

## CANADA DOMINION RESOURCES 2006 II LIMITED PARTNERSHIP

### **ANNUAL REPORT**

December 31, 2007

The management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the partnership. For your reference, the annual financial statements of the partnership are attached to the management report of fund performance. You may obtain additional copies of these documents or a copy of the interim financial statements at your request, and at no cost, by calling toll free 1-800-286-8186, by visiting our website at [www.canadadominion.com](http://www.canadadominion.com) or SEDAR at [www.sedar.com](http://www.sedar.com) or by writing to us at: Goodman & Company, Investment Counsel Ltd., 29th Floor, 1 Adelaide Street East, Toronto, Ontario, M5C 2V9.

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

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# Canada Dominion Resources 2006 II Limited Partnership

## Report to Limited Partners

During fiscal 2007, Goodman & Company, Investment Counsel Ltd. (“Goodman & Company”) raised an aggregate of \$436.9 million through its two flow-through limited partnership offerings; the Canada Dominion Resources Limited Partnership (“Canada Dominion”) and the CMP Resource Limited Partnership (“CMP”).

The CMP 2007 Resource Limited Partnership completed the closing of its public offering on January 24, 2007 after raising \$200 million for the issue. On March 6, 2007, Canada Dominion announced the completion of its largest public offering to date with the closing of the Canada Dominion Resources 2007 Limited Partnership, raising a total of \$193.0 million for exploration and development efforts in Canada’s energy sector. Canada Dominion was also the first to pioneer a flow-through partnership focused on private exploration and development corporations with the successful closing of the CDR 2007 Private Flow-Through LP in late May.

Together, CMP and Canada Dominion make Goodman & Company the leader in flow-through financial product offerings in Canada. As at December 31, 2007, Goodman & Company had approximately \$913 million in assets under management with respect to Canada Dominion and CMP, including the assets managed inside Dynamic Managed Portfolios Ltd. (“DMP Ltd.”), the rollover vehicle for the two respective partnerships.

Each class of shares within DMP Ltd. constitutes a separate mutual fund managed by Goodman & Company. The multiple-class structure allows investors to switch between each of the different classes on a tax-deferred basis and reposition their investment portfolio to better meet their individual investment requirements. DMP Ltd. currently offers investors the choice of seven different classes of mutual fund shares, including DMP Resource Class, DMP Canadian Dividend Class, DMP Canadian Value Class, DMP Value Balanced Class, DMP Power Canadian Growth Class, DMP Global Value Class and DMP Power Global Growth Class. Further enhancements made to DMP Ltd. in 2007 include the introduction of a Series F option on all DMP funds and the creation of the DMP Value Balanced Class, a Canadian balanced fund combining a high level of interest and dividend income with capital appreciation for its shareholders.

Goodman & Company is a leading Canadian investment firm tracing its portfolio management roots back 50 years, with more than \$25 billion in assets under management. Goodman & Company, including Dynamic Funds™ and its affiliates, offers a wide range of wealth management solutions through registered financial advisors, including mutual funds, fee-based programs, a labour sponsored fund, hedge funds and a high net-worth investment counsel. As at December 31, 2007, Goodman & Company had approximately 78%, 75% and 84% of its assets in the top two quartiles for performance over a one-, three- and five-year period, respectively.

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# Canada Dominion Resources 2006 II Limited Partnership

## Board of Governors' Report

The Manager of the Funds recognizes that its business rests on a foundation of trust. For this reason, the Manager has sought to provide the securityholders of the Funds with an independent governance body (the "Board of Governors") that traces its roots to September 1996. Some of the Governors have been associated with the Funds since inception in 1957.

The function of the Board of Governors is to represent the interests of the securityholders in the Funds and to act in an advisory capacity to the Manager and Trustee of the Funds. This responsibility is expressed in the Board of Governors' mission and mandate:

- To help protect the interests of the securityholders of the Funds
- To oversee the operations of the Funds in the best interests of the securityholders
- To act in an advisory role to the Manager and Trustee of the Funds

The members of the Board of Governors are: Mr. Ronald Singer (Chairman), Mr. Alain Benedetti, Mr. Richard Crowe, Mr. Brahm Gelfand, Mr. Garth MacRae, Mr. Robert Ruggles and Mr. Frank White. Mr. Singer is a retired partner of Hyde Houghton, Chartered Accountants and has been associated with the Funds since 1957 and with the Manager since 1996. Mr. Benedetti is a retired Vice-Chairman and Canadian Area Managing Partner of Ernst & Young LLP. Mr. Crowe is retired and formerly President, Portfolio Manager and a founding partner of Senecal and Associates Investment Counsel. Mr. Gelfand is counsel at Lapointe Rosenstein, a law firm. Mr. MacRae is a director of Dundee Corporation, a director of DundeeWealth Inc. and has held various positions within the Dundee organization since 1987. Mr. Ruggles is a retired investment counsel and portfolio manager and a founding partner of Ruggles and Crysedale which subsequently merged with Guardian Capital Group Ltd., an investment counseling firm. Mr. White is the President of Frank White Enterprises Inc. and has been associated with the Funds since 1957. A majority of the members of the Board of Governors are independent of management. The Board of Governors has held three meetings in the past six months.

In carrying out its mandate effectively, the Board of Governors has formed the following committees:

*The Audit Committee:* The committee reviews the semi-annual and annual reports that are sent to securityholders, provides the independent auditors of the Funds with a means to raise any unresolved issues with management and provides the auditors the vehicle to maintain their independence. The Audit Committee is comprised of Mr. Frank White (Chair), Mr. Brahm Gelfand, Mr. Garth MacRae and Mr. Alain Benedetti. The committee has held two meetings in the past six months.

*The Fund Review Committee:* The committee is responsible for overseeing, among other things, fund performance, the workings of fund managers, soft dollar arrangements and execution costs. The Fund Review Committee is comprised of Mr. Robert Ruggles (Chair), Mr. Garth MacRae and Mr. Crowe. The committee has held one meeting in the past six months.

*The Governance Committee:* The committee deals with, among other things, succession planning, member evaluation and education, member selection and appointment, code of ethics, compliance with laws and regulations, whistleblowing mechanism and ongoing developments with securities regulations relating to the Manager and investment industry. The Governance Committee is comprised of Mr. Alain Benedetti (Chair), Mr. Richard Crowe and Mr. Frank White. The committee has held one meeting in the past six months.

Regularly, representatives from the portfolio management team of the Manager report to the Board of Governors on the operations of the Funds to ensure that the stated mandate of each Fund is maintained. Periodically, senior management, including representatives of the Manager's Compliance Committee and Internal Auditor, report to the Governors to ensure that the Manager has effective controls in place to protect the Fund's assets, and to review and discuss:

- Compliance with the Manager's Code of Ethics;
  - Appropriate resolution of potential or perceived conflicts of interest;
  - Internal controls over financial reporting;
  - The accuracy of daily net asset value calculations; and
  - Compliance with regulatory requirements.
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## **Canada Dominion Resources 2006 II Limited Partnership**

### Board of Governors' Report (cont'd)

The position, Director, Internal Audit, reports to the Audit Committee of the Board of Governors and provides independent oversight and reports on the operations of the Manager that affect the Funds. In addition, the Manager formed a committee called the Oversight Committee for Sub-Advisors and Portfolio Solutions which is responsible for monitoring and evaluating sub-advisors. The Oversight Committee periodically reports to the Board of Governors.

The purpose and function of the Board of Governors continues to evolve over time in response to changing market conditions and investment fund regulations and legislation.

