

Canadian Small Cap Resource Fund 2007 No. 2 Limited Partnership

2007 Annual Management Report of Fund Performance

For the year 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. 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

The management discussion of the Partnership's performance presents the views of Canadian Small Cap Resource Fund 2007 Management Ltd. (The "General Partner") about the significant factors and development affecting the Partnership's performance and outlook for the period from September 18, 2007 to December 31, 2007.

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 Units 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 October 30, 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.

Results of Operations

The Partnership was formed on September 18, 2007. A closing of 500,000 Partnership units with gross proceeds of \$5,000,000, took place on November 7, 2007, being the maximum for the Partnership under the Prospectus. The Partnership incurred \$610,379 in costs with respect to this issuance.

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Investment were made with the proceeds in accordance with the Partnership's stated investment strategy as outlined in the October 30, 2007 Prospectus. For the period ended December 31, 2007, the Partnership experienced a decrease in the unrealized value of investment of \$585,933, or \$1.17 per Partnership unit. This represents the net decrease in the fair value of the portfolio at December 31, 2007 relative to the original purchase price of the investments. Overall, the Partnership experienced a \$636,659 of \$1.27 per Partnership unit decrease in net assets for the period.

For the period ended December 31, 2007, the Partnership earned investment income of \$1,708. Audit fees for the period were \$22,000, and unitholder administration and communication costs were \$13,256. Portfolio advisory fees of \$4,751 and general partner fees of \$9,502 were payable by the Partnership pertaining to the last quarter of operations. The net investment loss for the period was \$50,726 or \$0.10 per Partnership unit.

The Partnership entered into loans; the minimum amount borrowed during the period was \$nil and the maximum amount borrowed during the period was \$500,000. At December 31, 2007, the outstanding balance of \$500,000 represents 13.32% of NAV. The Partnership incurred \$2,925 in related interest expense as a result of these loans. The loans were used solely to finance the Agents' fees and other expenses of the sale of units, in order to maximize the available funds that could be invested in flow-through shares and thus write-offs to unit holders. Details of the loans as follows:

Principle amount	Security	Interest	Principle repayment
\$ 225,000	Guaranteed Investment Certificate	Bank's Prime +1% per annum; payable monthly	On demand
\$ 275,000	General Security Agreement	10.5% per annum; payable monthly	On or before January 15, 2008

Both loans were repaid on January 8, 2008 from the proceeds of two new loans each for \$250,000. These loans are secured by promissory notes from the Partnership, and bear interest at 10.5% per annum and are repayable on or before March 31, 2009.

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 terms of Limited Partnership Agreement, NAV for transaction purposes is the same as that reported under GAAP.

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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. 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 period ended December 31, 2007 were \$9,502;
- The parent corporation of the General Partner was reimbursed \$6,398 during the period for administrative costs attributable to the Partnership and this amount is disclosed in unitholder administration and communication. At December 31, 2007, \$7,375 was due to the parent corporation.
- Accounting and financial service fees paid to a company controlled by two directors of the parent corporation of the General Partner amounted to \$5,833 for the period and this amount is disclosed in unitholder administration and communication;
- Unitholder administration and communication expenses reimbursed to an officer of the parent corporation of the General Partner, \$4,574;
- Issue costs reimbursed to an officer of the parent corporation of the General Partner, \$2,181;
- Issue costs reimbursed to the parent corporation of the General Partner, \$977;
- As at December 31, 2007 \$52,218 was due to the General Partner for reimbursable costs and management services rendered in the period as yet unpaid. The balance is unsecured, non-interest bearing and due in the normal course of operations.
- As at December 31, 2007, the Partnership had a loan payable to the parent corporation of its General Partner amounting to \$275,000. It was repaid in full on January 8, 2008.

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 September 18, 2007 to December 31, 2007.

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Net asset value (NAV) per Partnership unit ⁽²⁾⁽³⁾	
	2007⁽¹⁾
Net asset value, beginning of period	\$ <u>10.00</u>
Increase(decrease) from operations:	
Total revenue	\$ -
Total expenses	(0.10)
Realized loss for the period	-
Unrealized loss for the period	<u>(1.17)</u>
Total (decrease) increase from operations	\$ <u>(1.27)</u>
Distributions	\$ <u>-</u>
Net asset value, end of period	\$ <u>7.51</u>

- (1) Results are for the period from September 18, 2007 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 shows on the Statement of Changes in Net Assets, including issue costs, and accordingly columns may not add.

