



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn**  
**2007 Flow-Through**  
**Limited Partnership**  
Annual Report  
December 31, 2008

March 18, 2009

Dear fellow Limited Partners,

I am pleased to provide the annual report for the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the "Partnership") for the period ending December 31, 2008. Energy prices experienced one of the largest increases and then declines ever in 2008. Oil prices peaked in July at \$147/barrel and are now in the low \$40s. Natural gas followed a similar trend. Energy stocks have followed the commodity prices in tandem, but given the global stock market dislocation, energy stocks have reacted even more negatively. As a result, the net assets of the Partnership dropped significantly from \$16.59 to \$7.79 per unit. Connor Clark & Lunn Investment Management ("Investment Advisor") has done a good job of selecting high quality issuers, and the Partnership has done well on a relative basis to its peers, but there were very few places to find shelter in the resources sector in the second half of the year. The Investment Advisor is one of the largest investors in the energy and materials sectors in Canada with over \$2 billion in assets in these sectors (as at December 31, 2008) and have developed a strong track record of outperformance when compared to the relevant benchmarks.

During the first half of the year, the Partnership has benefited from a number of its holdings being taken over by larger entities at substantial premiums to their market price. The portfolio's largest holding, Duvernay Oil, delivered very strong performance even before Shell Canada's offer to purchase the company. During the first six months of this year Duvernay's share price was up by 114 %. The Shell Canada acquisition price was another 33% above the June 30, 2008 price.

The Investment Advisor's outlook is shaped by an on-going focus on the supply side of the equation. Supply had another difficult year of growth despite high commodity prices and increased capital expenditures. Meaningful new supply is proving increasingly difficult and the cost of any new supply has increased dramatically. World supply declines 8-10% annually and at today's prices it is uneconomic to expend capital. The Investment Advisor believes the price of oil potentially could rebound very strongly when the economy picks up and markets refocus on the issues that lead to record prices only a few short months ago. The main issue is how long and how deep the global downturn turns out to be. Market values are almost unprecedented and present the opportunity for investors with a longer view, who can wait out the economic cycle to benefit, from what should be a very strong rebound when the economy shows signs of turning to the positive.

We appreciate your investment in the Partnership and remain optimistic on the potential for continued good investment returns during the remaining life of the product. The Partnership is scheduled to mature on or before September 30<sup>th</sup> of this year. Limited partners will have the option of transferring their assets, on a tax deferred basis, to a mutual fund managed by the Investment Advisor or receiving the net asset value of the Partnership at that time.

Yours truly,



W. Neil Murdoch  
Chief Executive Officer  
Connor, Clark & Lunn 2007 Flow-Through Management Corp.

# Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the “Partnership”), contains financial highlights but does not contain the complete annual financial statements of the Partnership. **The annual financial statements and accompanying notes are attached to this report.**

Any reference to “Net Assets” or “Net Assets per Unit” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accepted Principles “GAAP” for financial statements purposes. Any reference to “Net Asset Value” or “Net Asset Value per Unit” or “Transactional NAV” means that the value was determined for valuation and transactional purposes.

## Investment Objectives and Strategy

The Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the “Partnership”) was formed under the laws of the Province of Ontario pursuant to a Partnership Agreement dated August 16, 2007 between Connor, Clark & Lunn 2007 Flow-Through Management Corp., as General Partner, and Philip Gow, as the Initial Limited Partner, and became a limited partnership effective August 16, 2007.

The Partnership has been organized to provide Limited Partners with a tax-assisted investment in a diversified portfolio of Flow-Through Shares of Resource Issuers whose shares are publicly listed and to a maximum of 20% of the Gross Proceeds Flow-Through Shares of private Resource Issuers with a view to achieving income and capital appreciation for Limited Partners. The principal businesses of the Resource Issuers are:

- (i) oil and gas exploration, development and production;
- (ii) mineral exploration, development and production; or
- (iii) certain energy production that may incur certain start-up phase costs of renewable energy projects.

The General Partner invested all the Gross Proceeds in Flow-Through Shares of Resource Issuers that agree to incur and renounce (directly or indirectly) Eligible Expenditures to the Partnership (and thereby maximize the deductions available to Limited Partners in respect of their 2007 taxation years).

In order to achieve the Partnership’s investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the “Investment Advisor”), the Partnership’s investment manager, invested the net proceeds of the Offering, in Flow-Through Shares of Resource Issuers that: (i) have experienced and reputable management with a defined track record in the energy, mining or alternative energy industries; (ii) have exploration programs or exploration and development programs in place; (iii) have shares that are suitably priced and offer capital appreciation or income potential; and (iv) meet certain market capitalization and other criteria set out in the Investment Guidelines mentioned in the Partnership’s prospectus dated September 24, 2007.

## Risk

The Partnership’s investment restrictions contemplate leverage of up to 15.0% of total net asset value. Leverage increases the exposure of the Partnership to market fluctuations. The Partnership pays interest on the amount borrowed and such interest payments may exceed the total return on the leveraged portion of the Partnership’s portfolio. The Partnership employed leverage in the range of 0.0% to 18.8% during the year ended December 31, 2008. For full disclosure of risks associated with an investment in the Fund’s units, please refer to the Prospectus dated September 24, 2007.

## Results of Operations

### *The Investment Advisor's Commentary*

In 2008, the Partnership had several of its holdings taken over at attractive prices. Duvernay and Yukon Zinc, two of the Partnership's larger holdings, received cash bids and Rocor received a cash and stock offer from Petrobank. During the year the Investment Advisor used the proceeds of the takeovers to purchase shares in existing holdings as well as purchase new names, Detour Gold, Iteration Energy, Proex Energy, and Storm Energy. The Partnership also repaid its bank loans that enabled the fund to maximize the tax credits for investors in 2007.

