



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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

**March 13, 2007**

**Dear fellow Limited Partners,**

I am pleased to present you with the first annual report for the Connor, Clark & Lunn 2007 Flow-Through Limited Partnership (the "Partnership"). Although the 2007 Partnership is Connor, Clark & Lunn's ("CC&L") first flow-through limited partnership, CC&L Investment Management ("the Investment Advisor") has been investing in the energy and materials sectors for over twenty years. At the end of 2007 they managed approximately \$4.4 billion in assets in these sectors and have developed a strong track record of out performance when compared to the relevant benchmarks.

The Partnership closed on its maximum offering size of \$20 million on October 3<sup>rd</sup> of last year. The Investment Advisor worked very hard to find investments that met its standards before the end of the year. The Partnership was fully invested by year end with a diversified mix of approximately 75% energy companies and 25% in the materials sector. The portfolio contains 22 different companies which provide exposure to oil, natural gas, renewable energy, base metals and gold. The Limited partnership invested 20% of its assets in five private companies where we believed that the valuations were more attractive and the premiums for qualifying shares were lower.

The Investment Advisor had a strong positive outlook for the oil, natural gas and materials sector during the fourth quarter of last year. Even with the latest dip, commodity prices have had a significant increase in prices over the last six months. Many of the Limited Partnership's holdings have generated strong fourth quarter results. The Investment Advisor remains positive about the outlook going forward.

We continue to remain optimistic that, over the course of its life, the Limited Partnership will generate good investment returns. We appreciate your confidence of investing with our firm.

Yours truly,

A handwritten signature in cursive script, appearing to read "W. Neil Murdoch".

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.**

## 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 8.5-11.5% from October 3, 2007 (commencement of operations) to December 31, 2007. 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

### *Portfolio Manager Commentary*

It was a busy time for the fund as it got invested over the last few months of the year. The fund invested in twenty two different companies with an overall energy/material split of 75% / 25% and a good diversification within the sectors. The fund mix ended up a little more energy than the 2/3 mix we discussed during the marketing meetings. The reason is that the Alberta Government Royalty review caused some pressure on the sector which resulted in some very good valuation entry levels for the fund. The material sector flow through issues on the other hand were not as high a quality as our investment characteristics target and the premiums trended to the upper end of our comfort range. The fund was also able to take full advantage of its option to invest 20% of the fund in late stage private companies. The advantages of investing in private companies are better valuations, lower premiums and access to some exciting opportunities. The manager was also pleased with its ability to be selective in the purchase of flow through offerings due to the smaller size of the fund. Also, the manager's relationships with underwriters and assets base resulted in strong allocations of attractive issues even though demand exceeded supply for the issues.

Commodities remained strong during the last months of the year and are off to a good start in 2008. Oil raced up to \$100 early in 2008 and natural gas prices look set for an improving trend. Our outlook is for energy commodities to remain strong. We do not foresee meaningful new supply that will overwhelm demand. Oil remains above fundamentally supported levels due to the well known geopolitical issues that dominate our news headlines on a daily basis. While there is concern that a slowdown in the US economy may impact demand for oil, it is our belief that developing countries will continue to generate enough demand to offset any draw down in demand from the U.S. We also believe that OPEC will continue to carefully monitor world inventories and adjust their production to ensure some stability in price levels. Investments in the portfolio that will benefit from strong oil prices are UTS Energy, Athabasca Oil Sands, Laricina Oil Sands, Breaker Energy and Galleon. Natural gas prices look poised for a recovery after over a year of weakness. Canadian gas supply continues to decline as the industry dramatically slowed drilling activity due to the low prices and high drilling and service costs. The fund was able to purchase a number of quality natural gas weighted companies like Duvernay, Crew Energy, Open Range, ProspEx Energy, Artek and Exshaw at reasonable valuations. Drilling and service costs are down as much as 30% and lower competition for land, acquisitions and employees are contributing to improving economics for the junior energy companies.

