



**JOV DIVERSIFIED FLOW-THROUGH 2007 LIMITED  
PARTNERSHIP**

Interim Management Report of Partnership Performance  
As at June 30, 2009

## **JOV DIVERSIFIED FLOW-THROUGH 2007 LIMITED PARTNERSHIP**

### Interim Management Report of Partnership Performance As at June 30, 2009

This Interim Management Report of Partnership Performance contains financial highlights, but does not contain complete interim financial statements for Jov Diversified Flow-Through 2007 Limited Partnership (the "Partnership"). You can get a copy of the annual financial statements at your request, and at no cost, by calling 1.866.688.5750, by writing the general partner, Jov Diversified Flow-Through 2007 Management Corp. (the "General Partner"), at Jov Flow-Through, 609 Granville Street, Suite 808, PO Box 10357, Vancouver, BC V7Y 1G5 or by visiting our website at [www.jovflowthrough.com](http://www.jovflowthrough.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

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

#### **Forward-Looking Information**

This Interim Management Report of Partnership Performance contains forward-looking information and statements relating to, but not limited to, anticipated or prospective financial performance and results of operations of the Partnership. Any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

The General Partner believes the forecasts or projections herein are reasonable, however readers are cautioned not to place undue reliance on such forward-looking information and readers should review the prospectus filed with Canadian securities regulatory authorities. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons including, but not limited to, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Partnership may invest and the risks detailed in the Prospectus of the Partnership. We caution that the foregoing list of factors is not exhaustive.

The forward-looking information is given as of the date of this Interim Management Report of Partnership Performance, and the General Partner undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **Management Discussion of Partnership Performance**

### **Fundamental Investment Objectives**

The investment objective of the Partnership is to provide limited partners with a tax-assisted investment in a diversified portfolio of flow-through shares of resource companies focused on oil & gas and mineral exploration, development and/or production companies or certain renewable energy production companies with a view to earning income and achieving capital appreciation.

### **Results of Operations**

In November 2007 the Partnership completed its public offering of units, raising \$20.0 million for investment in flow-through shares of Canadian resource companies. The Partnership has fully invested the proceeds from this offering, generating tax deductions applicable to the 2007 taxation year for limited partners. The Partnership is expected to roll to the Jov Canadian Equity Class mutual fund on or before September 30, 2009.

After the dramatic rise and fall in commodity prices in the last two years, nascent signs of global economic revival gave investors reasons to believe again. As central banks and governments around the world raced to cushion a severe downturn, interest rates fell, and government spending rose. A measure of calm has returned to the market, and with it, a strong recovery in commodity prices, especially those directly associated with China's amazing resilience. Recent low prices have laid the foundation for the next bull market as production and investments are curtailed, yet demand growth is poised to return in the near future. Led by oil and base metals, commodities staged a good rally in the last three months. Gold came on strong in May as inflation fear surfaced. Resource stocks performed strongly, recovering part of their losses from last year. Small cap stocks generally out-performed their large cap peers as investors seek upside leverage to the commodities.

For the first half of 2009, the Partnership's net assets appreciated by 31.68%, which is in line with gains seen in the general resource sector. After bumping along the bottom for the first part of the year, oil prices climbed smartly as production cuts by OPEC started to tighten the market. The recovery in financial markets and the renewed decline of the US dollar pushed oil prices even higher. Natural gas, on the other hand, continues to suffer, as bulging inventories have overwhelmed a limited supply reduction. Base metals rallied strongly from the start as China went on a buying binge. Gold traded in a broad range as the rebound in financial markets reduced the flow into safe heaven assets. The Manager deployed a substantial part of the Partnership's cash weighting to take advantage of the recovery in commodity prices. As the rally matured some profits were taken late in the period.

While the Manager continues to believe the foundation of the secular global economic expansion is intact - global liquidity is plenty and the rising of the East is nowhere near to be over - it is too early to declare that the severe cyclical bear market that has been in force since late 2007 is now over. Despite the faith investors place on the various rescue / stimulus plans from authorities, it will take time for these measures to show effects and for the inevitable recovery to come. At that point, the debate will shift to how quickly and aggressively the huge fiscal and monetary incentives will be taken back, slowing down economic recovery in the process.

The Partnership is currently favouring exposure to oil, selected base metals and gold, and de-emphasizing natural gas. The rebound in oil prices to over \$70/bbl, while heartening, may have been overly extended. A trading range of \$50 - \$70 may develop until concrete evidence of a global economic recovery surface. The same can be said about most base metals as it remains unclear whether the surging imports by China are driven by real demand. Gold serves its useful role as a hedge against financial and economic uncertainty,

especially in light of the rampant money printing by central banks. Natural gas continues to be hampered by high inventories and the remaining impact of new shale gas production growth. A decisive turning point is not likely to arrive until late 2009 or mid-2010. Overall, recent sharp declines in commodity prices have brought them to below their economic breakeven point and will only exacerbate the supply-demand imbalance in the coming years. Long term, the Manager continues to believe in the natural resources sector as beneficiaries of past structural under-investment and the emergence of new demand centers worldwide.