#### *Energy*

Energy prices experienced one of the largest increases and then declines ever in 2008. Oil prices peaked in July at \$147/barrel and are now in the low \$40s. Natural gas followed a similar trend. High prices and a rapidly slowing global economy have weakened demand for oil. It appears that on a global basis 2008 demand will be down slightly as weakness in OECD countries was offset by developing countries.

The Investment Advisor continues to focus on the supply side that had another difficult year of growth despite the high commodity prices and increased capital expenditures. Bringing on meaningful new supply is proving to be increasingly difficult and the cost of any new supply has increased dramatically. The Investment Advisor believe the cost to bring on new production of size is above \$70. The Investment Advisor has seen a number of major projects delayed and/or cancelled due to uneconomic returns or cost pressures.

World supply declines 8-10% annually and at today's prices it is uneconomic for the sector to expend capital. A recent UBS report outlined an estimate that over \$75 billion of reduced capital expenditures have been announced by the industry for 2009. This slowdown will translate into falling supplies that will pick up momentum as we move through 2009 and beyond. OPEC has also acted to reduce their supply to the market which should reduce the risk of large inventory accumulations. In our minds the price of oil could potentially rebound very strongly when the economy picks up and markets refocus on the issues that led to record commodity prices only a few short months ago. The main issue is how long and how deep the global downturn turns out to be.

With natural gas the price direction will be largely dependent on how cold the winter is. Inventory levels are reasonably normal for this time of the year. Supply of gas should also be a driver of future pricing. The one surprise for us in 2008 was strong US gas supply growth. Gas supplied from existing and emerging shale and/ or tight gas plays was prolific. The downside to production from these sources is the 40% to 60% production decline that occurs in the first year of production. The industry needs to maintain a rigorous pace to keep ahead of declines. Lower gas prices and the credit crisis have already started to impact drilling levels. The Investment Advisor expects US supply will start to decline in the second half of 2009 due to lower drilling activity. Canadian gas supply has declined for a third straight year and modest drilling plans will see this trend continue in 2009.

Energy stocks have followed commodity prices in tandem but given the global stock market dislocation energy stocks have reacted even more negatively. Market valuations are almost unprecedented and present an opportunity for long-term focused investors that can wait out the economic cycle to benefit from what should be a very strong rebound when the economy shows signs of turning to the positive.

#### *Gold*

While gold has outperformed the rest of the commodity complex in 2008, the Investment Advisor remain positive on the outlook for gold. While difficult to forecast, geopolitical issues remain a contributing factor for the performance of gold. These factors were partly responsible for the surge in gold prices in late 2007 and early 2008. Central banks around the globe are printing money, spending and capping interest rates. Gold is becoming a hedge against the debasement of currencies in countries with troubled banking systems. Supply remains tight as 2008 proved to be a tough year for all gold companies to meet their production guidance. All these factors combine to create a favourable climate for the commodity.

## *Base Metals*

Due to the rapidly slowing economy, base metals have experienced severe price declines in the last half of 2008. Almost all of the metals are trading below the marginal cost of production; this has caused several mining companies to shut down existing production capacity. In addition, lack of capital has forced many companies to abandon the projects on a large scale in the last few months. The Investment Advisor continues to maintain our view that once the economy starts to grow again, the outlook for base metals will remain very positive. As we have mentioned in the past, challenges to bring on new supply remains very high, therefore the Investment Advisor prefer to invest in companies that have producing assets with production costs below the marginal cost of production.

## ***Investment Income and Capital Gains***

During the year ended December 31, 2008, the Partnership had a net investment loss of \$462,056. In addition, the portfolio realized \$2,568,544 in gains and had a \$9,129,845 decrease in unrealized gains or losses on its investments. Investment losses, realized gains and unrealized losses combined for a total decrease in net assets from operations of \$7,023,357, or \$8.79 per Unit.

## ***Credit Facility***

The Partnership has entered into a non-revolving term credit facility agreement (the "Credit Agreement") with Bank of Montreal ("BMO") dated October 3, 2007. The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the net asset value of the Partnership.

The amount of borrowings was used solely to finance the Agents' fees, and other expenses of the Offering (including legal, accounting and audit, travel, marketing and sales expenses), the Manager's fee and certain operating and administrative costs and expenses of the Partnership that are not expected to be fully deductible in computing income of the Partnership for the fiscal period ending December 31, 2007, in order to maximize the investment of the Gross Proceeds in Flow-Through Shares.

The Partnership's obligation under the Partnership Credit Facility is secured by a pledge of the Partnership assets, and requires the Partnership to meet certain minimum margin requirements, and is repayable on demand. If the Partnership Loan Facility is not repaid at the time of dissolution of the Partnership, the former Limited Partners will become personally obligated to repay the Partnership Loan Facility, although recourse against them will be limited to their interest in the securities or assets of the Partnership. The General Partner expects that all amounts outstanding under the Partnership Credit Facility, including all interest accrued thereon, will be repaid prior to the earlier of the closing of any Liquidity Alternative and the dissolution of the Partnership.

The Partnership employed leverage in the range of nil% to 18.8% during the year ended December 31, 2008 and was nil% at the end of the period.

## ***Liquidity and Capital Resources***

As at December 31, 2008, the Partnership had current assets excluding investments of \$861,785. Current liabilities totalled \$68,353.

