

# **Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership**

## **2008 Annual Management Report of Fund Performance**

### **For the year ended December 31, 2008**

---

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership (the Partnership). You can get a copy of the annual financial statements at your request, and at no cost, in the following ways: by calling our toll free number 1 888 350 8818, or by writing to us at Suite 450, 650 W. Georgia Street, Vancouver, BC, CANADA V6B 4N8 or by visiting our website at [www.cscrf.ca](http://www.cscrf.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

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

## **Management Discussion of Fund Performance**

This management discussion of the Partnership's performance presents the views of Canadian Small Cap Resource Fund 2007 No. 1 Management Ltd. (the General Partner) about the significant factors and developments affecting the Partnership's performance and outlook for the period from January 1, 2008 to December 31, 2008.

Please read the caution regarding forward-looking statements located at the end of the document.

## **Investment objectives and strategies**

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.

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 junior and intermediate 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**

## **2008 Annual Management Report of Fund Performance**

### **For the year ended December 31, 2008**

---

#### **Risk**

The overall risk of the Partnership is as described in the prospectus dated April 27, 2007.

There were no material changes to the Partnership over the financial period that affected the overall level of risks associated with an investment in the Partnership. The suitability and investor risk tolerance of the Partnership remain as disclosed in the prospectus.

#### **Results of Operations**

The Partnership was formed on December 18, 2006. The first closing of 692,607 Partnership units took place in May 2007 and a second closing of a further 338,747 partnership units followed in June 2007. The Partnership received gross proceeds of \$10,313,540 from the sale of Partnership units, and as a result, incurred \$1,295,067 in issue costs for net proceeds of \$9,018,473.

For the period ended December 31, 2008, the Partnership earned investment income of \$6,287 (2007: \$18,383) from interest income on demand deposits. This decrease relative to last year is due to the fact that the Partnership maintained lower cash balances during the year, thus maximizing its holdings in equity investments, combined with slightly lower interest rates experienced during 2008.

Audit fees for the period were \$37,965 (2007: \$25,000), legal costs were \$7,109 (2007: \$1,012), commissions and other portfolio transaction costs were \$29,078 (2007: \$1,834) and unitholder administration and communication costs were \$127,771 (2007: \$91,617). These costs are higher in relation to the prior year, due to the fact that there was a significantly higher volume of trading activity that occurred in fiscal 2008 relative to 2007.

Portfolio Advisory fees of \$43,604 (2007: \$39,079) and General Partner fees of \$87,206 (2007: \$78,158) were calculated in accordance with the formulas outlined in the prospectus. The increase in these respective fees for fiscal 2008 in relation to the prior year is due to the fact that the closings of the public offering occurred in May and June 2007 and as such only two quarters of fees were calculated in fiscal 2007. Therefore, even though there was a significant decline in the Partnership's net asset value for 2008, the fact that four quarters of fees were calculated for fiscal 2008, resulted in the Partnership incurring higher fees relative to 2007.

# Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

## 2008 Annual Management Report of Fund Performance

### For the year ended December 31, 2008

---

During fiscal 2007 the Partnership entered into a promissory note. For fiscal 2008, the minimum amount borrowed during the period is \$128,750 and the maximum amount borrowed during the period is \$1,030,000. As at December 31, 2008, \$128,750 remains outstanding and represents 9.77% of NAV. The Partnership incurred interest expense of \$72,052 (2007: \$32,756) on this note. The promissory note was used solely to finance the Agents' fees and other expenses of the sale of partnership units, in order to maximize the available funds that could be invested in flow-through shares and thus write offs to unitholders. The promissory note bears interest at 10.5% per annum, and is secured by the assets of the Partnership. It is repayable as follows:

\$257,500 on or before March 31, 2008 (paid);  
\$257,500 on or before June 30, 2008 (paid); and  
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. On February 9, 2009, the Partnership repaid the promissory note in full.

The net investment loss for the year ended December 31, 2008 was \$398,498 or \$0.39 per partnership unit (2007: \$251,073 or \$0.24 per partnership unit) as a result of the above explained activities.

During the 2008 fiscal year, the Partnership experienced a change in unrealized depreciation of investments of \$11,207,044 or \$10.87 per partnership unit (2007: appreciation - \$3,697,870, or \$3.58 per partnership unit). This represents the net decrease in the fair value of the portfolio at December 31, 2008 over the original purchase cost of the investments. This significant decrease for the year is a result of the turbulent economic environment experienced in the fourth quarter of 2008 and its resulting impact on the market values of the Partnership's investment portfolio. Even in these turbulent markets the Partnership managed to realized a gain on sale of investments in the amount of \$301,331, or \$0.29 per partnership unit (2007: \$156,926 or \$0.15 per partnership unit). This gain exists primarily due to the fact that the Partnership realized significant gains on sale of its investments in the first part of the year.

