

Canadian Small Cap Resource Fund 2006 No. 2 Limited Partnership

2007 Annual Management Report of Fund Performance

For the period December 31, 2007

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the Canadian Small Cap Resource Fund 2006 No. 2 Limited Partnership (the "Partnership"). You can get a copy of the annual financial statements at your request, and at no cost, in the following ways: by calling our toll free number 1 888 350 8818, or by writing us at Suite 450, 650 W. Georgia Street, Vancouver, BC, CANADA V6B 4N8 or by visiting our website at www.cscrf.ca or SEDAR at www.sedar.com.

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.

Management Discussion of Fund Performance

This management discussion of the Partnership's performance presents the views of Canadian Small Cap Resource Fund 2006 No. 2 Management Ltd. (the "General Partner") about the significant factors and developments affecting the Partnership's performance and outlook for the period ended December 31, 2007.

Please read the caution regarding forward-looking statements located at the end of the document.

Investment objectives and strategies

The Partnership invested in Flow-Through Shares of Resource Issuers engaged in mineral exploration in Canada, with a view to maximizing the tax benefit of an investment in the Partnership and achieving capital appreciation. The Partnership invested the Available Funds such that Limited Partners were entitled to claim certain deductions from income and nonrefundable investment tax credits for income tax purposes for the 2007 taxation year.

Investments were made primarily in the junior resource sector with the objective of creating a diversified resource portfolio. The Partnership focused on companies in the junior resource sector with exploration programs considered to be of merit. The Partnership's investment portfolio was managed with a view to capital appreciation of the Partnership's investments. The Partnership's investment strategy was to invest in Flow-Through Shares issued by Resource Issuers that the General Partner considered to: (i) represent good value; (ii) have experienced and capable senior management; (iii) have a planned exploration program; and (iv) offer potential for future growth.

Risk

The overall risk of the Partnership is as described in the prospectus dated November 28, 2006.

There were no material changes to the Partnership over the financial period that affected the overall level of risks associated with an investment in the Partnership. The suitability and investor risk tolerance of the Partnership remain as disclosed in the prospectus dated November 28, 2006.

Results of Operations

The Partnership was formed on August 18, 2006. The first and final closing of 450,373 Partnership units took place in December 2006 resulting in gross proceeds of \$4,503,730. The Partnership incurred \$699,996 in issuance costs with respect to this closing. Investments were

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made with the proceeds in accordance with Partnership's stated investment strategy as stated in the Prospectus dated November 28, 2006.

The Partnership experienced an unrealized depreciation on its investment of \$1,197,951 or \$2.66 per Partnership unit. This represents the net decrease in the fair value of the portfolio at December 31, 2007 over the December 31, 2006 value of the investments. During the year, the Partnership also realized gain on sale of investments in the amount of \$619,369, or \$1.38 per Partnership unit. The net result of these activities for the period has led to a decrease in net assets of \$797,065, or \$1.67 per Partnership unit.

For the period ended December 31, 2007, the Partnership earned investment income of \$10,388 from interest income on short term investments. Audit fees for the period were \$29,782, legal costs were \$4,655 and unitholder administration and communication costs were \$59,927. Portfolio Advisory fees of \$28,717 and General Partner fees of \$47,860 were calculated in accordance with the formulas outlined in the Prospectus. The net investment loss for the period was \$218,843 or \$0.49 per Partnership unit.

The Partnership entered into a Promissory note in amount of \$450,000. The minimum and maximum amounts borrowed during the period were \$450,000. At December 31, 2007, \$450,000 remains outstanding and the promissory note represents 15.20% of NAV. The Promissory note was used solely to finance the Agents' fees and other expenses of the sale of Partnership units, in order to maximize the available funds that could be invested in Flow-Through shares and thus write-offs to unit holders. Interest is payable monthly at ten and a half per cent per annum and principle is due on or before March 31, 2008. For the year ended December 31, 2007, the Partnership incurred \$48,358 in interest expense with respect of this note.

