

Canadian Small Cap Resource Fund 2007 No. 1 Limited Partnership

2007 Annual Management Report of Fund Performance

For the period ended 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 2007 No. 1 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 to 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 Canadian Small Cap Resource Funds 2007 No. 1 Limited Partnership’s (the “Partnership”) performance presents the views of Canadian Small Cap Resource Fund 2007 No. 1 Management Ltd. (the “General Partner”) about the significant factors and developments affecting the Partnership’s performance and outlook for the period from December 18, 2006 to 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 April 27, 2007.

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.

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Results of Operations

The Partnership was formed on December 18, 2006. The first closing of 692,607 Partnership units took place in May 2007 and a second closing of a further 338,747 Partnership units followed in June 2007. The Partnership received gross proceeds of \$10,313,540 from the sale of Partnership units, and as a result, incurred \$1,295,067 in issue costs.

Investments were made with the proceeds in accordance with the Partnership's stated investment strategy as outlined in the April 27, 2007 Prospectus. The Partnership experienced an unrealized appreciation on its investments of \$3,696,036, or \$3.58 per Partnership unit. This represents the net increase in the fair value of the portfolio at December 31, 2007 over the original purchase cost of the investments. During the year, the Partnership also realized gains on sale of investments in the amount of \$156,926, or \$0.15 per Partnership unit.

For the period ended December 31, 2007, the Partnership earned investment income of \$18,383 from interest income on short term investments. Audit fees for the period were \$25,000, legal costs were \$1,012 and unitholder administration and communication costs were \$91,617. Portfolio Advisory fees of \$39,079 and General Partner fees of \$78,158 were calculated for two quarters in accordance with the formulas outlined in the Prospectus. The net investment loss for the period was \$249,239 or \$0.24 per Partnership unit.

The Partnership entered into a Promissory note; the minimum amount borrowed during the period is \$830,000 and the maximum amount borrowed during the period is \$1,030,000. As at December 31, 2007, \$1,030,000 remains outstanding and represents 8.16% of NAV. The Partnership incurred net interest expense of \$32,756 on this loan. 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. The Promissory note is repayable as follows: \$257,500 on or before March 31, 2008, \$257,500 on or before June 30, 2008, and the remainder on or before September 20, 2008. \$257,500 was repaid on March 31, 2008. The Promissory note bears interest at 10.5% per annum and is secured by the assets of the Partnership.

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. 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.

Under the provisions of National 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. NI 81-107 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.

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The General Partner implemented the necessary policies and procedures to be fully compliant with NI 81-107 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 \$78,158;
- The parent corporation of the General Partner was reimbursed \$22,998 during the period for administrative costs attributable to the Partnership and the amount is disclosed in unitholder administration and communication;
- Accounting and financial service fees paid to a corporation controlled by two directors of the parent corporation of the General Partner amounted to \$45,000 for the period of which \$30,000 is disclosed in unitholder administration and communication and \$15,000 in issue costs;
- Issue costs reimbursed to officers of the parent corporation of the General Partner, \$869;
- Travel expenses reimbursed to an officer of the parent corporation of the General Partner, \$383, disclosed in unitholder administration and communication;
- Unitholder administration and communication expenses reimbursed to the parent corporation of the General Partner, \$7,499;
- As at December 31, 2007 \$108,979 was due to the General Partner for reimbursable costs and management services rendered in the period and included in accounts payable and accrued liabilities, \$406 was payable to an officer of the parent corporation of the General Partner. The balance is unsecured, non-interest bearing and due in the normal course of operations.

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 past period. This information is derived from the Partnership's audited annual financial statements for the period from December 18, 2006 to December 31, 2007.

Net asset value (NAV) per Partnership Unit⁽²⁾⁽³⁾

	2007⁽¹⁾
Net asset value, beginning of period	\$ 10.00
Increase(decrease) from operations:	
Total revenue	\$ 0.02
Total expenses	(0.26)
Realized gains for the period	0.15
Unrealized gains for the period	3.58
Total increase from operations	\$ 3.49
Distributions	\$ -
Net asset value, end of period	\$ 12.24

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- (1) Results are for the period from December 18, 2006 to December 31, 2007.
- (2) 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.
- (3) 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.