Gold equities have yet to catch-up with the commodity. We believe Gold remains in a fundamental uptrend given further expectations for U.S. dollar weakness, high energy prices, political uncertainties, and continued concern over the health of the global financial system. The consensus is that the U.S. is heading into, or is already in, recession. In this scenario one can safely assume that the Fed will be aggressively cutting interest rates for some time to come, that more fiscal support for the economy is forthcoming, and that the U.S. dollar is heading lower. In addition the correlation between gold and the oil price is skewed heavily in favour of gold. The gold/oil ratio is very depressed from the long-run average price of approximately 17 barrels per ounce versus the current level of 10. How could we not remain positive on gold given this outlook. While we were unimpressed with many of the gold flow through offerings last year, we remain properly positioned with our holdings in Metanor Resources and Kodiak Exploration.

Our base metals outlook remains constructive given the global challenges presented by the scarcity and security of supply. Supply will be constrained in the medium to long-term given the numerous problems presented by environmental regulations, power shortages and water rights. Given the record low inventory levels on the LME, any current production interruption will drive prices significantly higher, as was evidenced by both the recent flooding in Australia and power outages in South Africa. Our bullish outlook for base metals is reflected in the funds ownership of Baffinland Iron Ore Mines, VMS Ventures, and Yukon Zinc.

### *Investment Income and Capital Gains*

During the period from October 3, 2007 (commencement of operations) to December 31, 2007, the Partnership had net investment loss of \$(7,387). In addition, the portfolio had a \$(4,863,795) unrealized losses on its investments. Investment losses and unrealized losses combined for a total decrease in net assets from operations of \$(4,871,182), or \$6.09 per Unit before subtracting the issue and agents cost of \$1,860,000 or \$2.33 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 8.5-11.5% from October 3, 2007 (commencement of operations) to December 31, 2007.

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

As at December 31 2007, the Partnership had current assets excluding investments of \$94,716. Current liabilities totalled \$1,962,183 including \$1,538,429 outstanding balance under the Credit Facility.

### ***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 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.

## 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 financial statements:

The Partnership's Net Asset Value per share:

	December 31, 2007 <sup>(1)</sup>
<b>Net Asset Value, beginning of period</b>	<b>25.00</b>
<b>Increase (decrease) from operations:</b>	
Total revenues	0.16
Total expenses	(0.17)
Unit issue expense <sup>(2)</sup>	(2.33)
Realized gains (losses) for the period	—
Unrealized gains (losses) for the period	(6.08)
<b>Total increase (decrease) from operations <sup>(3)</sup></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>(0.00)</b>
<b>Net Asset Value, end of period <sup>(4)(5)</sup></b>	<b>16.59</b>

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

<sup>(2)</sup> Issue expense of \$1,860,000 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>(3)</sup> Net asset value 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>(4)</sup> This is not reconciliation between the opening and the closing net asset values per unit.

<sup>(5)</sup> The NAV as of December 31, 2007 represent the GAAP NAV. The Transactional NAV net of section 3855 adjustment was 16.80. (See: New Accounting Standards)

Ratios and Supplemental Data:

	December 31, 2007 <sup>(1)(2)</sup>
Net assets (000's)	13,447
Number of units outstanding	800,000
Base Management expense ratio <sup>(3)(4)</sup>	2.91%
Issue expenses ratio <sup>(3)(4)</sup>	11.91%
Interest expense ratio <sup>(3)(4)</sup>	0.66%
Management expense ratio (annualized) <sup>(4)</sup>	15.48%
Management expense ratio before waivers or absorptions (annualized) <sup>(4)</sup>	15.48%
Portfolio turnover rate <sup>(5)</sup>	0.00%
Trading expense ratio <sup>(6)</sup>	0.00%

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

<sup>(2)</sup> The NAV as of December 31, 2007 represent the Transactional NAV. (See: New Accounting Standards).