The net result of all of the above discussed activities for the year has lead to an overall decrease in net assets from operations in the amount of \$11,304,211 or \$10.96 per partnership unit (2007: Gain of \$3,603,723 or \$3.49 per partnership unit).

### **Recent Developments**

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 a general market downturn. The Portfolio Advisor has managed the overall Partnership exposure by adherence to the overall investment restrictions of the Partnership.

# **Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership**

## **2008 Annual Management Report of Fund Performance**

### **For the year ended December 31, 2008**

---

Continuing weak worldwide market conditions has caused investors to convert holdings into cash as quickly as possible and the lack of liquidity has caused the junior resource sector to drift much lower on thin trading volumes. This market weakness coupled with the ongoing debt crisis in the United States and Europe has resulted in general economic indicators pointing to a worldwide recession.

In this environment the outlook for investment and growth in the resource exploration sector is poor with many companies electing to either postpone, abandon or seek partners and merger candidates for continuing their exploration projects. The result is that across the board, the market capitalizations of these companies have fallen in the last two quarters and shareholders of these companies, such as the Partnership, have experienced an unprecedented unrealized loss on their investment holdings.

The Partnership expects the current volatility in the financial markets to continue, at least in the near term, therefore the Partnership will continue to closely monitor its existing flow-through investment portfolios, with the view of maximizing unit-holder value to the greatest extent possible in these difficult markets.

In 2007, the Partnership established an independent review committee (“IRC”) to whom the General Partner is to refer all conflict of interest matters in order to obtain a recommendation or approval, as applicable. National Instrument 81-107 – Independent Review Committee for Investment Funds (“NI 81-107”) further mandates that the IRC be composed of at least three independent members and required that they conduct assessments and regularly report to the General Partner and unitholders in respect of its duties. There were no transactions in the year which required approval of the IRC.

#### **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 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.

# Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

## 2008 Annual Management Report of Fund Performance

### For the year ended December 31, 2008

---

#### 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;
- 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.

# Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

## 2008 Annual Management Report of Fund Performance

### For the year ended December 31, 2008

---

#### Financial Highlights

The following tables show selected key financial information about the Partnership and are intended to help you understand the Partnership's financial performance for the past two years.

#### The Partnership's Net Assets per partnership unit<sup>(1)(3)</sup>

	For the year ended December 31, 2008 <sup>(3)</sup>	For the period From inception on December 18, 2006 to December 31, 2007 <sup>(2)(5)</sup>
<b>Net assets, beginning of period</b>	\$ 12.24	\$ 10.00
<b>Increase(decrease) from operations:</b>		
Total revenue	\$ 0.00	\$ 0.02
Total expenses	(0.40)	(0.26)
Realized gains for the period	0.29	0.15
Unrealized (losses) gains for the period	(10.87)	3.58
<b>Total (decrease) increase from operations</b>	<b>\$ (10.96)</b>	<b>\$ 3.49</b>
<b>Distributions</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net assets, end of period</b>	<b>\$ 1.28</b>	<b>\$ 12.24</b>

<sup>(1)</sup> This information is derived from the Partnership's audited annual financial statements. The net assets per partnership unit presented in the financial statements do not differ from the net asset value calculated for fund pricing purposes.

<sup>(2)</sup> Results are for the period from inception on December 18, 2006 to December 31, 2007.

<sup>(3)</sup> Results are for the period from January 1, 2008 to December 31, 2008.

<sup>(4)</sup> Net assets and distributions are based on the actual number of partnership units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of partnership units outstanding over the financial period.

<sup>(5)</sup> This schedule is not a reconciliation of NAV since it does not reflect Partner's Transactions as shown on the Statement of changes in net assets, including issues costs, and accordingly the column does not add.

# Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

## 2008 Annual Management Report of Fund Performance

### For the year ended December 31, 2008

---

#### Ratios and Supplemental Data

	For the year ended December 31, 2008	For the period from inception on December 18, 2006 to December 31, 2007
Total net asset value <sup>(1)</sup>	\$ 1,317,985	\$12,622,196
Number of partnership units outstanding <sup>(1)</sup>	1,031,354	1,031,354
Management expense ratio <sup>(3)</sup>	5.39 %	13.63%
Trading expense ratio <sup>(4)</sup>	0.39 %	N/A
Portfolio turnover rate <sup>(5)</sup>	5.78 %	3.77%
Net asset value per partnership unit <sup>(1)</sup>	\$1.28	\$12.24

<sup>(1)</sup> This information is provided as at December 31, 2008 and December 31, 2007, respectively.