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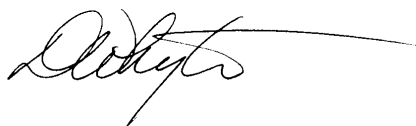
# Canada Dominion Resources 2006 II Limited Partnership

## Management Responsibility for Financial Reporting

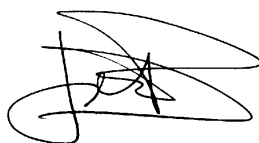
The accompanying financial statements have been prepared by Goodman & Company, Investment Counsel Ltd. in its capacity as Manager of the Partnership and approved by the Board of Directors of the General Partner. The General Partner is responsible for the information and representations contained in these financial statements and other sections of the Annual Report.

The General Partner maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgements made by the General Partner. The significant accounting policies which the General Partner believes are appropriate for the Partnership are described in Note 2 to the financial statements.

PricewaterhouseCoopers LLP are the external auditors of the Partnership, appointed by the limited partners. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the limited partners their opinion on the financial statements. Their report is set out herein.



DAVID WHYTE  
President  
Goodman & Company, Investment Counsel Ltd.



JOHN PEREIRA  
Executive Vice President and Chief Financial Officer  
Goodman & Company, Investment Counsel Ltd.

March 14, 2008

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# Canada Dominion Resources 2006 II Limited Partnership

## Management Report of Partnership Performance

### Investment Objective and Strategies

Pursuant to the prospectus, Canada Dominion Resources 2006 II Limited Partnership (the "Partnership")'s investment objective is to provide the limited partners with a tax-assisted investment in a diversified portfolio of equity securities of resource companies, including junior resource companies, with a view to earning income and achieving capital appreciation for the limited partners.

The Partnership's investment strategy entails investing in flow-through shares of resource companies, including junior resource companies, engaged in oil and gas or mining exploration, development and/or production or certain energy production that may incur Canada Renewable and Conservation Expense ("CRCE").

The general partner intends to obtain for the limited partners the applicable income tax deductions associated with flow-through shares and to reduce certain risks to limited partners by the diversification of the portfolio of equity securities of resource companies to be owned by the Partnership. For tax purposes, any sale of flow-through shares generally is expected to result in a capital gain equal to the net proceeds because the adjusted cost base of flow-through shares is expected to be nil.

### Risk

The risks associated with investing in the Partnership are as described in the prospectus.

### Results of Operations<sup>(1)</sup>

The Partnership's net assets decreased by 39.4% to \$37.5 million at December 31, 2007, from \$61.9 million at December 31, 2006. The decrease is attributed to investment performance (including dividends and interest income) of -\$24.4 million.

For the year ended December 31, 2007, units of the Canada Dominion Resources 2006-II Limited Partnership (the "Partnership") generated total returns of -39.2%.

The Partnership's benchmark, a blend of the S&P/TSX Capped Energy Index (2/3) and the S&P/TSX Capped Materials Index (1/3), returned 10.0% during the same period. While the Partnership invests in a diversified mix of resource companies involved in exploration,

development and production, performance is not expected to match that of any specific index.

The Partnership's net asset value experienced a significant decrease as equity prices for most junior oil and natural gas producers were negatively impacted by lower natural gas prices, higher costs and a new royalty program tabled by the province of Alberta in October (scheduled to come into effect in 2009). Share prices for most junior oil and natural gas producers declined by an average of 25% during the final quarter alone. While declining rig costs and stronger prices for natural gas provided some strength to the sector in the third quarter, Alberta's announcement regarding the proposed royalty changes eradicated the possibility of any immediate turnaround. With approximately 70% of the average junior producer's revenues coming from natural gas production, shares of those companies whose projects reside primarily in Alberta were negatively impacted. While the government of Alberta has signaled that it may reconsider the structure and implementation of its new royalty regime in the event of extreme unforeseen circumstances, measuring and quantifying those circumstances is subject to interpretation. Companies with production sold to the US also experienced softened demand as increased domestic production, higher liquefied natural gas (LNG) imports and milder winters in North America created an inventory overhang in the US, compounding the effects of a stronger Canadian dollar.

The economic backdrop for the Partnership remained mostly mixed during the period. While the growing possibility of an economic recession in North America may cause demand for materials to slow, constrained supply levels for most metals and minerals have helped offset any immediate decay in demand. Short-term, cyclical corrections can make for a difficult environment as was evidenced by investments made in companies involved in commodities such as zinc and nickel. Supply levels for zinc have moved back into balance, with prices trading 50% below their late 2006 highs. A massive stainless steel correction in 2007 sent nickel prices down from highs of US\$24/lb to finish the year at approximately US\$12/lb. Companies involved primarily in base metals exploration and development experienced greater downside in this environment. The Partnership managed to offset most of the downside in the diversified metals and mining sector as a result solid returns delivered from investments in

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(1) All reference(s) to net assets or net asset value in this section refer(s) to "Transactional Net Asset Value (Transactional NAV)". Transactional NAV may differ from GAAP Net Assets.

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# Canada Dominion Resources 2006 II Limited Partnership

Consolidated Thompson Iron Mines Limited, Mirabela Nickel Limited and Aura Minerals Inc.

The Partnership's investments in the gold and precious metals sector saw their fair measure of volatility as a liquidity squeeze in North America and Europe served to curb investment demand for exploration and development projects in this sector. Exploration and development stocks react swiftly to both positive and negative news, and while the price of gold remained flat throughout the first three quarters of 2007, the emergence of a credit crisis in August decreased the market's appetite for any resource stock whose projects were not already in production. Investments made in the alternative (other) energy sector faced similar difficulties as softer uranium prices had the market selling positions in smaller companies whose focus resides primarily in exploration.

At December 31, 2007, the Partnership's net asset value per unit was \$12.51. This represents a total after-tax return on money at-risk<sup>(2)</sup> of approximately -20.3% for an Ontario investor subject to the highest marginal tax rate. Money at-risk is calculated as the total investment less all income tax savings from deductions plus taxable capital gains.

Expenses vary year over year mainly as a result of changes in average net assets and investor activity such as number of investor accounts and transactions. Income decreased and expenses increased for the year ended December 31, 2007, due mainly to fluctuations in the average net assets.

## **Credit Facility**

The Partnership established credit facilities with a Canadian Chartered Bank (the "Bank") for the payment of issuance costs and has provided the Bank with a security interest in all of the assets of the Partnership. The credit facilities were established on September 28, 2006. As at December 31, 2007, the principal loan balance outstanding was \$6,000,000, representing -16.0% of the total net asset value of the Partnership. The maximum and minimum amounts borrowed during the year ended December 31, 2007 were \$6,000,000 and \$5,500,000 respectively. The maximum and minimum amounts borrowed during the period from commencement of operations on September 28, 2006 to December 31, 2006 were \$5,500,000.

## **Recent Developments**

On January 18, 2008, the Partnership completed the transfer of its assets into Dynamic Managed Portfolios Ltd. in exchange for shares of DMP Resource Class. On the date of transfer, the net asset values for the Partnership and

DMP Resource Class were \$11.99 per unit and \$23.15 per share, respectively.

## *New Accounting Standard*

The Canadian Institute of Chartered Accountants (CICA) issued CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, effective for fiscal years beginning on or after October 1, 2006. The new accounting standards require that the fair value of financial instruments that are quoted in active markets be measured based on the bid price for long positions and the ask price for short positions. Prior to adoption of Section 3855, fair value for financial reporting purposes was based on the last traded price, when available. On January 1, 2007, the Partnership adopted the new accounting standards for securities held by the Partnership on a retroactive basis without restatement of prior periods. This change impacts the reported value of the Partnership's investments in its annual and interim financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). However, as a result of a temporary exemption provided by the Canadian Securities Administrators, the value used to determine the daily price of the Partnership's units for purchase and redemption by clients (Transactional NAV) is not affected.

## *Future Accounting Standards*

On December 1, 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". The new standards enhance existing disclosure and presentation on capital and financial instruments. They apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The impact of the new standards on capital and financial instruments disclosures of the Partnerships is under review. The existing requirements relating to presentation and disclosure of capital and financial instruments have been applied consistent with prior year.