Recent Developments

On April 1, 2005, The Canadian Institute of Chartered Accountants, which establishes Canadian generally accepted accounting principles (GAAP) for financial reporting purposes, issued Section 3855, "Financial Instruments – Recognition and Measurement". This section came into effect on January 1, 2007 for the Partnership. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for the securities. Previously, fair value for Canadian GAAP was based on the last traded price for the day. In 2007, this change impacts the value of the Partnership's investments as reported in the annual financial statements. However, Canadian securities regulatory authorities have granted relief on an interim basis for funds complying with Section 3855, for purposes of the Partnership's regular NAV calculation. Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments, be recorded as an expense in the statement of operations. In accordance with the relief granted by the Canadian securities regulatory authorities, a reconciliation between the regular net asset value calculation (Transaction NAV) and the net asset value calculated in accordance with Section 3855 of an investment fund (GAAP NAV) is required to be disclosed in the financial statements for financial reporting periods in the one year period ending December 31, 2007.

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At December 31, 2007, the reconciliation of NAV to GAAP NAV was as follows:

	GAAP NAV	Increase using closing prices for value	Transaction NAV	Opening NAV Section 3855 Adjustment
per unit	\$6.57	\$0.36	\$6.94	\$(0.00)
Total	\$2,960,053	\$163,940	\$3,123,993	\$(685)

Under the provisions of Nation Instrument 81-107 – Independent Review Committee for Investment Funds (“NI-107”), which came into force on November 1, 2006, it is now required that all publicly offered investment funds, such as the Partnership, establish an independent review committee (“IRC”) to whom the General Partner is to refer all conflict of interest matters in order to obtain a recommendation or approval, as applicable. NI81-107 further mandates that the IRC be composed of at least three independent members and required that they conduct assessments and regularly report to the General Partner and unitholders in respect of its duties. The General Partner implemented the necessary policies and procedures to be fully compliant with NI81-107 prior to November 1, 2007. There were no transactions in the year which required approval of the IRC.

Related Party Transactions

The following transactions occurred with related parties and are recorded at the exchange amount being the price agreed between the parties:

- Management fees paid to the General Partner for the year ended December 31, 2007 were \$47,860;
- The initial and successive parent corporations of the General Partner that existed during the year collectively was reimbursed \$15,300 during the year for administrative costs attributable to the Partnership and these amounts are disclosed in unitholder administration and communication;
- In 2006 the parent corporation was paid \$71,178 for time spent regarding the issuance of Partnership units and this amount is disclosed in issue costs;
- Accounting and financial service fees paid to a company controlled by two directors of the parent corporation of the General Partner amounted to \$40,000 for the year and this amount is disclosed in unitholder administration and communication.
- Accounting fees paid to a professional firm in which a director of the parent corporation of the General Partner is a partner amounted to \$5,795 for the year and this amount is disclosed in unitholder administration and communication;
- Legal fees paid to a professional firm in which a director of the parent corporation of the General Partner is a partner amounted to \$3,312 for the year ;
- Investments purchased in a company related through common directorships, \$nil;
- Issue costs reimbursed to officers of the parent corporation of the General Partner amounted to \$1,400;
- Legal fees reimbursed to the General Partner amounted to \$330;
- Unitholder administration and communication costs reimbursed to the parent corporation of the General Partner, \$71;
- Interest expense reimbursed to the parent corporation of the General Partner \$12,210;

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- As at December 31, 2007, \$33,283 included in accounts payable and accrued liabilities was due to the General Partner for reimbursable costs and management services rendered in the year. The balance is unsecured, non-interest bearing and due in the normal course of operations.
- As at December 31, 2007, the \$450,000 note payable is due to a corporation of which an officer is a director.

Financial Highlights

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

Net asset value (NAV) per Partnership unit⁽³⁾⁽⁴⁾

	For the year ended December 31, 2007⁽²⁾	For the period ended December 31, 2006⁽¹⁾
Net asset value, beginning of period	\$ 9.39	\$ 10.00
Increase (decrease) from operations:		
Total revenue	\$ 0.02	\$ -
Total expenses	(0.51)	(0.07)
Realized gains for the period	1.38	-
Unrealized (losses) gains for the period	(2.66)	0.97
Total (decrease) increase from operations	\$ (1.77)	\$ 0.90
Distributions	\$ (1.00)	\$ -
Net asset value, end of period	\$ 6.57	\$ 9.39

⁽¹⁾ Results are for the period from August 18, 2006 to December 31, 2006.