<sup>(3)</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>(4)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

<sup>(5)</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>(6)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Summary of Investment Portfolio as of December 31, 2007

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 at [www.sedar.com](http://www.sedar.com).

	Market Value \$	% of NAV
<b>Portfolio by Category</b>		
Energy	9,713,837	73.2%
Materials	4,067,248	30.7%
Utilities	1,355,200	10.2%
Cash & Cash Equivalents	94,716	0.7%
<b>Top 25 Holdings</b>		
UTS Energy Flow Through	1,883,000	14.2%
EarthFirst Canada Inc. Flow Through	1,355,200	10.2%
Duvernay Oil Corp Flow Through	1,344,672	10.2%
Shore Gold Inc. Flow Through	1,094,800	8.3%
Yukon Zinc Corp. Flow Through	857,143	6.5%
Athabasca Oil Sands Corp. Flow Through	869,000	6.5%
Baffinland Iron Mines Corp. Flow Through	838,825	6.3%
Laricina Energy Ltd Flow Through	796,250	6.0%
Open Range Energy Corp. Flow Through	726,000	5.5%
Exshaw Oil Corp. Flow Through	760,000	5.7%
Artek Exploration Ltd. Flow Through	600,000	4.5%
ProspEx Resources Ltd Flow Through	572,000	4.3%
Kodiak Exploration Ltd. Flow Through	484,640	3.7%
Breaker Energy Ltd. Flow Through	468,800	3.5%
Aurora Energy Resources Inc Flow Through	473,550	3.6%
Metanor Resources Inc. Flow Through	457,040	3.4%
Crew Energy Inc. Flow Through	434,400	3.3%
Galleon Energy Inc Flow Through	384,500	2.9%
VMS Ventures Inc. Sub Rec.	334,800	2.5%
Rocor Resources Inc Flow Through	147,690	1.1%
Arcan Resources Ltd. Flow Through	133,975	1.0%
Huron Energy Corp. Flow Through	120,000	0.9%
Cash & Cash Equivalents	94,716	0.7%
Athabasca Oil Sands Corp. Flow Through Warrant	-	0.0%
<b>Net asst value (NAV)</b>	<b>\$ 13,268,818</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 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 2007 Flow-Through  
Management Corp.



Philip Gow  
Chief Financial Officer  
Connor, Clark & Lunn 2007 Flow-Through  
Management Corp.

Toronto, Canada

**March 13, 2007**

March 14, 2008

## Auditors' Report

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

We have audited the statements of investment portfolio and net assets of **Connor, Clark & Lunn 2007 Flow-Through Limited Partnership** as at December 31, 2007 and the statements of operations, changes in net assets and surplus (deficit) and cash flow for the period from October 3, 2007 (commencement of operations) to December 31, 2007. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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, 2007 and the results of its operations, the changes in its net assets and its cash flow for the period from October 3, 2007 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

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

## Statement of Net Assets

As at December 31, 2007

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	\$
<b>Assets</b>	
Cash	94,716
Investments at market value (cost - \$20,000,080)	<u>15,136,285</u>
	<u>15,231,001</u>
<b>Liabilities</b>	
Bank indebtedness (note 4)	1,538,429
Accounts payable and accrued liabilities	340,998
Management fees payable	<u>82,756</u>
	<u>1,962,183</u>
<b>Net Assets and Partners' Equity</b>	<u>13,268,818</u>
<b>Units issued and outstanding</b> (note 5)	<u>800,000</u>
<b>Net asset value per unit</b>	<u>16.59</u>
<b>Partners' Equity</b>	
Unit capital (note 5)	18,140,000
Surplus (deficit)	<u>(4,871,182)</u>
<b>Total Partners' Equity</b>	<u>13,268,818</u>