## **Revenues and Expenses**

In the six-months ended June 30, 2009, the Partnership incurred total expenses of \$234,558 compared to \$382,263 for the corresponding period in 2008. The decrease is mainly due to lower interest expense and management fees in 2009. Interest on the loan payable is variable and based on prime which averaged 3% in the first half of 2009 compared to 5% in 2008. Management fees are based on the Partnership's month end NAV which averaged \$7.46/unit in 2009 compared to an average of \$17.70/unit in 2008. The largest expense component is Administrative and other which totalled \$125,107 in 2009 compared to \$174,892 in 2008. Administrative and other includes the general costs the Partnership incurs carrying on its business, including; portfolio transaction fees, investor communications, personnel, reimbursement of overhead and out-of-pocket expenses as well as all financial and regulatory reporting costs. Administrative and other expenses are lower in 2009 mainly due to lower brokerage commissions from reduced trading activity in 2009. The Partnership pays management fees to the General Partner, calculated as 2% of the net asset value of the Partnership, which amounted to \$62,686 in 2009 compared to \$148,363 in 2008. Interest on the Partnership's loan payable amounted to \$42,108 in 2009 compared to \$51,534 in 2008. The loan was established to pay agents' fees and general issue costs of the offering. The Partnership pays variable interest and has benefited from the significant decrease in the prime lending rate which commenced in late 2008 and has continued into 2009.

## **Risk**

There are risks associated with an investment in units of the Partnership. The most recent Prospectus of the Partnership contains a discussion of these risks and is available at our website at [www.jovflowthrough.com](http://www.jovflowthrough.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

There have been no major or significant changes that have had an impact on the overall risk level and investments of the Partnership.

## **Credit Facility**

The Partnership has a credit facility that enabled the Partnership to borrow an amount up to 12.5% of the gross proceeds of the offering for the payment of issue costs and provides the bank with a security interest in all the assets of the Partnership. As at June 30, 2009, the loan balance outstanding was \$2,000,000 which is the maximum amount borrowed during the period. The loan payable represents 10.00% of the gross proceeds raised and 32.1% of net assets. The loan matures on the earlier of December 31, 2009 and the dissolution of the Partnership.

## **Related Party Transactions**

The General Partner is entitled to an annual management fee of 2.0% of the net asset value of the Partnership. The fee is calculated and payable monthly in arrears. For the period ended June 30, 2009, the management fee totalled \$62,686 (2008 - \$148,363) including goods and services tax (GST).

The General Partner has retained CADO Bancorp Ltd., a company controlled by directors of the General Partner, to provide office space and perform certain administrative functions on behalf of the General Partner.

During the year an amount of \$58,275 (2008 - \$58,275) was incurred, which is included in administrative and other expenses.

### Financial Highlights

The following tables summarize selected key financial information about the Partnerships and is intended to help you understand the Partnership's financial performance. The information is derived from the Partnership's audited annual financial statements.

#### **The Partnership's Net Assets per unit** <sup>(2)</sup>

	<b>2009</b>	<b>2008</b>
<b>Net assets (net of issue costs), Beginning of period</b>	\$ 5.93	\$ 17.73
<b>Increase (decrease) from operations</b>		
Total revenue	0.03	0.05
Total expenses	(0.29)	(0.48)
Realized losses for the period	(0.92)	(1.43)
Unrealized losses for the period	3.04	3.21
<b>Total decrease from operations</b> <sup>(1)</sup>	<u>1.86</u>	<u>1.35</u>
<b>Net assets at June 30</b>	<u><b>\$ 7.79</b></u>	<u><b>\$ 19.08</b></u>

**Notes:**

<sup>(1)</sup> Net assets per unit is based on the actual number of units outstanding at the relevant time. The decrease from operations is based on the weighted average number of units outstanding over the financial period.

<sup>(2)</sup> These calculations are prescribed by securities regulators and are not intended to be a reconciliation between the opening and closing net assets per unit.

## Ratios and Supplemental Data

	2009	2008
Net asset value (000's) <sup>(1)</sup>	\$ 6,313	\$ 15,261
Number of units outstanding <sup>(1)</sup>	800,000	800,000
Management expense ratio <sup>(2)</sup>	7.92%	3.73%
Portfolio turnover rate <sup>(3)</sup>	25.53%	32.42%
Trading expense ratio <sup>(4)</sup>	1.80%	3.34%
Net asset value per unit	\$ 7.89	\$ 19.08

### Notes:

<sup>(1)</sup> This information is provided as at June 30 of the year shown.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding issue costs) for the stated period and is expressed as an annualized percentage of average net asset value during the period.

<sup>(3)</sup> The Partnership's portfolio turnover rate indicates how actively the Partnership's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Partnership buying and selling all of the securities in its portfolio once in the course of a year. The higher the Partnership's portfolio turnover rate in a year, the greater the trading costs payable by the Partnership in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Partnership.