## ***Capital transactions***

On October 3, 2007, the partnership completed an initial public offering pursuant to the prospectus dated September 24, 2007. The offering raised \$20,000,000 through the issue of 800,000 Units at \$25.00 per Unit. Total proceeds from this transaction after Agents' fees and issue expense was \$18,140,000.

## **Related Party Transactions**

### ***Management Fees***

Pursuant to a management agreement ("the Management Agreement") the Partnership retained Connor, Clark & Lunn

Capital Markets Inc. (“the Manager”) to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Partnership, the Manager is entitled to an annual management fee in an amount equal to 2% per annum of the net asset value of the Partnership to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Partnership during the year ended December 31, 2008 were \$272,397 (management fees charged to the Partnership during the period from October 3, 2007 (commencement of operations) to December 31, 2007 were \$82,756).

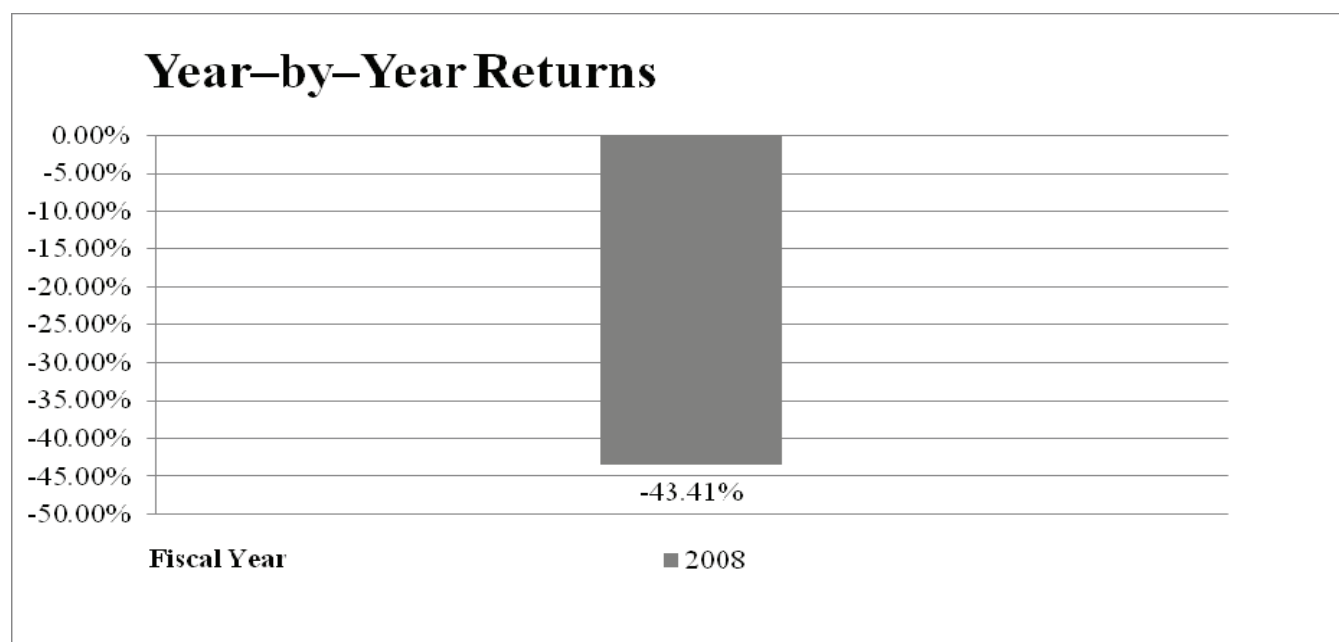
The Manager pays the Investment Advisor out of the above management fees.

#### Past Performance

The following bar chart and table indicate the performance of the units by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Partnership in the periods shown were reinvested. Past performance is not necessarily indicative of future performance.

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

The following bar chart shows the Partnership’s annual performance for the years shown. This bar chart shows, in percentage terms, how much an investment made on the first day of the financial year would have grown or decreased by the last day of the financial year.



#### *Annual Compound Returns*

	Past Year	Since Inception <sup>(1)</sup>
Based on NAV	-43.41%	-50.13%
Blended Index	-31.91%	-25.34%

<sup>(1)</sup> Annualized for the period October 3, 2007 (Commencement of operations) to December 31, 2008.

<sup>(2)</sup> Blended Index of the S&P/TSX Oil & Gas Exploration & Production Index (70%) and the S&P/TSX Materials Index (30%). The Partnerships’ performance lagged the performance of the Blended Index as a result of (i) the premiums over market price that are paid to obtain shares of resource companies on a flow-through basis; and (ii) the superior performance of large capitalization companies which comprise a significant portion of the indices selected in comparison to their junior counterparts. The tax deductions from that the Partnership receives are not considered in the above calculations of the Partnership’s returns since the returns are presented on a pre-tax basis.

## Financial Highlights

The following tables show selected key financial information about the Partnership and are intended to aid in understanding the Partnership's financial performance since inception. This information is derived from the Partnership's audited annual and unaudited semi-annual financial statements:

The Partnership's Net Assets per unit <sup>(1)</sup>:

	December 31, 2008	December 31, 2007 <sup>(2)</sup>
<b>Net Assets, beginning of period</b>	<b>16.59</b>	<b>25.00</b>
<b>Increase (decrease) from operations:</b>		
Total revenues	0.02	0.16
Total expenses	(0.60)	(0.17)
Unit issue expense <sup>(3)</sup>	(0.01)	(2.33)
Realized gains (losses) for the period	3.21	-
Unrealized gains (losses) for the period	(11.41)	(6.08)
<b>Total increase (decrease) from operations <sup>(4)</sup></b>	<b>(8.79)</b>	<b>(8.42)</b>
<b>Distributions:</b>		
From income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total Distributions</b>	<b>-</b>	<b>-</b>
<b>Net Assets, end of period <sup>(5)</sup></b>	<b>7.79</b>	<b>16.59</b>

<sup>(1)</sup> This information is derived from the Partnership's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for Partnership's pricing purposes. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed in note 3 to the financial statements.