## **Related Party Transactions**

The following arrangements are considered related party transactions:

### ***Commissions***

Brokerage commissions were paid on securities transactions during the period of approximately \$78,000 (2006 – nil). Of this amount, Dundee Securities Corporation, an indirect subsidiary of Dundee Wealth Management Inc., the parent

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## Canada Dominion Resources 2006 II Limited Partnership

of the manager, received approximately \$22,000 (2006 – nil).

### **Management Fee and Administration Services**

The Fund pays the Manager, Goodman & Company, Investment Counsel Ltd., a management fee for the continuous advice, recommendations and services provided to the Fund.

In consideration for portfolio, advisory and other services received from the Manager, Goodman & Company, Investment Counsel Ltd., the Partnership incurred a management fee of \$1.1 million (2006 – \$0.4 million).

The Partnership reimbursed the Manager for operating costs incurred in administering the Partnership of approximately \$323,000 (2006 – \$493,000).

### **Inter-Fund Trades**

The Fund, from time to time, entered into security trades with other funds managed by the Manager. These trades were executed through market intermediaries and under prevailing market terms and conditions.

### **Underwriting of Securities**

The Fund invested in securities offerings where an affiliate of the Manager acted as underwriter in the offering of the securities. For these transactions, the Manager received exemptive relief from securities regulatory authorities or received approval from the Independent Review Committee established for the Fund in accordance with requirements of National Instrument 81-107 – Independent Review Committee for Investment Funds.

### **Independent Review Committee**

The Manager has established an independent review committee (“IRC”) in accordance with the requirements of

NI 81-107 in order to review and provide recommendations or approval, as required, on conflict of interest matters referred to it by the Manager on behalf of the Funds. The IRC is responsible for:

- 1) overseeing the Manager’s decisions in situations where the Manager is faced with any present or perceived conflicts of interest, all in accordance with NI 81-107;
- 2) performing any other function required by securities legislation; and
- 3) approving certain actions proposed to be taken by a Manager.

The IRC presently consists of three members, all of whom are independent of the Manager. The current members of the independent review committee are Mr. Brahm Gelfand (Chairman), Mr. Ronald Singer, and Mr. Frank White. The IRC has held three meetings since October 31, 2007.

The IRC prepares at least annually a report that describes the IRC and its activities for securityholders which is available on the Manager’s website at [www.dynamic.ca](http://www.dynamic.ca), or at your request at no cost, by contacting the Manager at [invest@dynamic.ca](mailto:invest@dynamic.ca).

- (2) After-tax return numbers assume that an investor is able to deduct the indicated net asset value per unit against income for income tax purposes and the subsequent disposition of an investment will result in a capital gain. The difference in the tax treatment of deducting against income and inclusion as capital gain at more favourable effective marginal tax rates has the effect of reducing the break-even proceeds of disposition. The actual after-tax rates of return may be different. Actual after-tax rates of return, for a Limited Partner will vary depending on a number of factors including province of residence, date of disposition, marginal tax rates, receipt of distribution, actual capital gain inclusions and actual deductions or credits received.
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# Canada Dominion Resources 2006 II Limited Partnership

## Financial Highlights

The following tables show selected key financial information about the Partnership and are intended to help you understand the Partnership's financial performance for the fiscal periods indicated. The information on the following tables is based on prescribed regulations and as a result, are not expected to add down due to the increase (decrease) in net assets from operations being based on average units outstanding during the period and all other numbers being based on actual units outstanding at the relevant point in time.

### The Partnership's Net Assets per Unit<sup>(1)</sup>

	Data Per Unit (commencement of operations September 28, 2006)	
	December 31, 2007	December 31, 2006
<b>Initial offering price</b>	<b>\$-</b>	<b>\$25.00</b>
Issue costs	-	(1.85)
<b>Net assets, beginning of period<sup>(1)(2)</sup></b>	<b>\$21.03†</b>	<b>\$23.15</b>
<b>Increase (decrease) in net assets from operations:</b>		
Total revenue	\$0.04	\$0.11
Total expenses	(0.66)	(0.34)
Realized gain (loss) for the period	(1.21)	-
Unrealized gain (loss) for the period	(6.56)	(2.29)
<b>Total Increase (decrease) in net assets from operations<sup>(2)</sup></b>	<b>\$(8.39)</b>	<b>\$(2.52)</b>
<b>Distributions to Partners:</b>		
From income (excluding dividends)	\$-	\$-
From dividends	-	-
From net realized gain on investments	-	-
From return of capital	-	-
<b>Total annual distributions<sup>(2)</sup></b>	<b>\$-</b>	<b>\$-</b>
<b>Net assets, end of period<sup>(1)(2)</sup></b>	<b>\$12.67</b>	<b>\$20.63</b>

† Opening net assets per unit has been determined in accordance with section 3855 of the CICA Handbook and may differ from the prior year closing net assets per unit. The provisions of section 3855 allow for the application of the standard retroactively without restatement of prior periods.

### Ratios and Supplemental Data<sup>(6)\*\*</sup>

Total net asset value (in 000s)	\$37,523	\$61,875
Number of units outstanding	3,000,000	3,000,000
Management fee	2.00%	2.00%
Management expense ratio ("MER") <sup>(3)</sup>	3.65%	14.86%*
MER before waivers or absorptions <sup>(3)</sup>	3.65%	14.86%*
Trading expense ratio <sup>(4)</sup>	0.15%	0.00%
Portfolio turnover rate <sup>(5)</sup>	31.04%	1.32%
Net asset value per unit	\$12.51	\$20.63

\* Annualized

\*\* Footnotes for the tables are found at the end of the Financial Highlights section.

## Canada Dominion Resources 2006 II Limited Partnership

- (1) This information is derived from the Partnership's financial statements. The net assets per unit presented in the financial statements may differ from the net asset value calculated for Partnership pricing purposes. An explanation of these differences can be found in the notes to the financial statements. Differences are due to the application of the new accounting standard Section 3855. The net asset per unit at the beginning and at the end of the period for 2007 are shown as the Canadian GAAP net assets per unit. The Transactional NAV per unit is shown for all prior periods.
- (2) Net assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) in net assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.
- (3) Management expense ratio ("MER") is based on the total expenses of the Partnership for the stated period expressed as an annualized percentage of daily average net assets during the period. The annualized MER for 2006 (the year of inception) includes expenses of the offering of \$500,000 and agents' fees of \$5.0625 million which are treated as one time expenses and therefore are not annualized. Had we annualized these expenses, the annualized MER would have been 39.74%. The MER before waivers and absorptions would have been 39.74%. MER excluding expenses of the offering and agents' fees would have been 6.10%.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs, expressed as an annualized percentage of daily average net asset value of the Partnership during the period.
- (5) The Partnership's portfolio turnover rate indicates how actively the Partnership's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Partnership buying and selling all of the securities in its portfolio once in the course of the fiscal period. The higher a Partnership's portfolio turnover rate in a period, the greater the trading costs payable by the Partnership in the period, 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 a Partnership. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding any portfolio re-balancing transactions following a merger and cash and short-term investments maturing in less than one year, by the average market value of investments during the period.
- (6) This information is presented based on the Transactional NAV or Net Asset Value. Please see below for a reconciliation between the Transactional NAV (net asset value) and the NAV calculated in accordance with Canadian GAAP (net assets).

	Total (in \$000's)	Per Unit \$
Transactional NAV or Net Asset Value	37,523	12.51
Adjustment on application of Section 3855	494	0.16
Net assets	38,017	12.67

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# Canada Dominion Resources 2006 II Limited Partnership

## Management Fee

The management fee is an annualized management fee based on the net assets of the Partnership and is accrued daily and paid at months end as a percentage of the month-end net assets. Of the management fee incurred to the Manager, 100% is attributed to the portfolio and advisory services and general administrative costs.

