(Decrease)/increase in net assets from operations per partnership unit	\$ (10.96)	\$ 3.49

The accompanying notes are an integral part of these financial statements.

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Statements of Changes in Net Assets

(Expressed in Canadian Dollars)

	Year ended December 31, 2008	From inception on December 18, 2006 to December 31, 2007
Net assets, beginning of period	\$ 12,622,196	\$ -
(Decrease) increase in net assets from operations	(11,304,211)	3,603,723
Partners' transactions:		
Proceeds from issuance of partnership units (notes 1 and 4)	-	10,313,540
Cost of issuance of partnership units (note 1)	-	(1,295,067)
	-	9,018,473
Net assets, end of period	\$ 1,317,985	\$ 12,622,196

The accompanying notes are an integral part of these financial statements.

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Statements of Cash Flows

(Expressed in Canadian Dollars)

	Year ended December 31, 2008	From inception on December 18, 2006 to December 31, 2007
Cash Flows from (used in):		
Operating Activities:		
(Decrease)/increase in net assets from operations	\$ (11,304,211)	\$ 3,603,723
Realized gain on sale of investments	(301,331)	(156,926)
Change in unrealized depreciation/(appreciation) of investments	11,207,044	(3,697,870)
	(398,498)	(251,073)
Purchase of investments	(1,336,345)	(9,989,550)
Proceeds on sale of investments	2,611,958	183,960
Net change in non-cash balances related to operations	(76,517)	120,379
	800,598	(9,936,284)
Cash Flows from (used in):		
Financing Activities		
(Repayment of)/proceeds from promissory note	(901,250)	1,030,000
Units issued	-	10,313,540
Issue costs	-	(1,295,067)
	(901,250)	10,048,473
(Decrease) increase in cash during the period	(100,652)	112,189
Cash, beginning of period	112,189	-
Cash, end of period	\$ 11,537	\$ 112,189
Cash is comprised of:		
Cash	\$ 11,537	\$ 112,189
Supplemental cash flow information		
Cash received during the period for interest	\$ 6,287	\$ 18,099
Cash paid during the period for interest	\$ 72,052	\$ 32,756
Supplemental disclosure with respect to cash flows (note 10)		

The accompanying notes are an integral part of these financial statements.

Canadian Small Cap Resource Fund 2007 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
PUBLICLY-TRADED:							
Alto Ventures Ltd.	2,880,000	-			\$ 374,400	\$ 86,400	5.84%
Arsenal Energy Inc.	388,500	-			167,055	71,873	4.86%
Astral Mining Corp.	493,000	-			230,527	24,650	1.67%
Astral Mining Corp.	-	250,000	3-May-09	0.65	16,200	827	0.06%
Athabasca Potash Inc.*	90,000	-			81,000	99,900	6.75%
Capella Resources Ltd.	109,000	-			198,384	4,905	0.33%
Capella Resources Ltd.	-	62,500	04-Mar-09/10	0.50/0.75	22,495	1,000	0.07%
Eagle Plains Resources Ltd.	40,000	-			27,798	5,000	0.34%
Eagle Plains Resources Ltd.	-	178,500	21-Jun-09	1.00	900	363	0.02%
Eloro Resources Ltd.	255,000	-			165,700	12,750	0.86%
Eloro Resources Ltd.	-	192,500	17-Feb-09	0.95	75	-	0.00%
Fjordland Exploration Inc.	1,751,000	-			367,678	61,285	4.14%
Garson Gold Corp.	447,000	-			143,040	13,410	0.91%
Golden Band Resources Inc.	694,500	-			375,478	111,120	7.51%
Golden Band Resources Inc.	-	930,000	28-Sep-09	0.75	8,700	4,577	0.31%
Gowest Amalgamated Resources Ltd.	1,100,000	-			228,892	16,500	1.12%
International Bethlehem Mining Corp.	710,000	-			189,108	10,650	0.72%
Kettle River Resources Ltd.	1,750,000	-			350,000	52,500	3.55%
Knight Resources Ltd.	183,500	-			73,106	6,423	0.43%
Laurion Mineral Exploration Inc.	974,000	-			103,317	14,610	0.99%
Laurion Mineral Exploration Inc.	-	500,000	16-Nov-09	0.20	8,925	1,237	0.08%
Lions Gate Energy Inc.	1,600,000	-			199,700	32,000	2.16%
Menika Mining Ltd.	1,667,000	-			197,802	50,010	3.38%
Menika Mining Ltd.	-	833,500	15-Jun-09	0.25	2,238	348	0.02%
Moneta Porcupine Mines Inc.	833,000	-			149,940	37,485	2.53%
Moss Lake Gold Mines Ltd.	600,000	-			198,000	111,000	7.51%
Mountain Boy Minerals Ltd.	691,000	-			388,734	34,550	2.34%
Mountain Boy Minerals Ltd.	-	833,500	20-Sept-09	0.60	31,200	389	0.03%
New Nadina Explorations Ltd.	467,500	-			94,281	51,425	3.48%
Otish Energy Inc. (formerly Kakanda Resources Corp.)	553,666	-			166,100	16,610	1.12%
Pacific Cascade Minerals Inc.	793,000	-			237,472	19,825	1.34%
PanTerra Resource Corp.	716,500	-			250,775	39,408	2.66%
Pinnacle Mines Ltd.	424,000	-			212,000	23,320	1.58%
Pinnacle Mines Ltd.	-	245,000	9-Apr-09	1.00	-	22	0.00%
Prophecy Resource Corp.	650,000	-			225,700	16,250	1.10%
Prophecy Resource Corp.	-	325,000	30-Apr-09	0.45	1,800	-	0.00%
Redcliffe Exploration Inc.	185,000	-			122,100	33,300	2.25%
Sage Gold Inc.	225,000	-			44,369	18,000	1.22%
Sanatana Diamonds Inc.	712,200	-			178,810	49,852	3.37%
Sanatana Diamonds Inc.	-	667,500	23-Apr-09	0.35	65,325	2,508	0.17%
Superior Canadian Resources Inc.	2,800,000	-			349,100	14,000	0.95%
Superior Canadian Resources Inc.	-	1,400,000	23-Oct-09	0.20	900	-	0.00%
Tagish Lake Gold Corp.	1,200,000	-			202,620	12,000	0.81%
Tagish Lake Gold Corp.	-	750,000	22-Apr-09	0.25	1,725	-	0.00%

