

SABLE RESOURCES LTD.

Consolidated Financial Statements

December 31, 2007 and 2006

AUDITOR'S REPORT

**To the Shareholders,
Sable Resources Ltd.**

I have audited the consolidated balance sheets of Sable Resources Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Inc.”
Vancouver, Canada
April 28, 2008

“ Sam S. Mah

Chartered Accountant

SABLE RESOURCES LTD.
Consolidated Balance Sheet
As at December 31, 2007 and 2006

	2007	2006
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$1,153,537	\$ 1,736,975
Accounts receivable	301,204	55,740
Share subscriptions receivable	-	239,213
Prepaid expenses	2,012	2,012
	<u>1,456,753</u>	<u>2,033,940</u>
Reclamation deposits - (Note 3)	170,000	160,000
Mineral property interests - (Note 4)	108,499	108,499
Equipment under capital lease (Note 5)	57,717	-
Plant and equipment - (Note 5)	504,124	118,230
	<u>\$ 2,297,093</u>	<u>\$ 2,420,669</u>
LIABILITIES AND SHAREHOLDERS'S EQUITY		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities - (Note 8)	\$ 312,222	\$ 136,663
Obligation under capital lease – (Note 6)	24,062	-
Loan payable to related party - (Note 8)	-	36,000
	<u>336,284</u>	<u>172,663</u>
Obligation under capital lease – (Note 6)	32,539	-
<i>Shareholders' equity</i>		
Share capital - (Note 7)	9,682,543	7,974,888
Contributed surplus - (Note 7)	368,162	261,636
Deficit	(8,122,435)	(5,988,518)
	<u>1,960,809</u>	<u>2,248,006</u>
	<u>\$ 2,297,093</u>	<u>\$ 2,420,669</u>

Continuing operations - (Note 1)
 Commitments and contingency - (Notes 3 and 11)

Approved by the Board:

"Mel Rahal", *Director*

"Fred Findler", *Director*

See accompanying notes to the financial statements

SABLE RESOURCES LTD.
Consolidated Statement of Operations and Deficit
For the Years Ended December 31, 2007 and 2006

	2007	2006
Property related expenses (income)		
Amortization	\$ 82,227	\$ 30,955
Cost of mining and milling	444,544	86,134
Exploration expenditures	1,975,817	485,233
Property maintenance	16,265	15,428
Recovery of exploration expenditures	(223,563)	(43,727)
	<u>2,295,290</u>	<u>574,023</u>
General and administrative expenses (income)		
Administration	205,455	157,186
Interest and other income	(70,278)	(29,685)
Interest expense	755	25,150
Gain on sale of investments	-	(6,661)
Stock based compensation - (Note 7)	86,184	245,000
	<u>222,116</u>	<u>390,990</u>
Loss for the year before income taxes	2,517,406	965,013
Future income tax recovery - (Note 7)	(383,489)	(91,932)
Loss for the year	(2,133,917)	(873,081)
Deficit, beginning of year	(5,988,518)	(5,115,437)
Deficit, end of year	<u>\$(8,122,435)</u>	<u>\$(5,988,518)</u>
Basic and diluted loss per share	<u>\$(0.12)</u>	<u>(0.06)</u>
Weighted average number of shares outstanding	<u>17,985,104</u>	<u>14,079,356</u>

See accompanying notes to the financial statements

SABLE RESOURCES LTD.
Consolidated Statement of Cash Flows
For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operations		
Loss for the year	\$(2,133,917)	\$(873,081)
Adjustments to reconcile loss for the year to net cash from operating activities:		
- Amortization	82,227	30,955
- Stock based compensation	86,184	245,000
- Future income tax recovery	(383,489)	(91,932)
- Accrued interest on convertible debenture	-	(29,264)
- Increase in accounts receivable	(245,464)	(15,660)
- Increase (decrease) in prepaid expenses	-	1,645
- Increase (decrease) in accounts payable	175,559	(52,127)
	<u>(2,418,900)</u>	<u>(680,210)</u>
Investments		
Mineral property interests	-	(5,000)
Equipment under capital lease	(64,130)	-
Plant and equipment	(461,708)	(17,780)
Reclamation deposit	(10,000)	1
	<u>(535,838)</u>	<u>(22,779)</u>
Financing		
Share subscriptions receivable	239,213	-
Shares issued for cash	2,111,486	2,141,366
Equipment under capital lease	56,601	-
Loan payable to related party	(36,000)	-
	<u>2,371,300</u>	<u>2,141,366</u>
Increase (decrease) in cash and cash equivalents	(583,438)	1,438,377
Cash and cash equivalents, beginning of year	1,736,975	298,598
Cash and cash equivalents, end of year	<u>\$ 1,153,537</u>	<u>\$ 1,736,975</u>