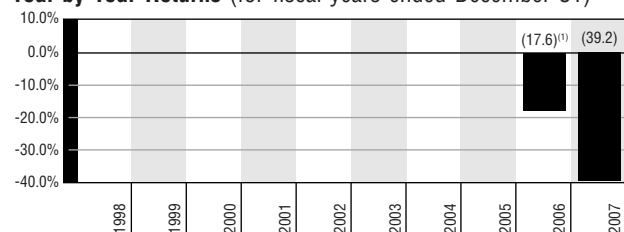
## Past Performance

The following chart and table show the past performance of the Partnership and will not necessarily indicate how the Partnership will perform in the future. In addition, the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance.

### Year-by-Year Returns

The following chart shows the annual performance of the Partnership for each year shown and illustrates how the Partnership's performance has varied from year to year. The chart shows, in percentage terms, how much an investment held on the first day of each financial year would have increased or decreased by the last day of each financial year for units of the Partnership.

### Year-by-Year Returns (for fiscal years ended December 31)



<sup>(1)</sup> Since inception date to the fiscal year-end.

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# Canada Dominion Resources 2006 II Limited Partnership

## ***Annual Compound Returns***

The following table shows the annual compound total return for each period indicated, compared with a blended index of the S&P/TSX Capped Energy Index (2/3) and the S&P/TSX Capped Materials Index (1/3).

The annual compound returns table compares the Partnership's performance to a benchmark. Benchmarks are usually an index or a composite of more than one index. An index is generally made up of a group of securities. Since the Partnership does not necessarily invest in the same securities as an index or in the same proportion, the Partnership's performance is not expected to equal the performance of the index. It may be more helpful to compare the Partnership's performance to that of other partnerships with similar objectives and investment disciplines.

The S&P/TSX Capped Energy Index is a sector-based index of the Global Industry Classification Standard (GICS®) developed by S&P and MSCI. The S&P/TSX Capped Energy Index is comprised of securities of Canadian energy sector issuers listed on the TSX, selected by S&P using its industrial classifications and guidelines for evaluating issuer capitalization, liquidity and fundamentals. The relative weight of any single index constituent is capped at 25%. The index assumes the reinvestment of all dividends.

The S&P/TSX Capped Materials Index is a sector-based index of the Global Industry Classification Standard (GICS®) developed by S&P and MSCI. The S&P/TSX Capped Materials Index is comprised of the securities of Canadian materials sector issuers listed on the TSX, selected by S&P using its industrial classifications and guidelines for evaluating issuer capitalization, liquidity and fundamentals. The relative weight of any single index constituent is capped at 25%. The index assumes the reinvestment of all dividends.

A discussion of the performance of the Partnership as compared to the Blended Index is found in the Results of Operations section of this report.

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	<b>One Year</b>	<b>Since Inception</b>
Return per Unit of Partnership (%)	(39.2)	(42.3)
Blended Index (%)	10.0	11.5
S&P/TSX Capped Energy Total Return Index (%)	3.5	(0.6)
S&P/TSX Capped Materials Total Return Index (%)	23.5	39.2

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# Canada Dominion Resources 2006 II Limited Partnership

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2007

BY COUNTRY <sup>(2)</sup>	Percentage of Total Net Asset Value <sup>†</sup>
Canada	109.4
Australia	5.0
Cash and Cash Equivalents (Bank Overdraft)	2.7
United States	0.4

BY INDUSTRY <sup>(1)(2)</sup>	Percentage of Total Net Asset Value <sup>†</sup>
Energy	58.9
Diversified Metals and Mining	33.9
Gold and Precious Metals	13.8
Energy (Other)*	7.6
Cash and Cash Equivalents (Bank Overdraft)	2.7
Other	0.2

BY ASSET TYPE <sup>(2)</sup>	Percentage of Total Net Asset Value <sup>†</sup>
Equities	114.5
Cash and Cash Equivalents (Bank Overdraft)	2.7
Bonds and Debentures	0.3

TOP 25 HOLDINGS	Percentage of Total Net Asset Value <sup>†</sup>
Consolidated Thompson Iron Mines Limited	10.9
Marble Point Energy Ltd.	8.5
Galleon Energy Inc., Class "A"	5.7
UTS Energy Corporation	5.1
Mirabela Nickel Limited	4.7
Blue Parrot Energy Inc.	4.4
OPTI Canada Inc.	3.6
Vigilant Exploration Inc.	3.2
Pearl Exploration and Production Ltd.	3.0
Burmis Energy Inc.	2.9
RSX Energy Inc.	2.7
Cash and Cash Equivalents	2.7
Goldbrook Ventures Inc.	2.6
Duvernay Oil Corp.	2.4
Orleans Energy Ltd.	2.4
Avondale Energy Inc.	2.2
Canadian Gold Hunter Corp.	2.2
Bravo Venture Group Inc.	2.1
Alberta Star Development Corp.	2.0
Aura Minerals Inc.	1.9
Rival Energy Ltd.	1.9
Baja Mining Corp., Restricted	1.8
Slam Exploration Ltd.	1.7
Miramar Mining Corporation	1.7
Crowflight Minerals Inc.	1.6

(1) Excludes Bonds and Debentures and Preferred Equities.

(2) Excludes Other Net Assets (Liabilities) and Derivatives.

† This refers to transactional Net Asset Value; therefore weightings presented in the Statement of Investments will differ from the ones disclosed above.

\* The "Energy – Other" component of the portfolio consists of companies whose primary focus is on the exploration, development and production of alternative energy sources (outside of oil and natural gas), including uranium, wind generation and geothermal energy.

The Partnership's investment portfolio may change due to the ongoing portfolio transactions of the Partnership. Updates of the Partnership's investment portfolio are made available quarterly on our website at [www.canadadominion.com](http://www.canadadominion.com), 60 days after quarter end except for December 30, which is the fiscal year end for the Fund, when they are available after 90 days.

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# Canada Dominion Resources 2006 II Limited Partnership

## Caution regarding forward-looking statements

Certain portions of this report, including, but not limited to, “Recent Developments”, may contain forward-looking statements about the Partnership, including its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Partnership action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Partnership. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive.

We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing any undue reliance on forward-looking statements. Further, you should be aware of the fact that the Partnership has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Partnership Performance.

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# Canada Dominion Resources 2006 II Limited Partnership

## Auditors' Report

To the Partners of

**Canada Dominion Resources 2006 II Limited Partnership** (the Partnership)

We have audited the statement of investments of the Partnership as at December 31, 2007, the statements of net assets as at December 31, 2007 and 2006 and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2007 and the period from September 28, 2006 to December 31, 2006. 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 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 2006 and the results of its operations, the changes in its net assets and its cash flows for the year ended December 31, 2007 and the period from September 28, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

March 14, 2008

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# Canada Dominion Resources 2006 II Limited Partnership