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Statement of Investments *(continued)*

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
PUBLICLY-TRADED <i>(continued)</i>:							
TTM Resources Inc.	102,000	-			\$ 152,588	\$ 17,340	1.17%
Uranium North Resources Corp.	1,547,500	-			1,147,000	108,325	7.32%
Wildcat Exploration Ltd.	1,950,000	-			487,500	58,500	3.96%
ZincCorp Resources Inc.	1,661,000	-			244,460	83,050	5.62%
ZincCorp Resources Inc.	-	1,700,000	2-Oct-09	0.25	4,800	19,724	1.33%
					<u>8,489,817</u>	<u>1,449,221</u>	<u>97.98%</u>
PUBLICLY-TRADED - HALTED:							
Tajzha Ventures Ltd.	715,000	-			226,025	1	0.00%
Tajzha Ventures Ltd.	-	715,000	24-Jul-09	0.45	24,225	-	0.00%
					<u>250,250</u>	<u>1</u>	<u>0.00%</u>
PRIVATELY-TRADED:							
Blind Creek Resources Ltd.	500,000	-			244,975	29,838	2.02%
Blind Creek Resources Ltd.	-	250,000	11-Mar-09	0.65	5,025	-	0.00%
					<u>250,000</u>	<u>29,838</u>	<u>2.02%</u>
TOTAL					<u>\$ 8,990,067</u>	<u>\$ 1,479,060</u>	<u>100.00%</u>

*Related to the General Partner through common directorship

The accompanying notes are an integral part of these financial statements.

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

1) FORMATION OF PARTNERSHIP

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership (the Partnership) was formed as a limited partnership under the Limited Partnerships Act (Ontario) on December 18, 2006 and commenced active operations on January 1, 2007. 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 2007 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, 2007, the Partnership issued 1,031,354 units at \$10 per unit for gross proceeds of \$10,313,540 less issuance costs of \$1,295,067 for net proceeds of \$9,018,473. At December 31, 2008, the General Partner held no units in the Partnership.

The General Partner may propose to the limited partners at a special meeting of the limited partners that will be held no later than March 31, 2009, one or more alternatives to the termination of the Partnership (Liquidity Alternatives). If a Liquidity Alternative is not approved by a majority of the limited partners, the terms of the Limited Partnership Agreement will be dissolved on or about June 30, 2009, unless this date is extended by extraordinary resolution of the limited partners.

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 these 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 values 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 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

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.

(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.

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d. Investments *(continued)*

(ii) Privately-held investments *(continued)*

(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

Cash is comprised of cash and demand deposits with original maturities of three months or less and is held with a Canadian Chartered Bank and with the Partnership's Portfolio Advisor and has been measured at fair 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.

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 period.

h. Issuance costs

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

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i. New accounting policies

Capital disclosures

On January 1, 2008, the Partnership adopted CICA Handbook 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.

Financial Instruments – *Disclosures and Presentation*

On January 1, 2008, the Partnership adopted CICA Handbook Section 3862, “*Financial Instruments – Disclosures*” and CICA Handbook Section 3863, “*Financial Instruments – Presentation*” for the year ended December 2008. These sections replace Section 3861, “*Financial Instruments – Disclosure and Presentation*” to 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 Handbook 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 Handbook 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 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

2) SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j. 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 PARTNERSHIP

- a. The General Partner is entitled to an annual fee of 1.50% of the Net Asset Value (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. 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) the aggregate amount per Unit of all distributions paid prior to that time, exceeds \$11.65.

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

- d. The Partnership will pay all costs for the offering of units in the Partnership and all costs of administration of the Partnership.
- e. Commissions and other portfolio transaction costs incurred during the period totalled \$29,078 (2007: \$1,834) and they reflect trading commissions incurred on securities bought and sold during the period.

