



## **JOV DIVERSIFIED FLOW-THROUGH 2008-II LIMITED PARTNERSHIP**

Annual Management Report of Partnership Performance  
As at December 31, 2008

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This Annual Management Report of Partnership Performance contains financial highlights but does not contain the complete annual financial statements for Jov Diversified Flow-Through 2008-II 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 2008-II 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 Annual 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 Annual 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**

### **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 2008 the Partnership completed its public offering of units, raising \$15.2 million for investment flow-through shares of Canadian resource companies. The Partnership has fully invested the proceeds from this offering, generating tax deductions applicable to the 2008 taxation year for limited partners. The Partnership is expected to roll to the Jov Canadian Equity Class mutual fund on or before December 31, 2010.

What a year it has been in the financial market. It saw some of the wildest swings in financial markets in the last two decades. Early rallies gave way to severe corrections as oil prices marched upward. Weakness originating from the US housing market spread to the rest of the US economy, and to a lesser extent, the global economy. The near failure of Bear Stearns forced a US government-sponsored rescue and prompted a strong rally, but early gains soon gave way to further corrections as oil prices marched upward. It's now all but certain that a significant slowdown is occurring in the US. How severe the impacts may be worldwide is still up for debate. Meanwhile, the financial sector continued to witness large write-downs and a deeper crisis was only averted when the US Federal Reserve's took quick and decisive action. Although a measure of calm has returned to the market, it is too early to judge if an important bottom has been formed and volatility is expected to continue for the next 3 – 6 months. Commodities and resource equities experienced significant corrections in the third quarter as selling pressure finally spread to the last strong performers. Small cap stocks generally under-performed their large cap peers as investors seek liquidity in an uncertain market.

The Partnership successfully completed its final closing in mid-November 2008, right in the midst of one of the most intense downturns in the financial markets and in resource equities. Subsequent to mid-year, the US dollar bounced back from a two-year downtrend as global demand weakened. This caused a severe correction in commodities and in energy and mining stocks as well. The deepening housing and credit crisis triggered a global recession and one of the worse stock market declines in the past century. During this period of volatility, smaller companies had severely under-performed larger companies but this is expected to reverse once a market recovery is underway. The Partnership was able to opportunistically invest in the oversold junior resource issues, taking advantage of a depressed market. By year-end, the Partnership was fully invested in flow-through shares in accordance with its investment mandate.

### **Revenues and Expenses**

The Partnership commenced operations on September 26, 2008 and therefore does not have comparative figures. The Partnership earned \$4,896 in interest income on funds awaiting investment in flow-through shares. In 2008, the Partnership incurred total expenses of \$119,262. The Partnership pays management fees to the General Partner, calculated as 2% of the net asset value of the Partnership, which amounted to \$47,309 in 2008. Administrative and other, which totalled \$46,031, includes the general costs that 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.

The Partnership plans on restructuring the investment portfolio in 2009 and 2010, as opportunities become available, to upgrade from the relatively illiquid initial flow-through share purchases of junior resource companies to more established, liquid investments. This restructuring is to prepare the investment portfolio for the rollover to the mutual fund, which is planned in December 2010. Interest on the Partnership's loan payable amounted to \$10,922 in 2008. The loan was established to pay agents' fees and general issue costs of the offering. The Partnership pays interest at prime plus 0.15% per annum and has benefited from the significant decrease in the prime lending rate which commenced in late 2008 and has continued into 2009.

## **Future Strategy**

While the Manager continues to believe the foundation of the bull market is intact - global liquidity is still plenty and the rising of the East is nowhere near to be over – a cyclical bear market is now in force. The key issue is the continued lack of transparency in many financial products and the fear of the unknown by investors. Progress has been made but risks remain. In the end, whether the global economy is strong enough to withstand this challenge is the key to the future direction of the financial market.

The Partnership is continuing to favour exposure to oil and gold, and de-emphasizing base metals and natural gas. The presence of a major supplier block - OPEC - makes a rebound in oil prices much more likely to a level more consistent with the long term marginal cost of supply (estimated to be \$60 - \$90 per barrel). Natural gas, on the other hand, is hampered by high inventories and the remaining impact of new shale gas production growth. Gold is acting well as an insurance against uncertainty whereas base metal demand has suffered severely from the global slowdown. Corrections in commodity prices have created uncertainty in the stock market but will also present good buying opportunities. Long term, the Manager continues to believe that the natural resource sector will greatly benefit from the past structural under-investment and the emergence of new demand centers worldwide.

## **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 December 31, 2008, the loan balance outstanding was \$1,500,000 which is the maximum amount borrowed during the period. The loan payable represents 9.84% of the gross proceeds raised and 14.16% of net assets. The loan principal balance exceeds the permitted borrowings per the loan facility agreement by \$532,730. This deficiency has been corrected in 2009 and the loan is currently in good standing. The loan matures on the earlier of December 31, 2010 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 December 31, 2008 the management fee totalled \$47,309 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 period an amount of \$27,750 was incurred, which is included in administrative and other expenses. The Partnership paid \$7,500 to the General Partner as reimbursement of operational and administrative costs of the General Partner. The Partnership paid \$38,116 to JovFunds Inc., a related company, for marketing expenses incurred in relation to the Partnership's public offering.