Supplemental disclosure for non-cash investing and financing activities:

Shares issued for convertible debenture	\$ -	\$ 250,000
Fair value of warrants	46,242	-
Interest	755	-
Income taxes	-	-

See accompanying notes to the financial statements

1. Nature of Operations

The Company is incorporated under the *Business Corporation Act* (British Columbia). Its principal business is the exploration and development of resource properties. The Company owns a mine and mineral milling equipment in northern British Columbia, Canada.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern. At December 31, 2007, the Company had a working capital of \$1,120,469 (2006-\$1,861,277) and accumulated losses of \$8,122,435 (2006-\$5,988,518). The ability of the Company to meet its liabilities as they come due and to continue as a going concern is dependent upon the financial support of its directors, shareholders and other related parties, the ability of the Company to raise equity financing to complete the acquisition, exploration and development of its existing and future mineral property interests and, ultimately, the attainment of profitable operations. Failure to continue as a going concern would require restatement of assets and liabilities on a liquidation basis, which would differ materially from the going concern basis.

The Company is currently exploring its mineral property interests and has not yet determined the existence of economically recoverable ore reserves. The recoverability of the amounts shown for mineral property interest is dependent upon the existence of economically recoverable ore reserves in its mineral property interest, the ability of the Company to obtain the necessary financing to complete the development and the attainment of profitable production from the properties or from the proceeds of their disposal.

2. Significant Accounting Policies

a) Basis of Presentation

The consolidated financial statements include the accounts of Sable Resources Ltd. and its wholly owned subsidiary, Multinational Mining Inc. All intercompany transactions and balances have been eliminated.

b) Cash Equivalents and Reclamation Deposits

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at acquisition, that are readily convertible to specified amounts of cash.

Reclamation deposits are term deposits placed in the name of the government of the province of British Columbia as collateral for possible reclamation activities on the Company's mineral properties in connection with permits required for exploration activities. As they are restricted from general use, they are excluded from current assets.

c) Investment

The investment in International Lima Resources Corp. is accounted for on the cost basis as the Company does not have the ability to exert significant influence. A write down to a nominal value was recorded in a prior year to reflect an impairment in value.

2. Significant Accounting Policies – cont'd

d) Mineral Property Interests

The Company defers the costs of acquiring mineral property interests and bringing properties into production until such time as the extent of mineralization has been determined and the mineral properties are developed, the Company's mineral rights are allowed to lapse, or it is determined that the deferred costs may not be recovered.

Depletion and amortization of such costs are provided on the unit-of-production method over estimated reserves of the ore body. Properties are reviewed from time to time and when appropriate are written-down to an estimated recoverable amount. Exploration expenditures are charged to operations as incurred.

The amounts shown for mineral property interests represent acquisition costs to date, less write-downs, and do not necessarily represent present or future values, as they are entirely dependent upon the economic recovery of current and future ore reserves.

e) Plant and Equipment

Plant and equipment are stated at cost less accumulated amortization and are being depreciated on a declining basis at rates ranging between 10% and 30%, which approximate their estimated useful lives.

f) Future Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

g) Change in Accounting Policy

On October 1, 2006, the Company adopted CICA Handbook Sections 1530, "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", Section 3861, "Financial instruments - Disclosure and Presentation" and Section 3865, "Hedges." Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

2. Significant Accounting Policies – cont'd

h) Change in accounting policies (continued)

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated its cash and cash equivalents as held-for trading, which are measured at fair value. Accounts payable, accrued liabilities and amounts due to related parties are classified as other financial liabilities, which are measured at amortized cost.