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

## Management Fees

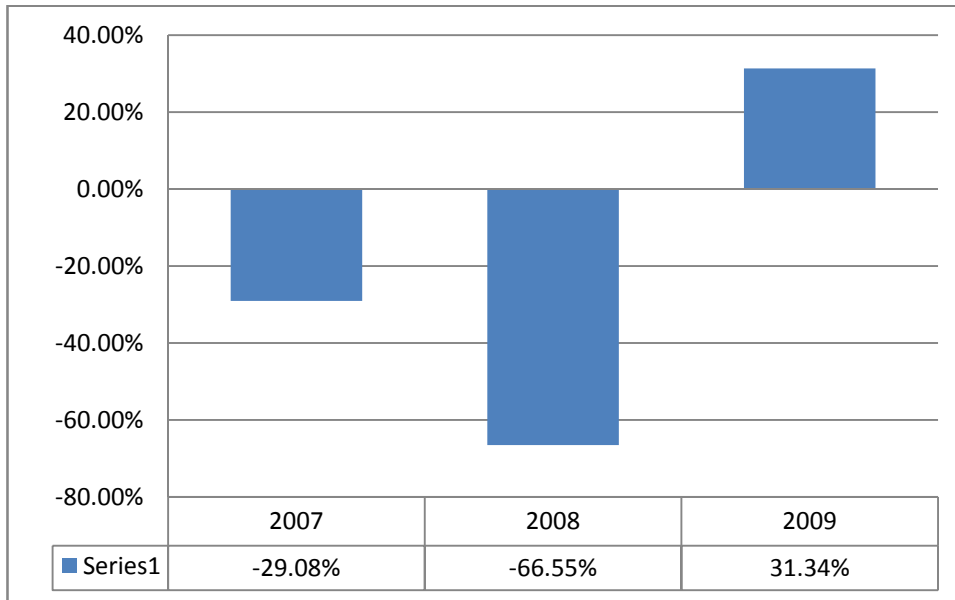
The General Partner is entitled to an annual fee in the aggregate amount of 2% of the Net Asset Value, calculated and paid monthly in arrears. The General Partner will also be entitled to a performance bonus (the "Performance Bonus"), equal to 20% of the product of (a) the number of Units outstanding 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.

## Past Performance

The following chart shows the Partnership's return on a yearly basis, since inception, and illustrates how the Partnership's performance from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year for units of the Partnership.

Please note that the Partnership's past performance does not necessarily indicate how it will perform in the future.

## Year-by-Year Returns



## Summary of Investment Portfolio

The following summaries of the Partnership's investment portfolio break-down the portfolio into subgroups, showing the percentage of net asset value of the Partnership constituted by each subgroup and the table lists the securities held with a value greater than one percent of the net asset value, as at June 30, 2009.

	<b>% of net asset value</b>
<b>Cash</b>	24.8
<b>Equity investments</b>	
Energy	74.3
Precious Metals	12.0
Base Metals	10.2
Uranium	7.3
Other	3.7
<b>Total investment portfolio, including cash</b>	132.3
<b>Liabilities, net of other assets</b>	(32.3)
<b>Total Net Assets</b>	100.0

<b>Top 25 Investments</b>	<b>% of net asset value</b>
Laricina Energy Ltd.	8.0
Canadian Natural Resources Limited	7.4
Petro-Canada	6.9
Encana Corp.	6.9
Suncor Energy Inc.	5.0
Imperial Oil Limited	4.9
Comaplex Minerals Corp.	4.6
Forsys Metals Corp.	4.5
Husky Energy Inc.	3.9
Nexen Inc.	3.7
Open Range Energy Corp.	2.8
Catch The Wind Inc.	2.7
HudBay Minerals Inc.	2.7
Teck Resources Limited	2.5
Thompson Creek Metals Company Inc.	2.5
Canadian Oil Sands Trust	2.5
Avalon Rare Metals Inc.	2.4
Tourmaline Oil Corp.	2.3
NWest Energy Inc.	2.2
Bellamont Exploration Ltd.	2.0
Uranium One Inc.	1.8
Addax Petroleum Corporation	1.6
Blackpearl Resources Inc.	1.6
Baffinland Iron Mines Corporation	1.5
Talisman Energy Inc.	1.5

**Note:** This summary of Investment Portfolio may change due to buy and sell transactions enacted by the portfolio manager. A quarterly update detailing future changes will be available on our website at [www.jovflowthrough.com](http://www.jovflowthrough.com) or you can request a quarterly update by calling Jov Flow-Through at 1.866.688.5750.



**CORPORATE HEAD OFFICE**

CADO Bancorp Ltd.  
PO Box 10357  
Suite 808 – 609 Granville St.  
Vancouver, BC V7Y 1G5

**DIRECTORS & EXECUTIVE**

Philip Armstrong, Chairman  
Mark Arthur, CEO  
Hugh Cartwright, President & Managing Partner  
Shane Doyle, Managing Partner

---

**LEGAL COUNSEL**

Borden Ladner Gervais LLP  
1200 Waterfront Centre  
200 Burrard St. PO Box 48600  
Vancouver, BC V7X 1T2

**AUDITORS**

PricewaterhouseCoopers LLP  
250 Howe Street, Suite 700  
Vancouver, BC V6C 3S7

**TRANSFER AGENT**

Valiant Trust Company  
310, 606 4th Street SW  
Calgary, AB T2P 1T1