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

3) EXPENSES OF PARTNERSHIP *(continued)*

- f. Interest expense incurred during the year ended December 31, 2008 totalled \$72,052 (2007: \$32,756) on promissory note bearing interest at 10.50% per annum through September 20, 2008 and 12.50% per annum thereafter. Refer to note 5 below.

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.

5) PROMISSORY NOTE

During the prior year, the Partnership signed a promissory note to its Portfolio Advisor for a loan of \$1,030,000 with interest at 10.5% per annum, secured by the assets of the Partnership. It is repayable as follows:

- a. \$257,500 on or before March 31, 2008 (paid);
- b. \$257,500 on or before June 30, 2008 (paid); and
- c. The remainder was payable on or before September 20, 2008.

On September 20, 2008, the loan was renegotiated and amended. The amended agreement required that the remainder of the balance of the promissory note be repaid on or before February 25, 2009 with interest of 12.5% per annum. As at December 31, 2008, \$128,750 (2007: \$1,030,000) remains outstanding. On February 9, 2009, the Partnership repaid the promissory note in full.

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.

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.

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

6) FINANCIAL INSTRUMENTS *(continued)*

Financial instruments risk management

The Partnership's financial instruments consist of cash, investments, amounts to the General Partner, promissory note 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 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.

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
Public										
Minerals	\$	638,911	\$	19,363	\$	211,582	\$	274,097	\$	1,143,953
Oil & Gas		-		144,582		-		-		144,582
Other		160,687		-		-		-		160,687
Private										
Minerals		29,838		-		-		-		29,838
Oil & Gas		-		-		-		-		-
Other		-		-		-		-		-
Total	\$	829,436	\$	163,945	\$	211,582	\$	274,097	\$	1,479,060

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

6) FINANCIAL INSTRUMENTS *(continued)*

(i) Market Risk *(continued)*

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 \$148,000. The fair values of private companies do not have a direct correlation to market prices.

(ii) Currency Risk

Currency risk is the risk that arises from the change in price of one currency against another. The Partnership holds no security that is denominated in a currency other than Canadian dollar. Cash, amounts due to General Partner, promissory notes and accounts payable and accrued liabilities are denominated in Canadian currency. Therefore, the Partnership has no exposure to currency risk.

(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 Partnership's promissory note bears interest at a fixed annual rate. The Partnership's investments, amounts due to General Partner and accounts payable and accrued liabilities are non-interest bearing. As at December 31, 2008 the Partnership's cash is held with a Canadian Chartered Bank and with the Portfolio Advisor with maturities of less than three months and the interest rate was fixed for this period. As a result, the Partnership is not subject to a significant amount of risk relative to fluctuations in the prevailing market interest rate levels.

(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 their 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.

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Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

6) FINANCIAL INSTRUMENTS *(continued)*

(iv) Credit Risk *(continued)*

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.

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;

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Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

7) MANAGEMENT OF CAPITAL *(continued)*

- 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.

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 management fees during the year ended December 31, 2008 of \$87,206 (2007: \$78,158);
- b. The parent corporation of the General Partner was reimbursed during the year ended December 31, 2008 \$20,027 (2007: \$30,497) for administrative costs attributable to the Partnership and the amount is disclosed in unitholder administration and communication expense;
- c. An officer of the parent corporation of the General Partner was reimbursed \$NIL during the year ended December 31, 2008 (2007: \$383) for travel expenses and this amount is disclosed in unitholder administration and communication expense;
- d. A private company controlled by two directors of the parent corporation of the General Partner was paid \$45,000 during the year ended December 31, 2008 (2007 - \$45,000) for accounting and financial service fees of which \$45,000 (2007: \$30,000) is disclosed in unitholder administration and communication expense and \$NIL (2007: \$15,000) is in issue costs;

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

Notes to the Financial Statements

December 31, 2008

(Expressed in Canadian Dollars)

8) RELATED PARTY TRANSACTIONS *(continued)*

- e. Officers of the parent corporation of the General Partner were reimbursed \$NIL during the year ended December 31, 2008 (2007: \$869) for issue costs;
- f. A private corporation in which a director of the parent corporation of the General Partner is a partner, was paid \$2,784 during the year ended December 31, 2008 (2007: \$ NIL) for legal fees;
- g. Investment purchased in a company related through common directorships during the year ended December 31, 2008 was \$NIL (2007: \$174,960) and investment disposed in a company related through common directorships during the year ended December 31, 2008 was \$68,760 (2007: \$25,200) for proceeds of \$234,278 (2007: \$183,960);
- h. The General Partner is due a balance as at December 31, 2008 of \$9,962 (2007: \$108,979). 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 \$5,250 (2007: \$43,506) 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.

9) 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.

10) SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

11) COMPARATIVE FIGURES

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

12) PARTNERSHIP DISTRIBUTION

During the fiscal year ended, the Partnership made no cash distributions (2007: \$NIL).

13) DETERMINATION OF NET ASSET VALUE

Under the terms of the Limited Partnership Agreement, NAV for transaction purposes is the same as that reported under Canadian GAAP.