<sup>(2)</sup> Results for the period from October 3, 2007 (commencement of operations) to December 31, 2007.

<sup>(3)</sup> Issue expense of \$1,871,682 incurred in connection with the unit issuance. The full amount of issue expenses was deducted from the retained earnings for accounting purposes and is amortized over a period of five years for tax purposes.

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

<sup>(5)</sup> This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

	December 31, 2008	December 31, 2007 <sup>(1)</sup>
Net asset value (000's)	6,270	13,447
Number of units outstanding	800,000	800,000
Base Management expense ratio <sup>(2)(3)</sup>	3.20%	2.91%
Issue expenses ratio <sup>(2)(3)</sup>	0.09%	11.91%
Interest expense ratio <sup>(2)(3)</sup>	0.51%	0.66%
Management expense ratio (annualized) <sup>(3)</sup>	3.80%	15.48%
Management expense ratio before waivers or absorptions (annualized) <sup>(3)</sup>	3.80%	15.48%
Portfolio turnover rate <sup>(4)</sup>	19.12%	0.00%
Trading expense ratio <sup>(5)</sup>	0.07%	0.00%
Net asset value per unit	7.84	16.80

<sup>(1)</sup> Results for the period from October 3, 2007 (commencement of operations) to December 31, 2007.

<sup>(2)</sup> A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

<sup>(3)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

<sup>(4)</sup> The Partnership's turnover rate indicates how actively the Partnership's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Partnership's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Partnership.

<sup>(5)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

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

The summary of investment portfolio may change due to ongoing portfolio transactions of the Partnership. A quarterly update is available at [www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com) and [www.sedar.com](http://www.sedar.com).

<b>Portfolio by Category</b>	<b>Market Value</b> \$	<b>% of NAV</b>
Energy	4,651,645	74.2%
Cash & Cash Equivalents	858,683	13.7%
Materials	813,270	13.0%
Utilities	11,550	0.2%
 <b>Top 25 Holdings</b>		
Cash & Cash Equivalents	858,683	13.7%
Artek Exploration Ltd. Flow Through	625,000	10.0%
Exshaw Oil Corp. Flow Through	550,000	8.8%
Breaker Energy Ltd.	408,000	6.5%
ProEx Energy Ltd.	336,000	5.4%
Vero Energy	320,960	5.1%
Crew Energy Inc.	318,000	5.1%
Open Range Energy Corp	305,250	4.9%
Athabasca Oil Sands Corp. Flow Through	300,000	4.8%
Metanor Resources Inc.	286,455	4.6%
UTS Energy Corp.	280,000	4.5%
Laricina Energy Ltd Flow Through	269,500	4.3%
Huron Energy Corp. Flow Through	243,750	3.9%
Detour Gold Corporation	212,000	3.4%
ProspEx Resources Ltd.	180,000	2.9%
Petrobank Energy	146,191	2.3%
Galleon Energy Inc Class A	127,500	2.0%
Iteration Energy Ltd.	109,600	1.7%
Shore Gold Inc.	107,100	1.7%
VMS Ventures Inc. Sub Rec.	94,550	1.5%
Kodiak Exploration Ltd.	81,120	1.3%
Aurora Energy Resources	63,000	1.0%
Storm Exploration	45,606	0.7%
Baffinland Iron Mines Corp.	32,045	0.5%
Arcan Resources Ltd	23,288	0.4%
 <b>Net asset value (NAV)</b>	 <b>6,269,897</b>	

## General Partner's Report to the Limited Partners

The accompanying financial statements of **Connor, Clark & Lunn 2007 Flow-Through Limited Partnership** (the "Partnership") and all of the information have been prepared by the General Partner and approved by the Board of Directors of the General Partner. The General Partner is responsible for all of the information and representations contained in these financial statements and other sections of the Annual Report

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. The General Partner has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The General Partner has ensured that the other financial information presented in this annual report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP. They are appointed by the General Partner. They 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.



W. Neil Murdoch  
President and Chief Executive Officer  
Connor, Clark & Lunn Capital Markets Inc.



Michael W. Freund  
Director  
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

**March 18, 2009**

March 17, 2009

## Auditors' Report

To the Partners of  
Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

We have audited the statement of investment portfolio of **Connor, Clark & Lunn 2007 Flow-Through Limited Partnership** (the Partnership) as at December 31, 2008, the statements of net assets as at December 31, 2008 and 2007 and the statements of operations, changes in net assets and surplus (deficit) and cash flow for the year ended December 31, 2008 and the period from October 3, 2007 (commencement of operations) 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 the General Partner, 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, the changes in its net assets and its cash flow for the year ended December 31, 2008 and the period from October 3, 2007 (commencement of operations) to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

# Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

## Statements of Net Assets

As at December 31 2008 and 2007

	2008	2007
	\$	\$
<b>Assets</b>		
Cash	13,793	94,716
Short-term investments	844,890	-
Investments at fair value (cost - \$19,433,987; 2007 - \$20,000,080)	5,440,347	15,136,285
Interest receivable	3,102	-
	<u>6,302,132</u>	<u>15,231,001</u>
<b>Liabilities</b>		
Bank indebtedness (note 4)	-	1,538,429
Accounts payable and accrued liabilities	54,022	340,998
Management fees payable	14,331	82,756
	<u>68,353</u>	<u>1,962,183</u>
<b>Net Assets and Partners' Equity</b>	<u>6,233,779</u>	<u>13,268,818</u>
<b>Units issued and outstanding</b> (note 5)	<u>800,000</u>	<u>800,000</u>
<b>Net assets per unit</b>	<u>7.79</u>	<u>16.59</u>
<b>Partners' Equity</b>		
Unit capital (note 5)	18,128,318	18,140,000
Surplus (deficit)	<u>(11,894,539)</u>	<u>(4,871,182)</u>
<b>Total Partners' Equity</b>	<u>6,233,779</u>	<u>13,268,818</u>

Approved by the Manager



Director



Director

## Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

### Statements of Operations

For the year ended December 31, 2008 and period from October 3, 2007 (commencement of operations) to December 31, 2007

	2008	2007
	\$	\$
<b>Income</b>		
Interest	<u>19,667</u>	<u>127,777</u>
<b>Expenses</b>		
Management fees (note 7)	272,397	82,756
Loan interest expenses (note 4)	66,620	24,360
Audit fees	58,447	5,881
Legal fees	34,157	3,920
Administration fees	13,527	3,659
Transaction costs	8,822	-
Transfer agent fees	8,378	4,835
Filing fees	6,507	3,920
Custodial and other unitholders' fees	5,926	1,703
Printing fees	3,272	3,920
Other	2,456	210
IRC fees	<u>1,214</u>	<u>-</u>
	<u>481,723</u>	<u>135,164</u>
<b>Investment income (loss) for the period</b>	(462,056)	(7,387)
<b>Net realized gain (loss) on investments</b>		
Net realized gain (loss) on investments	<u>2,568,544</u>	<u>-</u>
<b>Net unrealized gain (loss) on investments</b>		
Change in unrealized gain (loss) on investments	<u>(9,129,845)</u>	<u>(4,863,795)</u>
<b>Increase (decrease) in net assets from operations</b>	<u>(7,023,357)</u>	<u>(4,871,182)</u>
<b>Increase (decrease) in net assets from operations per unit *</b>	<u>(8.79)</u>	<u>(6.09)</u>

\* (based on average number of units outstanding during the period)

## Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

Statements of Changes in Net Assets and Surplus (Deficit)

For the year ended December 31, 2008 and period from October 3, 2007 (commencement of operations) to December 31, 2007

	2008	2007
	\$	\$
<b>Increase (decrease) in net assets from operations</b>	(7,023,357)	(4,871,182)
<b>Unitholders' transactions:</b>		
Gross proceeds from issue of units (note 5)	-	20,000,000
Agents' fees and issue expenses	<u>(11,682)</u>	<u>(1,860,000)</u>
	<u>(11,682)</u>	<u>18,140,000</u>
<b>Change in net assets during the period</b>	<u>(7,035,039)</u>	<u>13,268,818</u>
<b>Net assets - Beginning of period</b>	<u>13,268,818</u>	<u>-</u>
<b>Net assets - End of period</b>	<u>6,233,779</u>	<u>13,268,818</u>
<b>Surplus (deficit), beginning of period</b>	(4,871,182)	-
Increase (decrease) in net assets from operations	<u>(7,023,357)</u>	<u>(4,871,182)</u>
<b>Surplus (deficit), end of period</b>	<u>(11,894,539)</u>	<u>(4,871,182)</u>

## Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

### Statements of Cash Flow

**For the year ended December 31, 2008 and period from October 3, 2007 (commencement of operations) to December 31, 2007**

	2008	2007
	\$	\$
<b>Operating Activities</b>		
Increase (decrease) in net assets from operations	(7,023,357)	(4,871,182)
Items not affecting cash:		
Net realized (gain) loss on investments	(2,568,544)	
Unrealized (gain) loss on investments	9,129,845	4,863,795
Changes in non-cash working capital		
(Increase) decrease in interest and dividends receivable	(3,102)	-
Increase (decrease) in accounts payable and accrued liabilities	(286,976)	340,998
Increase (decrease) in management fees payable	(68,425)	82,756
Cost of investments purchased	(2,608,799)	(20,000,080)
Proceeds from investments sold	5,743,436	-
	<u>2,314,078</u>	<u>(19,583,713)</u>
<b>Financing Activities</b>		
Proceeds from issuance of units	-	20,000,000
Unit issue costs	(11,682)	(1,860,000)
Proceeds from bank indebtedness	4,610,326	2,338,429
Repayment of bank indebtedness	(6,148,755)	(800,000)
	<u>(1,550,111)</u>	<u>19,678,429</u>
<b>Net cash flow provided by (used in) operating activities</b>	<u>2,314,078</u>	<u>(19,583,713)</u>
<b>Net cash flow provided by (used in) financing activities</b>	<u>(1,550,111)</u>	<u>19,678,429</u>
<b>Net increase (decrease) in cash and short-term investments</b>	763,967	94,716
<b>Cash &amp; short term investments - beginning of period</b>	<u>94,716</u>	<u>-</u>
<b>Cash &amp; short term investments - end of period</b>	<u>858,683</u>	<u>94,716</u>
<b>Supplementary information</b>		
Interest paid	82,187	6,526

## Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

Statement of Investment Portfolio

As at December 31, 2008

	Yield %	Maturity Date	Par Value/ Quantity	Average Cost \$	Fair Value \$	% of Net Assets
<b>Investments</b>						
<b>Short Term Paper</b>						
<b>Bankers acceptances</b>						
Toronto Dominion Bank	1.54%	1/23/2009	100,000	99,364	99,364	1.6%
Toronto Dominion Bank	1.54%	2/27/2009	400,000	397,932	397,932	6.4%
<b>Bearer deposit notes</b>						
Royal Bank of Canada	1.54%	1/7/2009	100,000	99,229	99,229	1.6%
Bank of Montreal	1.54%	1/27/2009	250,000	248,365	248,365	4.0%
				<u>844,890</u>	<u>844,890</u>	<u>13.6%</u>
<b>Canadian equities</b>						
<b>Energy</b>						
Arcan Resources Ltd			57,500	250,125	23,288	0.4%
Artek Exploration Ltd. Flow Through (*)			25,000	725,000	625,000	10.0%
Athabasca Oil Sands Corp. Flow Through (*)			100,000	1,000,000	300,000	4.8%
Athabasca Oil Sands Corp. Flow Through Warrants			100,000	-	-	0.0%
Aurora Energy Resources			35,000	717,500	61,950	1.0%
Breaker Energy Ltd.			80,000	552,000	409,600	6.6%
Crew Energy Inc.			60,000	645,000	315,000	5.1%
Exshaw Oil Corp. Flow Through (*)			200,000	950,000	550,000	8.8%
Galleon Energy Inc Class A			25,000	512,500	126,750	2.0%
Huron Energy Corp. Flow Through (*)			75,000	150,000	243,750	3.9%
Iteration Energy Ltd.			80,000	549,438	106,400	1.7%
Laricina Energy Ltd Flow Through (*)			24,500	994,700	269,500	4.3%
Open Range Energy Corp			275,000	948,750	308,000	4.9%
Petrobank Energy			7,198	248,331	144,680	2.3%
ProEx Energy Ltd.			30,000	601,045	330,300	5.3%
ProspEx Resources Ltd.			300,000	889,750	180,000	2.9%
Storm Exploration			3,300	44,498	45,408	0.7%
UTS Energy Corp.			350,000	2,660,000	269,500	4.3%
Vero Energy			59,000	522,519	319,190	5.1%
				<u>12,961,156</u>	<u>4,628,316</u>	<u>74.1%</u>
<b>Materials</b>						
Baffinland Iron Mines Corp.			188,500	999,050	28,275	0.5%
Detour Gold Corporation			25,000	501,208	212,000	3.4%
Kodiak Exploration Ltd.			104,000	499,200	80,080	1.3%
Metanor Resources Inc.			643,719	514,975	283,236	4.5%
Shore Gold Inc.			238,000	1,499,400	102,340	1.6%
VMS Ventures Inc. Sub Rec.			310,000	465,000	94,550	1.5%
				<u>4,478,833</u>	<u>800,481</u>	<u>12.8%</u>

(\*) Private placement

(See accompanying notes to financial statements)

## Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

Statement of Investment Portfolio .... Continued

As at December 31, 2008

	Quantity	Average Cost \$	Fair Value \$	% of Net Assets
<b>Utilities</b>				
EarthFirst Canada Inc.	770,000	<u>2,002,000</u>	<u>11,550</u>	<u>0.2%</u>
<b>Total Canadian equities</b>		<u>19,441,989</u>	<u>5,440,347</u>	<u>87.1%</u>
<b>Total Investments (before transaction costs)</b>		<u>20,286,879</u>	<u>6,285,237</u>	<u>100.7%</u>
Transaction costs (note 3)		<u>(8,002)</u>	<u>-</u>	<u>0.0%</u>
<b>Total investments</b>		<u>20,278,877</u>	<u>6,285,237</u>	<u>100.7%</u>
<b>Other assets less liabilities</b>			(51,458)	-0.7%
<b>Net assets</b>			<u>6,233,779</u>	<u>100.0%</u>

(\*) Private placement

(See accompanying notes to financial statements)

# Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

## Notes to Financial Statements

December 31, 2008

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### 1 Formation of Partnership

The Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the "Partnership") was formed under the laws of the Province of Ontario pursuant to a Partnership Agreement dated August 16, 2007 between Connor, Clark & Lunn 2007 Flow-Through Management Corp., as General Partner (the "General Partner"), and Philip Gow, as the Initial Limited Partner, and became a limited partnership effective August 16, 2007.

Pursuant to a limited partnership agreement dated September 24, 2007 (the "Limited Partnership Agreement") between the General Partner and the Initial Limited Partner at that time, and each person who became a Limited Partner thereafter, the General Partner is entitled to a 0.01% beneficial interest in the Partnership. As at December 31, 2008, the General Partner held no Units in the Partnership. The Limited Partners will be allocated on a pro rata basis 99.9% of the net income or loss of the Partnership and 100% of any eligible expenditures renounced to the Partnership, and 0.01% of the net income or loss of the Partnership will be allocated to the General Partner. On dissolution, Limited Partners are entitled to 99.99% of the assets of the Partnership and the General Partner is entitled to 0.01% of such assets after payment of all liabilities of the Partnership.

The Limited Partnership Agreement provides that the General Partner will dissolve the Partnership on or about December 31, 2009, subject to the right of the General Partner to extend the dissolution date by up to three months. The General Partner can also transfer the assets of the Partnership to a mutual fund (the "Liquidity Alternative") pursuant to an agreement (the "Transfer Agreement"), in exchange for units of a mutual fund, prior to the dissolution of the Partnership. However, this Transaction is subject to the receipt of all necessary regulatory approvals, and is at the discretion of the General Partner.