## STATEMENT OF INVESTMENTS

As at December 31, 2007

(in 000s of Canadian dollars except number of shares/units or where par values are otherwise noted)	Par Value(\$)/ Number of Shares/Units	Cost	Market Value
<b>BONDS AND DEBENTURES (0.3%)</b>			
<b>Canadian Bonds and Debentures (0.3%)</b>			
<b>Corporate (0.3%)</b>			
Wesdome Gold Mines Ltd., 7.00% May 30 12	107,000	\$107	\$107
<b>EQUITIES (114.3%)</b>			
<b>Diversified Metals and Mining (34.8%)</b>			
Aberdeen International Inc.	491,000	393	265
Aberdeen International Inc., Warrants, Jun. 06 12	245,500	–	58
Alberta Star Development Corp.	1,275,000	2,423	727
Alberta Star Development Corp., Warrants, Apr. 18 08	709,650	–	2
Aura Minerals Inc.	642,900	514	714
Baja Mining Corp., Restricted	383,394	713	681
Baja Mining Corp., Warrants, Oct. 16 12	249,206	–	209
Berkeley Resources Limited	84,500	148	84
Consolidated Thompson Iron Mines Limited	642,800	3,053	4,088
Crowflight Minerals Inc.	1,000,000	400	610
Goldbrook Ventures Inc., Warrants, Oct. 05 09, Series "A"	2,241,000	–	196
Goldbrook Ventures Inc., Warrants, Oct. 05 09, Series "B"	2,241,000	–	106
Goldbrook Ventures Inc.	3,941,000	1,379	926
Grande Portage Resources Ltd.	703,125	563	134
Liberty Mines Inc.	250,000	225	360
Mincore Inc., Restricted	308,600	231	231
Mirabela Nickel Limited	300,000	1,682	1,770
NiCo Mining Corp., Restricted	51,370	51	51
Quinto Mining Corporation	909,100	500	573
Quinto Mining Corporation, Warrants, Dec. 29 08	454,550	–	81
Savant Explorations Ltd.	155,529	56	41
Selwyn Resources Ltd.	1,435,000	951	380
Sherwood Copper Corporation	58,100	247	315
Slam Exploration Ltd.	3,600,000	468	576
Slam Exploration Ltd., Warrants, May 23 08	3,600,000	–	53
		<b>13,997</b>	<b>13,231</b>
<b>Energy (57.2%)</b>			
Arsenal Energy Inc.	400,000	440	160
Avondale Energy Inc.	480,000	1,008	816
Blue Parrot Energy Inc.	40,870,000	3,021	1,430
Burmis Energy Inc.	633,600	2,376	1,083
Churchill Energy Inc., Class "A"	1,200,000	1,500	324
Duvernay Oil Corp.	31,100	1,361	901
Fair Sky Resources Inc.	655,800	2,000	79
Galleon Energy Inc., Class "A"	138,400	2,854	2,129
Great Plains Exploration Inc.	750,000	1,613	563
Jura Energy Corporation	1,009,900	1,161	384
Kodiak Exploration Limited, Restricted	52,700	200	240
Magnus Energy Inc., Class "A"	460,600	696	5
Marble Point Energy Ltd.	4,000,000	4,000	3,200
OPTI Canada Inc.	81,500	1,858	1,352
Orleans Energy Ltd.	404,000	2,323	893
Paramount Resources Ltd., Class "A"	30,000	547	408
Pearl Exploration and Production Ltd.	435,000	2,545	1,096
Profound Energy Inc.	75,000	1,350	208
Questerre Energy Corporation, Restricted	784,689	1,537	554
Rival Energy Ltd.	537,100	859	693
RSX Energy Inc.	639,900	2,592	966
Sabretooth Energy Ltd.	250,000	2,000	513
Stonefire Energy Corp., Class "A"	300,000	720	240
Tango Energy Inc.	1,183,800	651	391
UTS Energy Corporation	355,500	2,222	1,913
Vigilant Exploration Inc.	750,000	1,500	1,200
		<b>42,934</b>	<b>21,741</b>

The accompanying notes are an integral part of these financial statements.

# Canada Dominion Resources 2006 II Limited Partnership

## STATEMENT OF INVESTMENTS (cont'd)

As at December 31, 2007

(in 000s of Canadian dollars except number of shares/units or where par values are otherwise noted)	Par Value(\$)/ Number of Shares/Units	Cost	Market Value
<b>EQUITIES (114.3%) (cont'd)</b>			
<b>Energy (Other) (8.3%)</b>			
Bayswater Uranium Corporation	500,000	\$525	\$410
Bayswater Uranium Corporation, Warrants, Nov. 01 08	1,500,000	–	305
CanAlaska Uranium Ltd.	1,000,000	450	410
Capella Resources Ltd.	97,390	107	30
Capella Resources Ltd., Warrants, Dec. 29 08	48,695	–	2
Cash Minerals Ltd.	360,500	721	148
Cash Minerals Ltd., Warrants, Apr. 04 08	180,250	–	–
Nahwitti Land Holdings No. 2 Ltd.	277,778	500	500
Pitchstone Exploration Ltd.	200,000	380	416
Terra Ventures Inc.	406,250	325	152
Triex Minerals Corporation	52,500	218	125
Triton Energy Corp.	1,037,200	1,322	498
Uranium Star Corp., Restricted	737,731	421	154
Uranium Star Corp., Warrants, Nov. 24 08	368,865	–	10
		<b>4,969</b>	<b>3,160</b>
<b>Gold and Precious Metals (13.8%)</b>			
Abacus Mining & Exploration Corporation	511,722	356	194
Abacus Mining & Exploration Corporation, Warrants, Dec. 06 08	230,861	–	3
Andean American Mining Corp., Restricted Units	133,221	87	96
Antares Minerals Inc., Restricted	74,841	344	278
Antares Minerals Inc., Warrants, May 21 09	37,421	–	37
Armistice Resources Corp., Restricted Units	71,760	47	37
Bravo Venture Group Inc.	800,000	1,072	768
Canadian Gold Hunter Corp.	585,000	878	813
Canarc Resource Corp.	1,300,000	1,066	462
Dynamite Resources Ltd.	219,643	176	72
Dynamite Resources Ltd., Warrants, Aug. 17 09	219,643	–	14
Kirkland Lake Gold Inc.	28,000	300	346
MAG Silver Corp.	17,900	277	262
Maximus Ventures Ltd., Restricted	171,505	51	66
Maximus Ventures Ltd., Warrants, Apr. 24 09	171,505	–	35
Miramar Mining Corporation	103,252	759	643
Platmin Limited	50,200	427	465
San Gold Corporation	109,983	110	144
San Gold Corporation, Restricted	353,443	496	463
San Gold Corporation, Warrants, Jun. 07 09	54,992	–	13
San Gold Corporation, Warrants, May 30 09	176,722	–	35
		<b>6,446</b>	<b>5,246</b>
<b>Other (0.2%)</b>			
Pure Diamonds Exploration Inc.	1,000,000	500	80
<b>COST AND MARKET VALUE OF INVESTMENTS (114.6%)</b>		<b>68,953</b>	<b>43,565</b>
<b>TRANSACTION COSTS (0.0%) (Note 2)</b>		<b>(4)</b>	<b>–</b>
<b>TOTAL COST AND MARKET VALUE OF INVESTMENTS (114.6%)</b>		<b>68,949</b>	<b>43,565</b>
<b>BANK LOAN (–15.8%)</b>			
Bank Loan		<b>(6,000)</b>	<b>(6,000)</b>
<b>CASH AND CASH EQUIVALENTS (2.7%)</b>			
Canadian		1,009	1,009
Foreign		–	–
		<b>1,009</b>	<b>1,009</b>
<b>ENCUMBERED CASH (0.0%)</b>			
Canadian		–	–
Foreign		–	–
		–	–
<b>OTHER NET ASSETS (LIABILITIES) (–1.5%)</b>		<b>(557)</b>	<b>(557)</b>
<b>NET ASSETS (100.0%)</b>		<b>\$63,401</b>	<b>\$38,017</b>

The accompanying notes are an integral part of these financial statements.