Approved by the Manager



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Director



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Director

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

### Statement of Operations

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

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	\$
<b>Income</b>	
Interest	<u>127,777</u>
<b>Expenses</b>	
Management fees (note 7)	82,756
Loan interest expenses (note 4)	22,093
Audit fees	5,881
Transfer agent fees	4,835
Legal fees	3,920
Printing fees	3,920
Filing fees	3,920
Administration fees	3,659
Interest expenses	2,267
Custodial and other unitholders' fees	1,703
Other	<u>210</u>
	<u>135,164</u>
<b>Investment income (loss) for the period</b>	(7,387)
<b>Net unrealized gain (loss) on investments</b>	
Unrealized gain (loss) on investments	<u>(4,863,795)</u>
<b>Increase (decrease) in net assets from operations</b>	<u>(4,871,182)</u>
<b>Increase (decrease) in net assets from operations per unit *</b>	<u>(6.09)</u>

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

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

Statement of Changes in Net Assets and Surplus (Deficit)

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

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

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

## Statement of Cash Flow

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

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	\$
<b>Operating Activities</b>	
Increase (decrease) in net assets from operations	(4,871,182)
Items not affecting cash:	
Unrealized (gain) loss on investments	4,863,795
Changes in non-cash working capital	
Increase (decrease) in accounts payable and accrued liabilities	340,998
Increase (decrease) in management fees payable	82,756
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<b>Net cash flow provided by (used in) operating activities</b>	<b>416,367</b>
<b>Investing Activities</b>	
Cost of investments purchased	(20,000,080)
	<hr/>
<b>Net cash provided by (used in) investing activities</b>	<b>(20,000,080)</b>
<b>Financing Activities</b>	
Proceeds from issuance of units	20,000,000
Unit issue costs	(1,860,000)
Proceeds from bank indebtedness	2,338,429
Repayment of bank indebtedness	(800,000)
	<hr/>
<b>Net cash flow provided by (used in) financing activities</b>	<b>19,678,429</b>
<b>Net increase (decrease) in cash and short-term investments</b>	<b>94,716</b>
<b>Cash and short-term investments - beginning of period</b>	<b>-</b>
	<hr/>
<b>Cash and short-term investments - end of period</b>	<b>94,716</b>
	<hr/>
<b>Supplementary information</b>	
Interest paid	6,526

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

Statement of Investment Portfolio

As at December 31, 2007

	Quantity	Average Cost \$	Market Value \$	% of NAV
<b>Investments</b>				
<b>Canadian Common Stock</b>				
<b>Energy</b>				
Arcan Resources Ltd. Flow Through	57,500	250,125	133,975	1.0%
Artek Exploration Ltd. Flow Through	25,000	725,000	600,000	4.5%
Athabasca Oil Sands Corp. Flow Through	100,000	996,000	869,000	6.5%
Athabasca Oil Sands Corp. Flow Through Warrant	100,000	4,000	-	0.0%
Aurora Energy Resources Inc Flow Through	35,000	717,500	473,550	3.6%
Breaker Energy Ltd. Flow Through	80,000	552,000	468,800	3.5%
Crew Energy Inc. Flow Through	60,000	645,000	434,400	3.3%
Duvernay Oil Corp Flow Through	46,400	1,999,840	1,344,672	10.2%
Exshaw Oil Corp. Flow Through	200,000	950,000	760,000	5.7%
Galleon Energy Inc Flow Through	25,000	512,500	384,500	2.9%
Huron Energy Corp. Flow Through	75,000	150,000	120,000	0.9%
Laricina Energy Ltd Flow Through	24,500	994,700	796,250	6.0%
Open Range Energy Corp. Flow Through	275,000	948,750	726,000	5.5%
ProspEx Resources Ltd Flow Through	200,000	740,000	572,000	4.3%
Rocor Resources Inc Flow Through	109,400	175,040	147,690	1.1%
UTS Energy Flow Through	350,000	2,660,000	1,883,000	14.2%
		<u>13,020,455</u>	<u>9,713,837</u>	<u>73.2%</u>
<b>Materials</b>				
Baffinland Iron Mines Corp. Flow Through	188,500	999,050	838,825	6.3%
Kodiak Exploration Ltd. Flow Through	104,000	499,200	484,640	3.7%
Metanor Resources Inc. Flow Through	643,719	514,975	457,040	3.4%
Shore Gold Inc. Flow Through	238,000	1,499,400	1,094,800	8.3%
VMS Ventures Inc. Sub Rec.	310,000	465,000	334,800	2.5%
Yukon Zinc Corp. Flow Through	7,142,858	1,000,000	857,143	6.5%
		<u>4,977,625</u>	<u>4,067,248</u>	<u>30.7%</u>
<b>Utilities</b>				
EarthFirst Canada Inc. Flow Through	770,000	2,002,000	1,355,200	10.2%
		<u>20,000,080</u>	<u>15,136,285</u>	<u>114.1%</u>
<b>Total Canadian Common Stock</b>				
		<u>20,000,080</u>	<u>15,136,285</u>	<u>114.1%</u>
<b>Total investments</b>				
		<u>20,000,080</u>	<u>15,136,285</u>	<u>114.1%</u>
<b>Liabilities, net of other assets</b>			(1,867,467)	-14.1%
<b>Net asst value (NAV)</b>			<u>13,268,818</u>	<u>100.0%</u>