Ratios and Supplemental Data

	For the period ended December 31, 2007⁽²⁾
Net asset (000's) ⁽¹⁾	\$ 3,753
Number of Partnership units outstanding ⁽¹⁾	500,000
Management expense ratio ⁽³⁾	15.14%
Portfolio turnover rate ⁽⁴⁾	0.00%
Trading expense ratio ⁽⁵⁾	N/A
Net asset value per Partnership unit ⁽¹⁾	7.51

- (1) This information is provided as at December 31, 2007.
(2) This information is provided for the period from September 18, 2007 to December 31, 2007.
(3) Management expense ratio ("MER") is based on total expenses for the stated period 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 turnovers 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.

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Management fees

The General Partner has coordinated the organization of the Partnership. The General 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 1.50% of the NAV. This fee will be calculated and paid quarterly in arrears based on the NAV at the end of each preceding quarter. The fee for 2007 was \$9,502.

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 \$4,751.

Management fees breakdown:

Administration, communication and marketing: 66%

Investment advice and agents' commissions: 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 (A) the NAV per Partnership Unit as of that date and (B) all distributions per Unit 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.

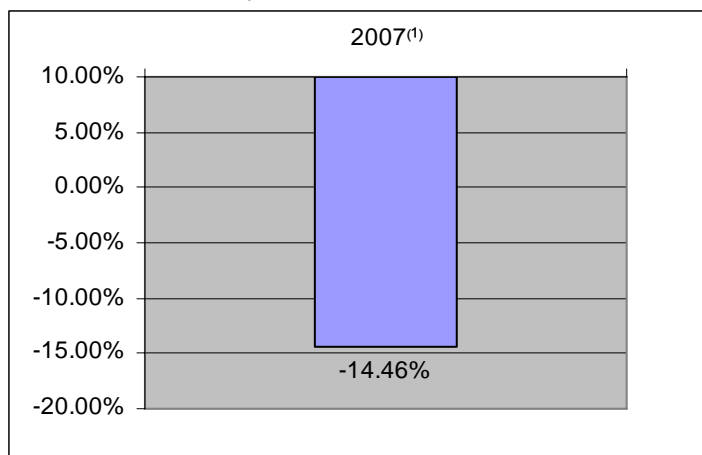
For calculation purposes, the inception price is set equal to the NAV per Partnership unit on the Partnership's closing date of September 18, 2007, less issue costs.

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.

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Year by Year Returns

The chart shows the performance of the investment portfolio for the period from inception on September 18, 2007 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 September 18, 2007 to December 31, 2007

Annual Compound Returns

	Since Inception to December 31, 2007
Canadian Small Cap Resource Fund 2007 No 2 Limited Partnership ⁽¹⁾	(14.46%)
S&P/TSX Composite Index ⁽²⁾	(1.23%)

⁽¹⁾ The table above shows the Partnership's compound total return for the period from September 18, 2007 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

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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.

Summary of Investment Portfolio

As at December 31, 2007

Net Assets: \$3,752,962

Holdings

Name of Security	% of Net Assets
Uracan Resources	10.10
Rochester Energy	8.39
Sage Gold	6.91
Northern Continental Resources	6.88
Reef Resources	6.70
Sentinel Rock Oilsands	6.67
Uranium North Resources	6.40
Arsenal Energy	6.20
Plato Gold	6.06
Stratabound Minerals	5.93
Goldeye Exploration	5.40
Tajzha Ventures	5.28
CMC Metals	5.18
Garson Gold	5.10
Geo Minerals	4.53
Gowest Amalgamated Resources	4.48
Meadow Bay Capital	4.44
Gemini Acquisitions	3.07
Cuda Capital	2.91
Eagle Plains Resources	2.64

Portfolio Breakdown

Sector/Subgroup	% of Net Assets
Precious Metals	37.24
Energy	33.24
Uranium	23.38
Base Metals	10.08
Molybdenum	9.32
Cash	0.60
Liabilities - net of other assets	(13.86)
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

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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.

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. 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