The adoption of these Handbook Sections had no impact on opening deficit.

i) Accounting policy choice for transaction costs:

On June 1, 2007, the Emerging issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

2. Significant Accounting Policies – cont'd

j) Future accounting changes:

Capital Disclosures and Financial instruments — Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning on October 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

In July 2006, the Accounting Standards Board (“AcSB”) issued a replacement of The Canadian Institute of Chartered Accountants’ Handbook (“CICA Handbook”) Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

k) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Key areas where management has made complex or subjective judgments include the determination of impairment of equipment and resource interests, useful lives for depreciation and amortization, cost allocations to specific projects, environmental obligations, stock-based compensation, fair value of certain assets, income taxes and contingencies.

2. Significant Accounting Policies – cont'd

l) Risk Management

Environmental risk:

The Company is engaged in mineral exploration and development and is accordingly exposed to environmental risks associated with mineral exploration and development activity. The Company has accepted liability and responsibilities for the reclamation of certain mineral claims including removal and decommissioning of the mill, camp and tailings pond to the satisfaction of government authorities. The amount of the reclamation liability at this date is not determinable. Failing to comply with their responsibilities for the required reclamation would result in the regulatory authorities seizing the Company's security bond in order to perform the necessary work.

Interest rate, foreign currency and credit risk:

The Company is not currently exposed to significant interest rate, foreign currency or credit concentration risk.

m) Leases

Leases which transfer substantially all of the benefits and risks incidental to the ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases wherein rental payments are charged to operations as incurred.

n) Stock-Based Compensation and Changes in Accounting Policies

Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants Handbook section on stock-based compensation and other stock-based payments. Under this Handbook section, the Company is required to expense, over the vesting period, the fair value of the options at the date of grant. As permitted by this Handbook section, the Company applied this change retroactively, without restatement, for options granted on or after January 1, 2003. As a result, the opening deficit as at January 1, 2004 was adjusted to reflect an expense of \$16,636 relating to options granted since January 1, 2003. Prior to January 1, 2004, no compensation expense was recognized when options were issued to employees or directors but pro-forma information was provided when the Company applied the fair value-based method.

o) Loss Per Share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share requires the use of the treasury stock method, which assumes that the exercise of stock options and warrants will have a dilutive effect on loss per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of stock options and warrants is applied to repurchase common shares at the average market price for the period.

2. Significant Accounting Policies – cont'd

p) Revenue Recognition

Revenue is recognized when the metal is sold.

q) Impairment of Long-Lived Assets

The Company reviews long-lived assets such as capital assets and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment in the carrying value of the assets exist, and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

r) Flow-Through Shares

Canadian tax legislation permits an enterprise to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investor rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. On the date that the Company renounces flow-through expenditures to the investor and where the Company has sufficient available tax losses or pools of tax deductions, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, is recorded as a recovery of income taxes in the statement of operations.

This is a change in accounting policy that has been applied prospectively, effective March 19, 2004 in accordance with CICA Handbook EIC-146

3. Reclamation Deposits and Commitment

As at December 31, 2007 and 2006, the Company had provided a \$170,000 (2006-\$160,000) security bond to the Province of British Columbia relating to future reclamation of the Company's mineral property interests.

The Company has accepted liability and responsibilities for the reclamation of certain mineral claims including removal and decommissioning of the mill, camp and tailings pond to the satisfaction of government authorities. The amount of the reclamation liability at this date is not determinable. Failing to comply with their responsibilities for the required reclamation would result in the regulatory authorities seizing the Company's security bond in order to perform the necessary work.

4. Mineral Property Interests

	<u>2007</u>	<u>2006</u>
Shasta Claims	\$ 9,054	\$ 9,054
Chappelle Claims	74,535	74,535
Wild Rose Claims	20,060	20,060
Other	<u>4,850</u>	<u>4,850</u>
	<u>\$ 108,499</u>	<u>\$ 108,499</u>

4. Mineral Property Interests – cont'd

The mineral property interests consist of numerous claims located in the Toodoggone area of northern British Columbia. The deferred amounts consist of acquisition costs and ongoing property maintenance payments.