⁽²⁾ Results are for the period from January 1, 2007 to December 31, 2007.

⁽³⁾ Net asset value and distributions are based on the actual number of Partnership units outstanding at the respective period. The increase (decrease) from operations is based on the weighted average number of Partnership units outstanding over the financial period.

⁽⁴⁾ This schedule is not a reconciliation of NAV since it does not reflect partners' transactions as shown on the Statement of Changes in Net Assets, including issue costs, and accordingly columns may not add.

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Ratios and Supplemental Data

	For the year ended December 31, 2007	For the period ended December 31, 2006⁽¹⁾
Net asset (000's) ⁽¹⁾	\$ 2,960	\$ 4,230
Number of Partnership units outstanding ⁽¹⁾	450,373	450,373
Management expense ratio ⁽²⁾	6.97%	16.30%
Portfolio turnover rate ⁽³⁾	14.64%	0.00%
Trading expense ratio ⁽⁴⁾	N/A	N/A
Net asset value per Partnership unit ⁽¹⁾	\$ 6.57	\$ 9.39

⁽¹⁾ This information is provided for the period from August 18, 2006 to December 31, 2006.

⁽²⁾ Management expense ratio ("MER") is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

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

⁽⁴⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Management fees

The General Partner has coordinated the organization of the Partnership. The Partnership will develop and implement all aspects of the Partnership's communications, marketing and distribution strategies and will manage the ongoing business, investment and administrative affairs of the Partnership. In consideration for these services and pursuant to the terms of the Partnership Agreement, the Partnership will pay to the General Partner an annual fee equal to 1.25% of the (NAV). This fee will be calculated and paid quarterly in arrears based on the Net Asset Value at the end of each preceding quarter. The fee for 2007 was \$47,860.

The Portfolio Advisor will provide advice to the Partnership and support for the General Partner in identifying, analyzing and selecting investment opportunities and structures and negotiating prospective investments as agent for the Partnership. For these services the Portfolio Advisor is entitled to an annual fee of 0.75% of the NAV calculated and paid quarterly. The fee for 2007 was \$28,717.

An annual service fee in the amount of \$9,572 is due to Agents calculated pursuant to the terms of the Partnership agreement as 0.25% of the net asset value of the Partnership.

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Management fees breakdown:

Administration, communication and marketing: 56%

Investment advice and agents' commissions: 44%

In addition to the management and portfolio advisory fees described above, the General Partner and the Portfolio Advisor will each be entitled to an incentive bonus, as follows:

On dissolution of the Partnership or implementation of a Liquidity Alternative (the payment due date), the General Partner and the Portfolio Advisor will each be entitled to an incentive bonus of an amount calculated as 10% of the amount by which (i) the Net Asset Value per Partnership unit at the payment date, plus (ii) all distributions per Partnership unit on or prior to the payment date plus 10% per annum, compounded annually from the date of distribution, exceeds (iii) the sum of \$10.00 plus appreciation thereon of 12% per annum, compounded annually from the closing of the sale of the units.

Past Performance

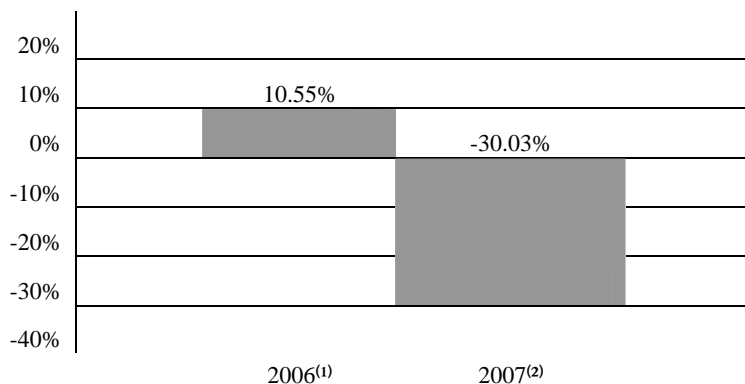
The information below indicates the annual compounded returns of the investment portfolio for the periods shown. NAV returns are calculated using the NAV per Partnership unit.