Ratios and Supplemental Data

	2007⁽²⁾
Net asset (000's) ⁽¹⁾	\$ 12,622
Number of Partnership units outstanding ⁽¹⁾	1,031,354
Management expense ratio ⁽³⁾	13.63 %
Portfolio turnover rate ⁽⁴⁾	3.77 %
Trading expense ratio ⁽⁵⁾	N/A
Net asset value per Partnership unit ⁽¹⁾	\$ 12.24

- (1) This information is provided as at December 31, 2007.
- (2) This information is provided for the period from December 18, 2006 to December 31, 2007.
- (3) Management expense ratio ("MER") is based on total expenses for the stated period is expressed as an annualized percentage of daily average net assets during the period.
- (4) 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 the portfolio turnover rate in a year, the greater the trading costs payable by the Partnership in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Partnership.
- (5) 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 General Partner 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 1.50% of the NAV. This fee will be calculated monthly and paid quarterly in arrears based on the NAV at the end of each preceding month. The fee for the period ended December 31, 2007 was \$78,158.

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 will be paid by the General Partner. The fee for the period ended December 31, 2007 was \$39,079.

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Management fee breakdown:

Administration, communication and marketing: 66%

Investment advice: 34%

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, to be paid on or before the dissolution of the Partnership, as follows:

On the earlier of (i) the business day prior to the implementation of a Liquidity Alternative and (ii) the date of dissolution of the Partnership, the Partnership shall distribute to each of the General Partner and the Portfolio Advisor an amount in respect of each Partnership Unit then outstanding equal to 10% of the amount by which the sum of the NAV per Partnership Unit as of that date and all distributions per Unit on or prior to that date, exceeds \$11.65.

Past Performance

The indicated rates of return are compounded total returns as at December 31, 2007. 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 December 18, 2006, less issue costs.

Partnership returns do not take into account sales, redemptions, distributions or optional charges, or income taxes payable that would have reduced returns or performance. Past performance may not be indicative of future returns.

Year by Year Returns

The chart shows the performance of the investment portfolio for the period from inception on December 18, 2006 to December 31, 2007. The chart shows, in percentage terms, how an investment made on the first day of the financial year would have grown or decreased by December 31 of that year.



⁽¹⁾ Total return for the period December 18, 2006 to December 31, 2007

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Annual Compound Returns

	Since Inception⁽¹⁾
Canadian Small Cap Resource Fund 2007 No 1 Limited Partnership	39.98%
S&P/TSX Venture Composite Index ⁽²⁾	8.20%

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

⁽²⁾ The return for the S&P/TSX Venture 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 Venture 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 assets: \$12,622,196

Top 25 Holdings

Name of security	% of Net Assets
Sanatana Diamonds Inc.	26.70
Athabasca Potash Inc	10.09
Sage Gold Inc	9.72
Uranium North Resources Corp	5.62
Alto Ventures Ltd.	5.00
Kettle River Resources Ltd.	4.71
Golden Band Resources Inc	3.38
Wildcat Exploration Ltd	3.01
Superior Canadian Resources Inc	2.44
Moneta Porcupine	2.20
International Kirkland Minerals Inc	2.16
Astral Mining Corp	2.07
Zinccorp Resources	2.05
Blind Creek Resources	2.01
Mountain Boy Minerals Ltd	1.85
Arsenal Energy Inc.	1.84
Moss Lake Gold Mines Ltd.	1.76
Tagish Lake Gold Corp	1.67
Fjordland Expl Inc	1.64
Tajzha Ventures Ltd.	1.55
Kakanda Resources Corp	1.53
Garson Gold Corp.	1.52
Copper Mountain Mining Corp	1.47
Gowest Amalgamated Resources Ltd.	1.33
TTM Resources Inc.	1.31

Portfolio Breakdown

Sector/Subgroup	% of Net Assets
Precious Metals	37.90
Diamonds	29.06
Base Metals	10.10
Potash	10.10
Uranium	9.92
Energy	6.60
Molybdenum	4.55
Cash	0.89
Liabilities - net of other assets	(9.12)
Total Net Assets	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 subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate.

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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 2007 No. 1 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.