# Canada Dominion Resources 2006 II Limited Partnership

## STATEMENTS OF NET ASSETS

As at

(in 000s of Canadian dollars except number of units and per unit amounts)	December 31, 2007	December 31, 2006
<b>Assets</b>		
Investments, at market value*	\$43,565	\$68,231
Cash and cash equivalents	1,009	789
Receivable for investment securities sold	–	–
Accrued interest, dividends and other	21	69
	<b>44,595</b>	<b>69,089</b>
<b>Liabilities</b>		
Loan payable (Note 3)	6,000	5,500
Payable for investment securities purchased	–	300
Management fee payable	71	351
Issuance costs payable	–	488
Performance fee payable	–	–
Accrued expenses	507	575
	<b>6,578</b>	<b>7,214</b>
<b>Net assets – representing partners' equity</b>	<b>\$38,017</b>	<b>\$61,875</b>
Partners' capital	\$69,553	\$69,438
Retained earnings (deficit) (Note 5)	(31,536)	(7,563)
	<b>\$38,017</b>	<b>\$61,875</b>
*Investments, at cost	\$68,949	\$75,118
<b>Number of units outstanding (Note 5)</b>	<b>3,000,000</b>	<b>3,000,000</b>
<b>Net assets per unit (Note 7)</b>	<b>\$12.67</b>	<b>\$20.63</b>

## STATEMENTS OF OPERATIONS

For the period indicated in Note 1

(in 000s of Canadian dollars except per unit amounts)	2007	2006
<b>Investment Income</b>		
Interest	\$131	\$333
Dividends	–	–
Foreign withholding taxes	–	–
	131	333
<b>Expenses (Note 4)</b>		
Management fee	1,098	351
Performance fee	–	–
Independent review committee fees	1	–
Unitholder reporting costs	110	45
Unitholder administration costs	339	501
Custodian fee and bank charges	22	5
Audit fees	21	18
Legal fees	3	3
Filing fees	8	3
Interest expense (Note 3)	310	73
Upfront loan facility expense (Note 3)	–	10
Transaction costs (Note 2)	78	–
	1,990	1,009
<b>Net investment income (loss)</b>	<b>(1,859)</b>	<b>(676)</b>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain (loss) on sale of investments	(3,620)	–
Net realized and change in unrealized foreign exchange gain (loss)	4	–
Change in unrealized appreciation (depreciation) in value of investments	(19,695)	(6,887)
<b>Net gain (loss) on investments</b>	<b>(23,311)</b>	<b>(6,887)</b>
<b>Increase (decrease) in net assets from operations</b>	<b>\$(25,170)</b>	<b>\$(7,563)</b>
<b>Increase (decrease) in net assets from operations per unit (Note 2)</b>	<b>\$(8.39)</b>	<b>\$(2.52)</b>

The accompanying notes are an integral part of these financial statements.

# Canada Dominion Resources 2006 II Limited Partnership

## STATEMENTS OF CHANGES IN NET ASSETS

For the period indicated in Note 1

(in 000s of Canadian dollars)	2007	2006
<b>Net assets, beginning of period (Note 7)</b>	\$61,875	\$-
Transitional adjustment on application of new accounting standard	1,197	-
<b>Net assets, beginning of period – adjusted (Note 7)</b>	63,072	-
<b>Increase (decrease) in net assets from operations</b>	(25,170)	(7,563)
<b>Partners' transactions</b>		
Proceeds from issue	-	75,000
Issuance costs	115	(5,562)
	115	69,438
<b>Increase (decrease) in net assets</b>	(25,055)	61,875
<b>Net assets, end of period</b>	<b>\$38,017</b>	<b>\$61,875</b>

## STATEMENTS OF CASH FLOWS

For the period indicated in Note 1

(in 000s of Canadian dollars)	2007	2006
<b>Cash flows from operating activities:</b>		
Net investment income (loss)	\$(1,859)	\$(676)
<b>Changes in non-cash working capital:</b>		
(Increase) decrease in accrued interest, dividends and other	3	(4)
Increase (decrease) in other payables	(835)	1,414
(Increase) decrease in receivable for investments securities sold	-	-
Increase (decrease) in payable on investment securities purchased	(300)	300
(Investments purchased)	(17,285)	(75,539)
Proceeds from sale of investments	19,832	421
Net realized and change in unrealized foreign exchange gain (loss)	4	-
Net cash provided by (used in) operating activities	(440)	(73,408)
<b>Cash flows from financing activities:</b>		
Proceeds from issue	-	75,000
Issuance costs	115	(5,562)
Increase (decrease) in loan payable	500	5,500
(Increase) decrease in deferred interest expense on bank loan	45	(65)
Net cash provided by (used in) financing activities	660	74,873
<b>Cash and cash equivalents, beginning of period</b>	789	-
<b>Cash and cash equivalents, end of period</b>	<b>\$1,009</b>	<b>\$789</b>

The accompanying notes are an integral part of these financial statements.

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# Canada Dominion Resources 2006 II Limited Partnership

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

### 1. Organization of the Limited Partnership

The Canada Dominion Resources 2006 II Limited Partnership ("the Partnership") was formed as a limited partnership under the laws of the Province of Ontario for the purpose of acquiring flow-through shares and other securities of resource companies with a view to achieving capital appreciation for Limited Partners. The Partnership was formed and commenced operations on the following dates:

	Date Formed	Commenced Operations
Canada Dominion Resources 2006 II Limited Partnership	November 16, 2005	September 28, 2006

The General Partner of the Partnership is as follows:

	General Partner	Date Incorporated	Date of Limited Partnership Agreement
Canada Dominion Resources 2006 II Limited Partnership	Canada Dominion Resources 2006 II Corporation ("CDR 2006 II")	November 4, 2005	September 20, 2006

The General Partner is responsible for the management of the Partnership in accordance with the terms and conditions of the partnership agreement.

### Financial Reporting Dates

The Statement of Investments is as at December 31, 2007. The Statements of Net Assets are as at December 31, 2007 and December 31, 2006. The Statements of Operations, Changes in Net Assets and Cash Flows of the Partnership are for the year ended December 31, 2007 and for the period from commencement of operations on September 28, 2006 to December 31, 2006.

These financial statements present the financial position and results of operations of the Partnership and as such, do not include all assets, liabilities, revenues and expenses of the partners.

### Transactions of the Manager

All directors, officers and employees ("Employees") of the Manager are subject to its Code of Ethics and Standards of Professional Conduct (the "Code"). The Code has been put in place to protect the interests of all investors of the Partnership. The Board of Directors of the General Partner and the Board of Governors of the Partnership have reviewed and approved the Code. The Code includes a Trading Policy that Employees must adhere to.

### Independent Review Committee

The Manager has established an independent review committee ("IRC") in accordance with the requirements of NI 81-107 in order to review and provide recommendations or approval, as required, on conflict of interest matters referred to it by the Manager on behalf of the Funds. The IRC is responsible for:

- 1) overseeing the Manager's decisions in situations where the Manager is faced with any present or perceived conflicts of interest, all in accordance with NI 81-107;
- 2) performing any other function required by securities legislation; and
- 3) approving certain actions proposed to be taken by a Manager.

The IRC presently consists of three members, all of whom are independent of the Manager. The current members of the independent review committee are Mr. Brahm Gelfand (Chairman), Mr. Ronald Singer, and Mr. Frank White. The IRC has held three meetings since October 31, 2007.

The IRC prepares at least annually a report that describes the IRC and its activities for securityholders which is available on the Manager's website at [www.dynamic.ca](http://www.dynamic.ca), or at your request at no cost, by contacting the Manager at [invest@dynamic.ca](mailto:invest@dynamic.ca).

### 2. Summary of Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), include estimates and assumptions by the Manager that may affect the reported amount of assets, liabilities, income and expenses during the reporting period. Actual results could differ from those estimates. These financial statements have been prepared on a consistent basis with the December 31, 2006 annual financial statements except for the "Adoption of the New Accounting Standard" as described in the notes below. The following is a summary of significant accounting policies used by the Partnership:

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# Canada Dominion Resources 2006 II Limited Partnership

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2007

### 2. Summary of Significant Accounting Policies (cont'd)

#### Investment Transactions and Income Recognition

All investment transactions are reported on the business day the order to buy or sell is executed. Realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments are calculated on an average cost basis.