For calculation purposes, the inception price is set equal to the NAV per Partnership unit on the Partnership's closing date of August 18, 2006, less issue costs.

Returns do not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance of the investment portfolio does not necessarily indicate its future performance.

Year by Year Returns

The chart shows the annual performance of the investment portfolio for each of the periods shown and illustrates how the investment portfolio's performance has changed from period to period. The chart shows, in percentage terms, how an investment made on the first day of each financial period would have grown or decreased by December 31 of that year.



⁽¹⁾ Total return for the period from August 18, 2006 to December 31, 2006

⁽²⁾ Total return for the period from January 1, 2007 to December 31, 2007

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Annual Compound Returns

	From Inception to December 31, 2007
Canadian Small Cap Resource Fund 2006 No 2 Limited Partnership ⁽¹⁾	(22.65%)
S&P/TSX Composite Index ⁽²⁾	8.13%

⁽¹⁾ The table above shows the Partnership's compound total return for the period from August 18, 2006 to December 31, 2007.

⁽²⁾ The return for the S&P/TSX Composite Index, a broad-based securities market index, is provided to give an indication of the performance of the market on an overall basis for the same period. The S&P/TSX Composite Index is capitalization-weighted index designed to measure the market activity of stocks listed on the Toronto Stock Exchange (the "TSX").

A comparison of relative performance may not be meaningful as most of the Partnership's holdings are not in the index, as these holdings generally do not meet the liquidity, market capitalization or minimum trade weighted average price requirements for including in the S&P/TSX Composite Index. Since the Partnership does not necessarily invest in the same securities of, or in the same proportion as, the index, the performance is not expected to be identical.

In addition, the Partnership must purchase flow-through shares issued from a company's treasury typically at a **premium to its market price** to reflect the tax advantages. Not only do these premiums negatively impact performance, but the Manager is also required to hold large amounts of cash prior to fully investing the cash in flow-through shares.

Also, the returns **do not take into account the tax benefits** of investing in flow-through shares. This is significant considering one of the Partnership's investment objectives is to maximize the tax benefits for limited partners. The returns would have been significantly higher than the stated returns if the tax savings were incorporated into the calculations. In addition, the Partnership incurred various issue costs in connection with the offering of the Partnership Units and is subject to costs, such as management fees and trading expense that are not borne by the index.

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Summary of Investment Portfolio

As at December 31, 2007

Net Asset: \$2,960,053

Top 25 Holdings

Name of security	% of Net Assets
Moneta Porcupine Mines	16.42
Avalon Ventures	13.11
Tyhee Development	8.25
Garson Gold	7.53
Venturex Holdings	6.08
Sable Resources	5.91
Goldeye Exploration	5.54
Gold Bullion Development	4.67
ValGold Resources	4.51
Independent Nickel	3.75
Klondike Silver	3.72
Optima Minerals	3.38
Copper Ridge	3.29
International KRL Resource	3.19
International Kirkland	2.88
International Bethlehem Mining	2.84
Amador Gold	2.67
Berkley Resources	2.66
Klondike Gold	2.58
Benton Resources	2.35
Q-Gold	2.16
Patch international	2.01
Action Minerals	1.35
Goldbrook Ventures	0.52
Sedex Mining	0.01

Portfolio Breakdown

Sector/Subgroup	% of Net Assets
Precious Metals	67.04
Base Metals	22.09
Rare Earth Elements	13.10
Cash	6.06
Energy	4.67
Uranium	4.48
Liabilities - net of other assets	(17.44)
	100.00

The summary of investment portfolio may change due to ongoing portfolio transactions. A quarterly update is available at www.cscrf.ca.

Forward-Looking Statement

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions which include, among other things that (i) the Partnership will have sufficient capital under management to effect its investment strategies, (ii) the investment strategies will produce the results intended by the Manager, and (iii) the markets will react and perform in a manner consistent with the investment strategies. Forward looking statements are

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subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate.

We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. 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 in and the risks detailed from time to time in the Partnership's prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Partnership, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, Canadian Small Cap Resource Fund 2006 No. 2 Limited Partnership does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.