<sup>(2)</sup> This information is provided for the period from January 1, 2008 to December 31, 2008, and from inception on December 18, 2006 to December 31, 2007, respectively.

<sup>(3)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of monthly average net asset value during the period. Total expenses, for the initial period, include issuance costs. Issuance costs are typically incurred on the formation of the Partnership, thus the management expense ratio, in the initial period, may be higher than subsequent operating periods.

<sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of monthly average net assets during the period.

<sup>(5)</sup> The Partnership's portfolio turnover rate indicates how actively the Partnership's Portfolio Advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Partnership buying and selling all of the securities in its portfolio once in the course of the year. The higher the portfolio turnover rate in a year, the greater the trading costs payable by the Partnership 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 the Partnership.

#### Management fees

The General Partner has coordinated the organization of the Partnership. The General Partner will develop and implement all aspects of the Partnership's communications, marketing and distribution strategies and will manage the ongoing business, investment and administrative affairs of the Partnership. In consideration for these services and pursuant to the terms of the Partnership Agreement, the Partnership will pay to the General Partner an annual fee equal to 1.50% of the NAV. This fee will be calculated monthly and paid quarterly in arrears based on the NAV at the end of each preceding month. The fee for the period ended December 31, 2008 was \$ 87,206 (2007: \$78,158).

The Portfolio Advisor will provide advice to the Partnership and support for the General Partner in identifying, analyzing and selecting investment opportunities and structures and negotiating prospective investments as agent for the Partnership. For these services the Portfolio Advisor is entitled to an annual fee of 0.75% of the NAV calculated and paid quarterly in arrears. The fee will be paid by the General Partner. The fee for the period ended December 31, 2008 was \$43,604 (2007: \$39,079).

The Partnership will distribute the total of these fees to the General Partner and the General Partner is obliged to the payout of the respective fees to the Portfolio Advisor.

# **Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership**

## **2008 Annual Management Report of Fund Performance**

### **For the year ended December 31, 2008**

---

#### Management fee breakdown:

Administration, communication and marketing: 67%

Investment advice: 33%

In addition to the management and portfolio advisory fees described above, the General Partner and the Portfolio Advisor will each be entitled to an incentive bonus, to be paid on or before the dissolution of the Partnership, as follows:

On the earlier of (i) the business day prior to the implementation of a Liquidity Alternative and (ii) the date of dissolution of the Partnership, the Partnership shall distribute to each of the General Partner and the Portfolio Advisor an amount in respect of each Partnership Unit then outstanding equal to 10% of the amount by which the sum of the NAV per Partnership Unit as of that date and all distributions per Unit on or prior to that date, exceeds \$11.65.

### **Past Performance**

The information below indicates the annual compounded returns of the investment portfolio for the periods shown. NAV returns are calculated using the NAV per partnership unit.

For calculation purposes, the inception price is set equal to the NAV per partnership unit on the Partnership's formation date of December 18, 2006, less issue costs.

Partnership returns do not take into account sales, redemptions, distributions or optional charges that would have reduced returns or performance. Past performance of the investment portfolio does not necessarily indicate its future performance.

# Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

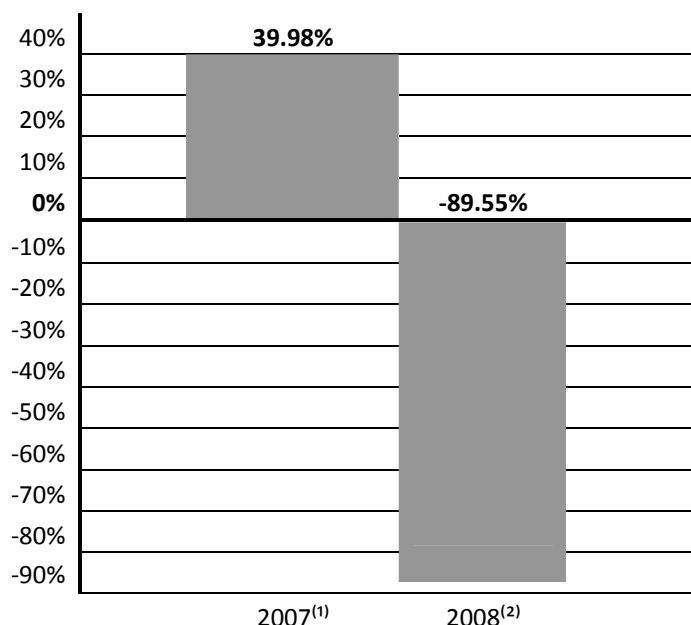
## 2008 Annual Management Report of Fund Performance

### For the year ended December 31, 2008

---

#### Year by Year Returns

The chart shows the annual performance of the investment portfolio for each of the periods shown and illustrates how the investment portfolio's performance has changed from period to period. The chart shows, in percentage terms, how an investment made on the first day of each financial year would have grown or decreased by December 31 of that period.



