



The spectacular momentum of small-cap resource and mining stocks has not diminished at all last year, after already three great years. Following a pause during the second and third quarters, the BMO small cap Material Sector was up a strong 19.2% in the last quarter, pushing the overall BMO Small Cap Index up 16.6% for 2006. For the year, strong performance came from the Material Sector (BMO small cap Material Sector was up 44.4%), as a result of significant price increases for basic commodities such as gold, copper, nickel and zinc, on which small-cap exploration companies are thriving.

Contrary to the previous year, the Energy Sector was the main area of weakness in 2006, with the BMO small cap Energy Sector down 5.9%. Oil prices reached their peak in July, but small-cap energy stocks, being more tied to the weaker natural gas price, started their decline in the spring of 2006. The Federal Government's decision on Income Trusts, announced on October 31, 2006, just compounded their decline, since many oil and gas production and services companies had converted to this structure.

Notwithstanding an increase of 5.3% during the fourth quarter, the VBA Canadian Partners' Fund significantly underperformed its benchmark in 2006, declining by -1.6%. By all means, we are not satisfied by this performance. As you are aware, I believe that cyclical and low-quality companies are not suited for investors like us, who are seeking to invest, for the long term, in quality, proven companies managed by dedicated owners/operators. Therefore, I certainly expected to underperform the benchmark, since 70% of the BMO Small Cap Index's return contribution came from the cyclical Material Sector.

In all honesty, the outperformance of cyclical, low-quality companies is not the only reason behind our performance in 2006. Being totally absent in the cyclical Material Sector, investments in other spheres of the market had to perform. If they did not, any disappointment resulted in an amplified impact on our absolute and relative performance. Well, this is exactly what happened to us last year. The disappointments came from our energy investments. We sold our investment in *Prairie Schooner Petroleum Ltd.*, after it entered into a corporate merger with *True Energy Trust*. We believed that the combined company was weak financially and of low quality: this was a good decision. Unfortunately, the main negative impact came from three companies that are very well managed and of high quality. *Mullen Group Income Fund*, *Savanna Energy Services Corp.* and *Iteration Energy Ltd.*'s stock prices were impacted by lower natural gas prices and lower expectations toward drilling activity. More specifically in the case of Mullen Group Income Fund, our largest investment, the impact was more pronounced, following the Federal Government's decision on the status of the Income Trust structure.

The Fund also had strong performers; for example, *Groupe Laperrière & Verreault Inc.* (up 65%), *Shawcor Ltd.* (up 61%) and *Martinrea International Inc.* (up 57%) all added significant value, but unfortunately not enough to compensate the impact of the energy stocks.

Service and manufacturing small-cap companies, mostly based in central Canada, have been fighting increasing raw material costs and the strength of the Canadian dollar for the past few years and, as a consequence, have had to lower their cost base aggressively. Already this year, the prices of oil, copper and zinc have decreased substantially and the Canadian dollar has weakened against its US counterpart. Export-oriented companies like *Teknion Corporation*, *Winpak Ltd.* and *ATS Automation Tooling Systems Inc.*, that compose your portfolio, will undoubtedly surprise investors in 2007, with above-average earnings growth if the Canadian dollar remains stable and the North American economy maintains its course.

The VBA Partners' Fund owns shares in well managed and financially strong companies that will benefit greatly when investors' positive sentiments toward high-risk cyclical investments vanishes.

Benoît Durand  
Vice-President, Canadian Small-Cap Equities

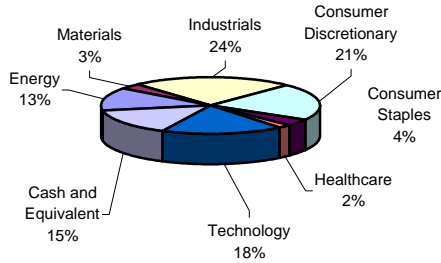


**Details of the Fund (as of December 31, 2006)**

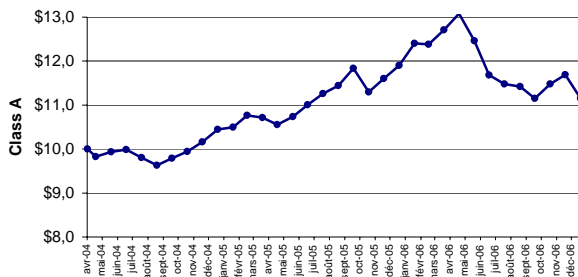
Class A Unit value:	\$11,74
Inception date:	April 30, 2004
Management expense ratio:	2,00%
Valuation frequency:	Monthly
Net assets (in millions of CA\$):	1.163
Distribution:	—
Minimum investment*:	\$150,000
RRSP eligible:	Yes
CIFSC category:	Canadian Small-Cap equities

\* Available to sophisticated individual investors or corporations.

**Asset Allocation**



**Unit Value**



**Performance Results**

	3 months %	YTD %	1 year %	Since inception %
VBA Canadian Partners' Fund	5,3	-1,6	-1,6	7,4
BMO Small-Cap Weighted Index	9,0	16,6	16,6	17,6

**Portfolio Overview (top 25 holdings)**

Company	% of portfolio
MacDonald Dettwiler and Associates Ltd.	5,2%
Groupe Laperrière & Verreault Inc. 'A'	4,5%
Toromont Industries Ltd.	4,5%
Genum Corporation	4,2%
Van Houtte Inc.	4,0%
Uni-Sélect Inc.	3,9%
Dorel Industries Inc. 'B'	3,2%
Stantec Inc.	3,1%
Shawcor Ltd. 'A'	3,0%
Enerflex Systems Ltd.	2,9%
Gildan Activewear Inc.	2,9%
Richelieu Hardware Ltd.	2,4%
RONA Inc.	2,4%
Enghouse Systems Limited	2,3%
Zargon Energy Trust	2,3%
Iteration Energy Ltd.	2,1%
Martinrea International Inc.	2,1%
Savanna Energy Services Corp.	2,1%
ATS Automation Tooling Systems Inc.	1,9%
MEGA Brands Inc.	1,9%
easyhome Ltd.	1,8%
Miranda Technologies Inc.	1,8%
Atrium Biotechnologies Inc.	1,5%
Cangene Corporation	1,5%
Genivar Income Fund	1,5%
<b>Top 25 holdings</b>	<b>69,0%</b>
Other holdings	15,4%
Cash and equivalents	15,6%
<b>Total</b>	<b>100,0%</b>

The portfolio overview will change due to ongoing transactions. A quarterly update is available.

For more information on our products and our services, please contact:

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