The Partnership paid agent fees of \$1,029,140, being 6.75% for each unit sold in connection with the offering of Partnership units of which MGI Securities Inc. ("MGI") received \$24,941 thereof. MGI is controlled by Jovian Capital Corporation who controls the Investment Manager and indirectly owns 40% of the outstanding shares of Jov Diversified Flow-Through 2008-II Limited Partnership and the General Partner.

## **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.

## Financial Highlights

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

### Jov Diversified Flow-Through 2008-II Limited Partnership

December 31, 2008

Net assets (net of issue costs), Beginning of period	\$ 22.50
Increase (decrease) from operations	
Total revenue	0.01
Total expenses	(0.20)
Unrealized losses for the period	(4.95)
Total decrease from operations <sup>(1)</sup>	<u>(5.14)</u>
Net assets at December 31, 2008	<u>\$ 17.36</u>

<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

December 31, 2008

Total net asset value (000's) <sup>(1)</sup>	\$ 11,072
Number of units outstanding <sup>(1)</sup>	609,861
Management expense ratio <sup>(2)</sup>	4.04%
Management expense ratio before waivers or absorptions	4.04%
Trading expense ratio <sup>(4)</sup>	0.09%
Portfolio turnover rate <sup>(3)</sup>	0.00%
Net asset value per unit	\$ 18.15

#### Notes:

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

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

<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.

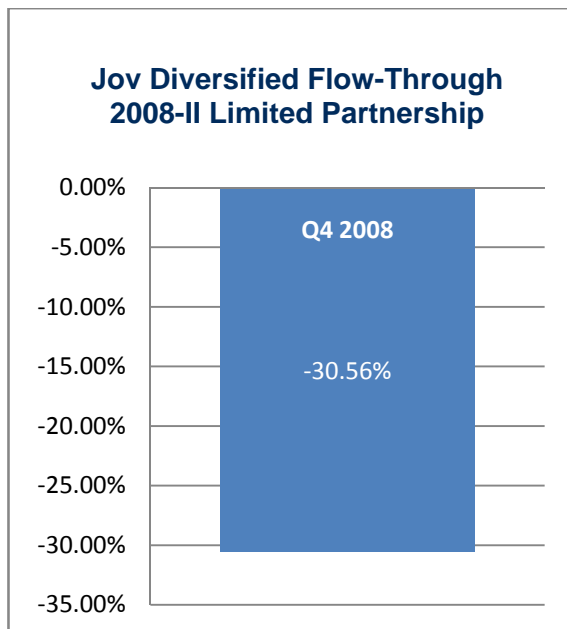
## Management Fees

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 since inception. The 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 for units of the Partnership.

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



## Annual Compound Returns

The following table shows the Partnership's historical annual compound return since the Commencement of Operations on September 26, 2008 to December 31, 2008 as compared to the performance of the S&P/TSX Composite Index (the "Index").

### Period from September 26, 2008 to December 31, 2008

Jov Diversified Flow-Through 2008-II LP	-30.56%
S&P/TSX Composite Index	-25.88%

**Note:**

*The S&P/TSX Composite Index is a broad based securities market index that tracks the performance of some of the largest and most widely held Canadian stocks listed on the Toronto Stock Exchange.*

## 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 top 25 positions, with the percentage of net asset value, held by the Partnership, as at December 31, 2008.

	<b>% of Net Asset Value</b>
<b>Cash</b>	1.17
<b>Equity investments</b>	
Precious Metals	49.17
Energy	36.61
Base Metals	15.18
Uranium	7.21
Other	1.87
	110.04
<b>Total investment portfolio, including cash</b>	111.21
<b>Liabilities, net of other assets</b>	(11.21)
<b>Total Net Asset Value</b>	100.00

<b>Top 25 Investments</b>	<b>% of Net Asset Value</b>
Baffinland Iron Mines Corporation	10.60
Noront Resources Ltd.	10.36
Tourmaline Oil Corp.	9.03
Denison Mines Corp.	5.02
ProEx Energy Ltd.	4.88
Canadian Superior Energy Inc.	4.85
Avalon Ventures Ltd.	4.71
Ryland Oil Corporation	4.70
St. Andrew Goldfields Ltd.	4.56
Reliable Energy Ltd.	4.52
Metanor Resources Inc.	4.42
Hawthorne Gold Corp.	4.41
Advanced Explorations Inc.	4.16
Roxmark Mines Ltd.	3.27
Premier Gold Mines Limited	3.21
Rubicon Minerals Corporation	2.81
Stornoway Diamond Corporation	2.65
Shore Gold Inc.	2.63
Twin Butte Energy Ltd.	2.10
TriStar Oil & Gas Ltd.	1.99
Uracan Resources Ltd.	1.99
Angle Energy Inc.	1.88
Potash One Inc.	1.84
Great Western Minerals Group Ltd.	1.72
Alexco Resource Corp.	1.64

**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.*



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