<sup>(1)</sup> Total return for the period from inception on December 18, 2006 to December 31, 2007

<sup>(2)</sup> Total return for the period January 1, 2008 to December 31, 2008

#### Annual Compound Returns

	Since Inception <sup>(1)</sup>
Canadian Small Cap Resource Fund 2007 No 1 Limited Partnership	(85.37)%
S&P/TSX Venture Composite Index <sup>(2)</sup>	(29.70)%

<sup>(1)</sup> The table above shows the Partnership's compound total return for the period from inception on December 18, 2006 to December 31, 2008.

<sup>(2)</sup> The return for the S&P/TSX Venture Composite Index, a broad-based securities market index, is provided to give an indication of the performance of the market on an overall basis for the same period. The S&P/TSX Composite Index is capitalization-weighted index designed to measure the market activity of stocks listed on the Toronto Stock Exchange (the "TSX").

A comparison of relative performance may not be meaningful as most of the Partnership's holdings are not in the index, as these holdings generally do not meet the liquidity, market capitalization or minimum trade weighted average price requirements for including in the S&P/TSX Venture Composite Index. Since the Partnership does not necessarily invest in the same securities of, or in the same proportion as, the index, the performance is not expected to be identical.

# Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

## 2008 Annual Management Report of Fund Performance

### For the year ended December 31, 2008

---

In addition, the Partnership must purchase flow-through shares issued from a company's treasury typically at a premium to its market price to reflect the tax advantages.

Also, the returns do not take into account the tax benefits of investing in flow-through shares. This is significant considering one of the Partnership's investment objectives is to maximize the tax benefits for limited partners. The returns would have been significantly higher than the stated returns if the tax savings were incorporated into the calculations. In addition, the Partnership incurred various issue costs in connection with the offering of the partnership units and is subject to costs, such as management fees and trading expense that are not borne by the index.

### Summary of Investment Portfolio

As at December 31, 2008

Net assets: \$1,317,985

<b>Top 25 Holdings</b>	<b>% of Net Assets</b>	<b>Sector/Subgroup</b>	<b>% of Net assets</b>
Golden Band Resources	8.78%	Precious Metal	49.08%
Moss Lake Gold Mines	8.42%	Base	19.76%
Uranium North Resources	8.22%	Energy	11.50%
Zinccorp Resources	7.80%	Uranium	9.96%
Athabasca Potash Inc.	7.58%	Diamonds	9.87%
Alto Ventures	6.56%	Potash	7.58%
Arsenal Energy	5.45%	Molybdenum	4.47%
Fjordland Exploration	4.65%	Cash	0.88%
Wildcat Exploration	4.44%	Liabilities - net of other assets	-13.10%
Kettle River Resources	3.98%		100.00%
Sanatana Diamonds	3.97%		
New Nadina Explorations	3.90%		
Menika Mining	3.82%		
PanTerra Resource	2.99%		
Moneta Porcupine Mines	2.84%		
Mountain Boy Minerals	2.65%		
Redcliffe Explorations Inc	2.53%		
Lions Gate Energy	2.43%		
Blind Creek Resources	2.26%		
Astral Mining	1.93%		
Pinnacle Mines	1.77%		
Pacific Cascade Minerals	1.50%		
Sage Gold	1.37%		
TTM Resources	1.32%		
Otish Energy	1.26%		

The summary of investment portfolio may change due to ongoing portfolio transactions. A quarterly update is available at [www.cscrf.ca](http://www.cscrf.ca)

# **Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership**

## **2008 Annual Management Report of Fund Performance**

### **For the year ended December 31, 2008**

---

#### **Forward-Looking Statement**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions which include, among other things that (i) the Partnership will have sufficient capital under management to effect its investment strategies, (ii) the investment strategies will produce the results intended by the General Partner, and (iii) the markets will react and perform in a manner consistent with the investment strategies. Forward looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate.

We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Partnership may invest in and the risks detailed from time to time in the Partnership's prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Partnership, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.