5. Plant and Equipment

	2007		
	Cost	Accumulated Amortization	Net Book Value
Equipment under capital lease	\$ 64,130	\$ 6,413	\$ 57,717
Camp building	60,620	6,062	54,558
Machinery and computer equipment	568,409	200,357	368,052
Office and computer equipment	23,154	15,938	7,216
Automobiles	135,748	61,450	74,298
	<u>\$ 852,061</u>	<u>\$ 290,220</u>	<u>\$ 561,841</u>
	2006		
	Cost	Accumulated Amortization	Net Book Value
Machinery and heavy equipment	\$ 242,563	\$ 149,075	\$ 93,488
Office and computer equipment	20,455	13,765	6,690
Automobiles	63,205	45,153	18,052
	<u>\$ 326,223</u>	<u>\$ 207,993</u>	<u>\$ 118,230</u>

6. Obligation Under Capital Lease

	2007	2006
Equipment under capital lease	\$ 56,601	\$ -
Less: current portion	(24,062)	-
	<u>\$ 32,539</u>	<u>\$ -</u>
Future minimum lease payments:		
Year ending December 31:		
2008	\$ 30,338	-
2009	30,338	-
2010	5,056	-
	<u>65,732</u>	<u>-</u>
Interest	(9,131)	-
	<u>\$ 56,601</u>	<u>-</u>
Balance of obligation	<u>\$ 56,601</u>	<u>-</u>

7. Share Capital

a) Authorized

Unlimited number (2006 - 15,000,000) common shares without par value

b) Issued and outstanding

	Number of Shares	\$ Amount
Balance, December 31, 2005	11,774,682	5,436,241
Future income taxes on exploration costs renounced to shareholders (i)		(91,932)
Shares issued for debt	1,000,000	250,000
Units under private placement (iii)	2,793,700	1,011,120
Shares issued on exercise of warrants (ii)	1,286,550	437,020
Share issue costs		(71,041)
Balance, December 31, 2006	16,854,932	6,971,408
Units under private placement (iv)	1,402,500	1,089,000
Share issue costs		(85,520)
Issued and subscribed, December 31, 2006	18,257,432	7,974,888
Fair value of broker's warrants (iv and vii)		(31,311)
Future income taxes on exploration costs renounced to shareholders (v)		(383,489)
Shares issued on exercise of stock options	150,000	45,500
Fair value of stock options exercised		25,900
Shares issued on exercise of warrants	1,545,570	625,466
Units under private placement (vi)	715,000	500,500
Units under private placement (vii)	1,428,600	1,000,020
Fair value of warrants issued for finder's fees (vii)		(14,931)
Share issue costs		(60,000)
Balance, December 31, 2007	22,096,602	9,682,543

7. Share Capital – cont'd

i) Flow-through shares

The flow-through subscription agreements for the brokered private placements of 520,000 and 292,100 units at \$0.30 per unit and \$0.35 per unit; respectively, require the Company to renounce certain Qualifying Canadian Exploration Expenditures, to be incurred on the Company's resource properties, to the share subscribers. On February 16, 2006 the Company filed the necessary documentation to renounce \$258,235 of expenditures to the share subscribers, effective December 31, 2006. Accordingly, \$91,932, being the taxable benefit renounced, has been charged as a reduction of share capital.

ii) Share issued on exercise of warrants

164,250 share purchase warrants were exercised in error for \$0.30 per share instead of \$0.35 per share; thereby, resulting in a shortfall of \$8,212. The shortfall was subsequently paid.

iii) A brokered private placement for total proceeds of \$1,011,120 consisting of 666,500 flow-through units at a price of \$0.40 and 2,127,000 non flow-through units at a price of \$0.35. Each flow-through unit consists of one flow-through common share and one half of one non-transferable share purchase warrant exercisable at a price of \$0.45 for each whole warrant. Each non-flow-through unit consists of one non-flow through common share and one half of one non-transferable share purchase warrant exercisable at a price of \$0.40 for each whole warrant. The broker received a finder's fee of \$71,042 and 245,470 broker warrants exercisable for one year at \$0.35 per share.