Pursuant to a management agreement dated October 3, 2007, Connor, Clark & Lunn Capital Markets Inc. (the "Manager") has been retained by the Partnership to provide investment advisory and portfolio management services to the Partnership and to manage the ongoing business and administrative affairs of the Partnership.

### 2 Investment objectives

The Partnership has been organized to provide Limited Partners with a tax-assisted investment in a diversified portfolio of Flow-Through Shares of Resource Issuers whose shares are listed on a public exchange and (up to a maximum of 20%) of the Gross Proceeds in Flow-Through Shares of private Resource Issuers with a view to achieving income and capital appreciation for Limited Partners. The principal businesses of the Resource Issuers are:

- i. oil and gas exploration, development and production;
- ii. mineral exploration, development and production; or
- iii. certain energy production that may incur certain start-up phase costs of renewable energy projects.

### 3 Summary of significant accounting policies

#### Terms and definitions

Any reference to "Net Assets" or "Net Assets per Unit" or "GAAP Net Assets" means that the value was determined in accordance with the Canadian Generally Accepted Principles "GAAP" for financial statements purposes. Any reference to "Net Asset Value" or "Net Asset Value per Unit" or "Transactional NAV" means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found under Valuation of Investments.

#### Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates.

This Partnership is unincorporated and these financial statements do not include all the assets, liabilities, revenues and expenses of the limited partners.

#### Recent accounting pronouncements

On January 1, 2008, the Partnership adopted Section 1535, Capital Disclosures, which requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacted the Partnership's disclosures provided but it did not affect the Partnership's results or financial position.

On January 1, 2008, the Partnership adopted CICA Sections 3862, Financial Instruments – Disclosures ("Section 3862"), and 3863, Financial Instruments – Presentation (Section 3863"), which replaced Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards impacted the Partnership's disclosures provided but they did not affect the Partnership's results or financial position.

The Canadian Accounting Standards Board ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to fiscal years beginning on or after January 1, 2011. As the Partnership is expected to dissolve on or about December 31, 2009, the Manager does not expect this to impact the Partnership.

#### Valuation of Investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded. Should the quoted value for a security, in the opinion of the Managers, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Managers on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred.

# Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

## Notes to Financial Statements

December 31, 2008

Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for the security. Until September 30, 2006, fair value for GAAP was based on the last traded price for the day, when available. In addition, Section 3855 requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund be charged to net income in the period.

On September 8, 2008, the Canadian Securities Administration issued the amended national Instrument 81-106 ("NI 81-106"), Section 14.2 of the amended NI81-106 requires an investment fund to calculate its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day). The Partnership did not change its methodology in this respect.

The Partnership continues to calculate its net asset value for pricing purposes using the closing prices of securities. As at December 31, 2008, the Partnership's net asset value per unit was \$7.84. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed above. The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Sections 3855 is as follows:

	<u>Transactional</u> NAV	<u>Section 3855</u> Adjustment	<u>GAAP</u> Net Assets
<b>Per Unit</b>			
Opening Value – January 1, 2008	16.81	(0.22)	16.59
Closing Value – December 31, 2008	7.84	(0.05)	7.79

### Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with terms to maturity of less than 90 days at acquisition. Cash and cash equivalents are deemed to be held for trading and therefore are carried at fair value. Short-term investments are carried at cost, which together with interest receivable approximates market value.

### Income recognition

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

### Unit valuation

Units of the Partnership are valued at the net asset value per unit of the Partnership. The net asset value per unit is determined by dividing the aggregate fair value of assets less liabilities of the Partnership by the total number of units of the Partnership outstanding before giving effect to redemptions or subscriptions for units on that day.

## 4 Bank indebtedness

The Partnership has entered into a non-revolving term credit facility agreement (the "Credit Agreement") with Bank of Montreal ("BMO") dated October 3, 2007. The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the net asset value of the Partnership.

The amount of borrowings was used solely to finance the Agents' fees, and other expenses of the Offering (including legal, accounting and audit, travel, marketing and sales expenses), the Manager's fee and certain operating and administrative costs and expenses of the Partnership that are not expected to be fully deductible in computing income of the Partnership for the fiscal period ending December 31, 2007, in order to maximize the investment of the Gross Proceeds in Flow-Through Shares.

The Partnership's obligation under the Partnership Credit Facility is secured by a pledge of the Partnership assets, and requires the Partnership to meet certain minimum margin requirements, and is repayable on demand. If the Partnership Loan Facility is not repaid at the time of dissolution of the Partnership, the former Limited Partners will become personally obligated to repay the Partnership Loan Facility, although recourse against them will be limited to their interest in the securities or assets of the Partnership. The General Partner expects that all amounts outstanding under the Partnership Credit Facility, including all interest accrued thereon, will be repaid prior to the earlier of the closing of any Liquidity Alternative and the dissolution of the Partnership. Bank indebtedness was repaid during the year.

During year ended December 31, 2008, the Credit Facility had minimum balance of \$nil million and maximum balance of \$2.1 million. The related total interest expense was \$66,599.

## 5 Partners' Equity

Units of the Partnership were offered to the public by way of prospectus. On October 3, 2007, the Partnership issued 800,000 transferable units of one class, each of which represents an equal, undivided interest in the net assets of the partnership and in any rights and privileges. The Partnership will not issue any more units. The Partnership is expected to be dissolved on or about December 31, 2009.