Income from investments held is recognized on an accrual basis. Interest income is accrued as earned and dividend income and distributions from investment trusts are recognized on the ex-dividend date.

For income tax purposes, the adjusted cost base of flow-through shares is reduced by the amount of expenditures renounced to the Partnership. Upon disposition of such shares, a capital gain will result and be allocated to the Limited Partners based upon their proportionate share of the Partnership.

#### Valuation of Partnership Units

Net asset value per unit ("NAVPU") for the Partnership is calculated at the end of each day on which the Manager is open for business ("valuation date") by dividing the Transactional net assets ("net asset value") of the Partnership by its outstanding units. In addition, at the reporting period date net assets are calculated whereby the assets and liabilities are valued using the fair value measures described in CICA Section 3855. This valuation approach (as required by the new accounting standard) is called the "net assets" (refer to Adoption of New Accounting Standard below). A reconciliation between net asset value and net assets is described in note 7.

#### Statements of Cash Flows

The Statement of Cash Flows has been included where the Partnership utilizes leverage or borrowing.

#### Issuance Costs

Expenses related to the initial offering of the Partnership units have been accounted for as a reduction of partners' equity.

#### Allocation of Partnership Income and Loss

99.99% of the income or loss of the Partnership for the fiscal year is allocated to limited partners at the end of the fiscal year in proportion to the number of limited partnership units owned. The Partnership is not itself a taxable entity. Accordingly, no provision for income tax is required.

The Manager is entitled to 0.01% of the net income or loss of the Partnership. Net income is determined in accordance with GAAP.

#### Increase (decrease) in Net Assets from Operations per Unit

"Increase (decrease) in net assets per unit" from operations is disclosed in the Statement of Operations and represents the increase or decrease in net assets from operations for the period divided by the average number of units outstanding during the period.

#### Adoption of New Accounting Standard

On April 1, 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, "Financial Instruments – Recognition and Measurement" of the CICA Handbook – Accounting ("Section 3855"), which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 applies to fiscal years beginning on or after October 1, 2006. Additionally, Section 14.2 of National Instrument 81-106 ("NI 81-106"), issued by the Canadian Securities Administrators in 2005, requires the daily net asset value of an investment fund to be calculated in accordance with Canadian generally accepted accounting principles ("GAAP"). The adoption of Section 3855 also results in the use of different valuation techniques for certain investments.

In June 2007, proposed amendments to NI 81-106 were issued to address this situation. The new amendments propose to permit investment funds to have two net asset values: one for financial statements, prepared in accordance with Canadian GAAP (and referred to as "net assets"); and another for all other purposes, including unit pricing or "Transactional NAV" (referred to as "net asset value"). In this proposal, the Transactional NAV (net asset value) for purchases and redemptions will not be required to be calculated in accordance with Canadian GAAP. For this purpose, the fair value of assets and liabilities will be based on reported prices and quotations in an active market. When the current market value is not available, or the Manager determines that it is unreliable, fair value will mean a value that is fair and reasonable by the Manager.

Canadian securities regulatory authorities have granted relief to investment funds from complying on an interim basis with Section 3855, for the purposes of calculating and reporting of net asset value (other than for financial reporting purposes). On September 28, 2007, Canadian securities regulatory authorities extended the relief to the earlier of September 30, 2008 or the date on which the proposed amendments come into effect.

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Transactional NAV ("net asset value") and the NAV calculated in accordance with Canadian GAAP including the provisions of Section 3855 (the "net assets") of an investment fund is required in the notes to the financial statements. Refer to note 7 for such a reconciliation for the period ended December 31, 2007.

The provisions of Section 3855 have been applied retroactively without restatement of prior periods.

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# Canada Dominion Resources 2006 II Limited Partnership

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2007

### 2. Summary of Significant Accounting Policies (cont'd)

As a result of the adoption of Section 3855, changes to the accounting policies of the Partnership are as follows:

#### Valuation of Investments

The fair value of investments is determined as follows:

- a) All long securities listed on a recognized public stock exchange are valued at their last bid price on the valuation date. All short securities listed on a recognized public stock exchange are valued at the last ask price on the valuation date. Securities that are traded on an over-the-counter market basis, other than NASDAQ securities, are priced at the last bid price as quoted by a major dealer. These securities are valued at the historic close or fair value.

Investments in securities having no quoted market values or in illiquid securities are valued using valuation techniques. Valuation techniques include, but are not limited to, referencing the current value of similar instruments, using recent arm's length market transactions, discounted cash flow analyses or option pricing models. These values may differ from values that would have been used had a ready market existed for these investments.

In a situation where, in the opinion of the Manager, a market quotation for a security is inaccurate, unreliable or not readily available, the security is valued primarily using dealer supplied valuations or at its fair value as determined by the Manager.

- b) Short-term securities are valued based on last bid price for long positions and last ask price for short positions.
- c) Warrants are valued based on a recognized option pricing model using the last bid for long positions and last ask for short positions.
- d) The market value of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange established at noon on each valuation date. Under the Partnership's fair pricing policy, when the rates of exchange established at 3 p.m. are materially different from the noon exchange rates on a given valuation date, the market value of investments and other assets and liabilities denominated in foreign currencies will be translated at the 3 p.m. exchange rates for that valuation date.

#### Transactions Costs

In accordance with Section 3855, transaction costs are expensed and are included in "Transaction costs" in the Statements of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from the sale of investments. There is no impact on the net asset value of the investment fund in using either of these methods. The cost of investments (realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments) for each security is determined on an average cost basis. The cost of portfolio securities is also calculated and reported on an average cost basis. All investment transactions are reported on the business day the order to buy or sell is executed as per Section 3855.

### 3. Loan Payable

The Partnership established credit facilities with a Canadian Chartered Bank (the "Bank") for the payment of issuance costs and has provided the Bank with a security interest in all of the assets of the Partnership. The credit facilities were established on September 28, 2006. As at December 31, 2007, the principal loan balance outstanding was \$6,000,000 (2006 – \$5,500,000). The maximum and minimum amounts borrowed during the year ended December 31, 2007 were \$6,000,000 and \$5,500,000 respectively. The maximum and minimum amounts borrowed during the period from commencement of operations on September 28, 2006 to December 31, 2006 were \$5,500,000. The Partnership paid an up-front loan fee of \$10,000, which was expensed when the Partnership entered into the credit agreement with the Bank.

The Partnership may avail credit by way of prime loans or Bankers' Acceptances ("BA"). The Partnership pays interest on the outstanding prime loan balance at the greater of the Prime Lending Rate and the sum of the rate per annum for Canadian Dollar Bankers' Acceptances ("BA") having a term of 30 days as reported by the Bank and ½ of 1% per annum. The BA interest rate per annum is equivalent to the rate existing at the borrowing date. The average interest rate on the outstanding balances during the year was 4.56%.

The initial interest paid on the drawdown or renewal of the BA is deferred and amortized over the term of the BA. The unamortized portion of the deferred interest is included under "Accrued interest, dividends and other" on the Statements of Net Assets. For the year ended December 31, 2007, the Partnership recorded interest expense of \$309,764. For the period from commencement of operations on September 28, 2006 to December 31, 2006, the Partnership recorded interest expense of \$72,508.

### 4. Income and Expenses

#### Management Fee

In consideration for the Manager's services and pursuant to the terms of the Management Agreement, the Partnership pays to the Manager an annual fee equal to 2% of the Transactional Net Asset Value. The management fee is calculated and paid monthly in arrears based on the Transactional Net Asset Value at the end of the preceding month.