(See accompanying notes to financial statements)

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

## Notes to Financial Statements

December 31, 2007

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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 become a Limited Partner thereafter, the General Partner is entitled to a 0.01% beneficial interest in the Partnership. As at December 31, 2007, 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 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

#### 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, 2007, the Partnership adopted Section 1506 of the CICA Handbook Accounting Changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the Partnership's financial position or results of operations.

The new Section 1535, Capital Disclosures, 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. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Partnership.

This standard will impact the Partnership's disclosures provided but will not affect the Partnership's consolidated results or financial position.

The new Sections 3862 and 3863 replace 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. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Partnership.

This standard will impact the Partnership's disclosures provided but will not affect the Partnership's results or financial position.

#### Section 3855

The Canadian Institute of Chartered Accountants ("CICA") has issued Section 3855, Financial Instruments: Recognition and Measurement, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for securities held short.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income in the period.

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## Notes to Financial Statements

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The Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of NAV ("Transactional NAV") (other than for financial reporting purposes) until September 30, 2008, to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of an investment fund.

The reconciliation between the Transactional NAV and the GAAP NAV as a result of the adoption of Section 3855 is as follows:

	<u>Transactional</u> NAV	<u>Section 3855</u> Adjustment	<u>GAAP</u> NAV
<b>Net Asset Value</b>			
Closing NAV – December 31, 2007	13,446,792	(177,974)	13,268,818
<b>Net Asset Value Per Unit</b>			
Closing NAV – December 31, 2007	16.81	(0.22)	16.59

**Transaction costs** are any costs that can directly be attributable to the acquisition and disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. As mentioned earlier Section 3855 requires that any transaction costs be expensed and included in "Transaction costs" in the Statements of Operations.

### Valuation of investments

Short-term investments are carried at cost, which together with interest receivable approximates market value. Publicly traded investments are recorded at their quoted market value, being the last bid price recorded by the securities exchanges on which such investments are principally traded. Privately traded securities are carried at market value.

### Investment transactions

Investment transactions are recorded on the trade date. Realized gains or losses on sales of investments are determined based on the average cost of investments, after deducting transaction costs.

### 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 market value of net assets 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.

During the period October 3, 2007 (date of Credit Facility Agreement) to December 31, 2007, the Credit Facility had minimum balance of \$1.5 million and maximum balance of \$1.6 million. The related total interest expense was \$22,093.

## 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 27, 2007).

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## Notes to Financial Statements

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### 6 Custodian

Pursuant to a custodian agreement ("the Custodian Agreement"), the Partnership has retained RBC Dexia 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 27, 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 \$nil broker commissions paid during the period from October 3, 2007 to December 31, 2007 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.