There is no market through which the Units may be sold and none is expected to develop. The Units will not be listed on any stock exchange. Investors are likely to find it difficult or impossible to sell their Units. Under the Partnership Agreement, Units may be transferred by a Limited Partner subject to certain conditions (for more information, please refer to the Partnership's prospectus dated September 24, 2007).

The Partnership considers capital to include all units issued and outstanding. The Partnership manages their capital in accordance with the objectives outlined in Note 2.

# Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

## Notes to Financial Statements

December 31, 2008

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### 6 Custodian

Pursuant to a custodian agreement ("the Custodian Agreement"), the Partnership has retained RBC Dexia Investor Trust Services to act as custodian of the assets of the Partnership. The Custodian is also responsible for certain aspects of the Partnership's day-to-day operations. In consideration for these services, the Partnership pays a fee to the Custodian.

### 7 Management fees and other expenses

Pursuant to a management agreement ("the Management Agreement") the Partnership has retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as manager. As compensation for management services rendered to the Partnership, the Manager receives an annual management fee in an amount equal to 2.0% of the net asset value of the Partnership, calculated and paid monthly in arrears, plus applicable taxes. The Manager will pay the Investment Advisor's fee out of the Manager's Fee.

The Manager is also entitled to a Performance Bonus. The Performance Bonus is equal to 20% of the product of (a) the number of Units outstanding on the Performance Bonus Date; and (b) the amount by which the Net Asset Value per Unit on the Performance Bonus Date (prior to giving effect to the Performance Bonus) plus the total distributions per Unit over the Performance Bonus Term exceeds \$28. The Performance Bonus will be calculated on the Performance Bonus Date (for more information, please refer to the Partnership's prospectus dated September 24, 2007).

The Partnership is also responsible for all expenses incurred in connection with its operation and administration.

### 8 Broker commission charges and soft dollar services

There were \$8,822 broker commissions paid during the year ended December 31, 2008 (\$nil during the period from October 3, 2007 (commencement of operations) to December 31, 2007) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

### 9 Financial instruments

<b>Assets</b>	<b>\$</b>
Held for trading	6,299,030
Loans and receivables	3,102
<b>Total assets</b>	<b>6,302,132</b>
<b>Liabilities</b>	
Held for trading	-
Financial liabilities at amortized cost	68,353
<b>Total liabilities</b>	<b>68,353</b>

For the purposes of categorization in accordance with section 3862, interest receivable is deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, bank indebtedness and management fees payable are deemed to be financial liabilities and reported at amortized cost.

### 10 Financial instrument risk

The Partnership may be exposed to a variety of financial risks. The Investment Manager seeks to minimize potential adverse effects of these risks on the Partnership's performance through daily monitoring of the Partnership's positions and market events, and by diversifying the investment portfolio within the constraints of the investment objective. The investment portfolio is comprised of junior Resource Issuers.

#### Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Partnership's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices had increased or decreased by 10% on December 31, 2008, all other variables held constant, the net assets of the Partnership would have increased or decreased, respectively, by approximately \$544,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

#### Concentration Risk

The business activities of investees are speculative and may be adversely affected by factors outside the control of those issuers. Resource Issuers may not hold or discover commercial quantities of petroleum, natural gas or minerals and their profitability may be affected by adverse fluctuations in commodity prices, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, native land claims, liability for environmental damage, competition, imposition of tariffs, duties or other tax and government regulation, as applicable. Resource Issuers in the renewable energy and energy efficient sector that may incur Canadian Renewable and Conservation Expenses, in particular, may be adversely affected by drought and variations in the water flow of watersheds upon which such issuers have plants.

# Connor, Clark & Lunn 2007 Flow-Through Limited Partnership

## Notes to Financial Statements

December 31, 2008

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Since the Partnership invests primarily in securities issued by firms engaged in the oil and gas, mining, or related resource businesses (including junior issuers), the Net Assets may be more volatile than portfolios with a more diversified investment focus. Also, the Net Assets may fluctuate with underlying market prices for commodities produced by those sectors of the economy.

### Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and fixed income derivatives. The Partnership is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Partnership's interest rate risks. It includes the Partnership's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non- interest bearing	Total
Investments	-	-	-	-	5,440,347	5,440,347
Cash and cash equivalents	844,890	-	-	-	13,793	858,683
Other assets	-	-	-	-	3,102	3,102
Liabilities	-	-	-	-	(68,353)	(68,353)
Net assets value						6,233,779

As at December 31, 2008, had prevailing interest rates increased or decreased by 1.0% with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$870. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

### Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The credit exposure of other assets is represented by their carrying amount.

As at December 31, 2008, the Partnership was exposed to credit risk through its investment in short-term debt instruments that comprised approximately 18.3% of the Partnership's Net Asset Value. All of the short-term investments were rated "A+" or better by a prominent rating service.

### Liquidity risk

Flow-Through Shares and other securities, if any, of Resource Issuers are typically purchased by the Partnership on a private placement basis, and will be subject to resale restrictions. In the case of publicly traded Resource Issuers, these resale restrictions will generally last for four months. In the case of private Resource Issuers, these resale restrictions will be indefinite.

The Investment Advisor actively manages the Partnership's Investment Portfolio, and this may involve the sale and reinvestment of the proceeds of sale of some or all of the Flow-Through Shares and other securities pursuant to certain statutory exemptions. The existence of resale restrictions may hamper the ability of the Investment Advisor to take advantage of opportunities for profit taking, or limitation of losses, which might be available in the absence of resale restrictions, and this in turn may reduce the amount of capital appreciation or magnify the capital loss in the Partnership's Investment Portfolio.