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# Canada Dominion Resources 2006 II Limited Partnership

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2007

### 4. Income and Expenses (cont'd)

#### Performance Fee

The Manager is entitled to a performance fee to be paid by the Partnership equal to 20% of the amount by which the Net Asset Value per Unit exceeds \$28 on the performance fee date. The performance fee is calculated on a per unit basis and multiplied by the number of units existing at the performance fee date. The performance fee date is on the earlier of the date on which the Partnership assets are transferred to DMP Resource Class of Dynamic Managed Portfolios Ltd. and the day immediately prior to the date of dissolution or termination of the Partnership. The performance fee will be calculated on the performance fee date and paid as soon as practicable thereafter. As at December 31, 2007, no performance fee accrued was accrued.

#### Expenses

The Partnership pays all of the expenses relating to its operation and the carrying on of its business, including mailing and printing, legal and audit fees, interest, administrative costs relating to the cost of financial and other reports and compliance with all applicable laws, regulations and policies. Brokerage commissions paid on securities transactions are considered to be part of operating expenses. These commissions are not included in the cost of purchasing securities, nor are they netted out of the proceeds from selling securities as per Section 3855.

### 5. Partners' Capital

The authorized capital of the Partnership consists of an unlimited number of Partnership units. All Partnership units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Partnership and the right to one vote at any meeting of the Limited Partners. On September 28, 2006, 3,000,000 Partnership units were issued.

Unitholder transactions of units for the year ended December 31, 2007 and from commencement of operations on September 28, 2006 to December 31, 2006 were as follows:

	2007	2006
Units outstanding, beginning of period	3,000,000	–
Subscriptions	–	3,000,000
Reinvestments	–	–
Redemptions	–	–
Units outstanding, end of period	<b>3,000,000</b>	<b>3,000,000</b>

The changes to retained earnings (deficit) for the year ended December 31, 2007 and from commencement of operations on September 28, 2006 to December 31, 2006 are as follows:

(in \$000's)	December 31, 2007	December 31, 2006
Retained Earnings (deficit), beginning of period	\$(7,563)	\$–
Adjustment on application of new accounting policies (Note 7)	1,197	n/a
Increase (decrease) in net assets from operations	(25,170)	(7,563)
Retained Earnings (deficit), end of periods	<b>\$(31,536)</b>	<b>\$(7,563)</b>

### 6. Brokerage Commissions and Related Party Transactions

#### a) Portfolio Transactions

Broker commissions paid on securities transactions during the year ended December 31, 2007 were \$78,000 (nil for the period from commencement of operations on September 28, 2006 to December 31, 2006). Of these amounts, Dundee Securities Corporation ("Dundee Securities"), an indirect subsidiary of Dundee Wealth Management Inc. ("Dundee Wealth"), the parent of the Manager received commissions of \$22,000 for the year ended December 31, 2007 and nil for the period from commencement of operations on September 28, 2006 to December 31, 2006.

Dundee Wealth is the indirect parent of both the General Partner and Dundee Securities, one of the agents for the offering of the Partnership. Accordingly, the Partnership is related to Dundee Securities.

For the year ended December 31, 2007, soft dollar commissions paid were \$2,000 and for the period from commencement of operations on September 28, 2006 to December 31, 2006, the amount was nil. Soft dollar commissions reflect amounts paid indirectly to third parties through a broker or dealer for services received by the Partnership for services other than trading execution.

#### b) Private Placements

In addition to the commissions paid on the security transactions in a) above, the Partnership invests in flow-through shares through registered dealers, including Dundee Securities. Commissions on flow-through shares are paid directly from the issuer of the shares to the broker/dealer. In certain circumstances, Dundee Securities and the other agents may be entitled to receive fees and, in some cases, rights to purchase shares in connection with the sale of flow-through shares to the Partnership.

# Canada Dominion Resources 2006 II Limited Partnership

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2007

### 6. Brokerage Commissions and Related Party Transactions (cont'd)

#### c) Initial Offering of Partnership

The Partnership paid agents' fees of 6.75% for each unit sold in connection with the offering of the Partnership. Dundee Securities received a portion of these fees.

### 7. Reconciliation of Net Asset Value

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the net asset value and the net assets of an investment fund is required for the financial reporting periods. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices for long positions and ask prices for short positions to be used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining net asset value. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry. These changes account for the difference between net asset value and net assets. Accordingly, an adjustment "Transitional adjustment on application of Section 3855" has been reflected in the Statement of Changes in Net Assets for the year ended December 31, 2007. The reconciliation below is as at December 31, 2007.

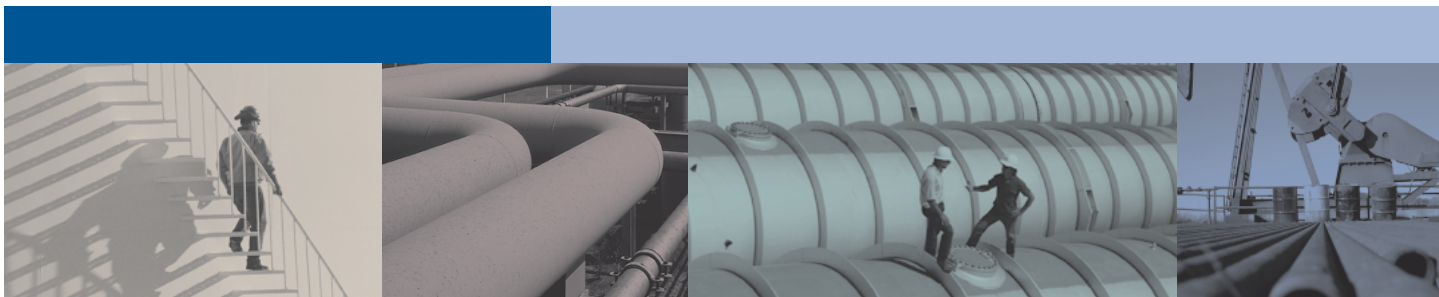
As at 31-Dec-07 Transactional NAV (\$000s)	application of Section 3855 adjustment (\$000s)	As at 31-Dec-07 GAAP Net Assets (\$000s)	As at 31-Dec-07 Transactional NAV Per Unit (\$)	As at 31-Dec-07 GAAP Net Assets Per Unit (\$)	opening Section 3855 adjustment (\$000s)
37,523	494	38,017	12.51	12.67	1,197

### 8. Subsequent Events

On January 18, 2008, the Partnership completed the transfer of its assets into Dynamic Managed Portfolios Ltd. in exchange for 1,553,400 Series A preferred shares of DMP Resource Class. On the date of transfer, the net asset values for the Partnership and DMP Resource Class were \$11.99 per unit and \$23.15 per share, respectively.

### 9. Future Accounting Standards

On December 1, 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". The new standards enhance existing disclosure and presentation on capital and financial instruments. They apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The impact of the new standards on capital and financial instruments disclosures of the Partnerships is under review. The existing requirements relating to presentation and disclosure of capital and financial instruments have been applied consistent with prior year.



**CANADA DOMINION RESOURCES  
2006 II LIMITED PARTNERSHIP**

**Trustee,  
Transfer Agent  
and Registrar**

**Computershare Trust Company of Canada**

100 University Ave  
North Tower, 9th Floor  
Toronto, ON M5J 2Y1

Tel: 1-800-564-6253

**Canada Dominion  
Resources Group**

**Ontario**

Dundee Place  
1 Adelaide St. E., Ste. 2900  
Toronto, ON M5C 2V9

**Eastern Canada**

1200 McGill College Ave., Ste. 2300  
Montreal, QC H3B 4G7

**Western Canada**

350 Seventh Ave. SW., Ste. 3250  
Calgary, AB T2P 3N9

Four Bentall Centre  
1055 Dunsmuir St., Ste. 3434  
P.O. Box 49217  
Vancouver, BC V7X 1K8

Tel: 1-800-268-8186  
[www.canadadominion.com](http://www.canadadominion.com)