iv) A brokered private placement for total proceeds of \$1,089,000 consisting of 1,072,500 flow-through units at a price of \$0.80 and 330,000 non flow-through units at a price of \$0.70. Each flow-through unit consists of one flow-through common share and one half of one non-transferable share purchase warrant exercisable at a price of \$0.85 for each whole warrant. Each non flow-through unit consists of one non flow-through common share and one half of one non-transferable share purchase warrant exercisable at a price of \$0.80 for each whole warrant. There was a finder's fee of \$85,520 on portions of the proceeds to registered parties and 137,750 broker's warrants exercisable at \$0.80 per share until January 15, 2008. The broker's warrants were fair valued using the Black-Scholes option pricing model with the following assumptions: 48.94% volatility, 0% dividend yield, 2.63% risk-free interest rate and an expected life of 1 year. As a result, the fair value was estimated at \$22,479, recorded as share issuance costs with a corresponding credit to contributed surplus.

v) The flow-through subscription agreements for the brokered private placements of 666,500 units at \$0.40 per unit and 1,072,500 units at \$0.80 per unit require the Company to renounce certain Qualifying Canadian Exploration Expenditures, to be incurred on the Company's resource properties to the share subscribers. On February 22, 2007 the Company filed the necessary documentation to renounce \$1,124,600 of expenditures to the share subscribers, effective December 31, 2006. Accordingly, \$383,489, being the taxable benefit renounced, has been charged as a reduction of share capital.

7. Share Capital – cont'd

- vi) A non-brokered private placement for total proceeds of \$500,500 consisting of 715,000 non flow-through units at a price of \$0.70 per unit. Each non-flow-through unit consist of one non-flow-through common share and one non-transferable share purchase warrant exercisable at a price of \$0.85 for each whole warrant until June 14, 2008.
- vii) A brokered private placement for total proceeds of \$1,000,020 consisting of 1,428,600 non flow-through units at a price of \$0.70 per unit. Each non-flow-through unit consists of one non-flow-through common share and one half of one non-transferable share purchase warrant exercisable at a price of \$0.95 for each whole warrant until December 28, 2009. The broker received a finder's fee of \$60,000 and 38,000 non-transferable broker warrants exercisable at a price of \$0.95 until December 28, 2009. In addition, 76,287 non-transferable warrants were issued for finder's fees exercisable until December 28, 2009. The broker's warrants were fair valued using the Black-Scholes option pricing model with the following assumptions: 38.27% volatility, 0% dividend yield, 3.91% risk-free interest rate and an expected life of 2 years. As a result, the fair value was estimated to be \$8,832, recorded as share issuance costs with a corresponding credit to contributed surplus. The warrants issued for finder's fees were fair valued using the Black-Scholes option pricing model with the aforementioned assumptions. As a result, the fair value was estimated to be \$14,931, recorded as share issuance costs with a corresponding credit to contributed surplus. The weighted average fair value of the option price granted was \$0.21 per share.
- c) *Share Purchase Options*

The Company has a share option plan whereby officers, directors and certain employees may be granted options to purchase unissued common shares of the Company. The option exercise price is the closing market price of the common shares on the TSX Venture Exchange on the trading day immediately prior to the date the option is granted.

	Number of Shares	Weighted Average Exercise Price \$	Weighted Average Life Remaining
Balance, December 31, 2006	1,050,000	\$ 0.32	1.01
Exercised/Expired	(175,000)	-	-
Granted	50,000	0.62	4.34
Granted	150,000	0.70	4.59
Balance, December 31 2007	<u>1,075,000</u>	<u>\$ 0.38</u>	<u>3.50</u>

7. Share Capital – cont'd

At December 31, 2007, the following stock options were outstanding:

Number of Shares	Weighted Average Exercise Price \$	Expiry Dated
50,000	0.30	Nov. 5, 2008
650,000	0.30	Jan. 10, 2011
100,000	0.33	Mar. 23, 2011
100,000	0.51	Jul. 12, 2011
50,000	0.62	Apr. 12, 2012
<u>125,000</u>	<u>0.70</u>	Jul. 3, 2012
<u>1,075,000</u>	<u>\$ 0.38</u>	

d) *Stock Options Granted*

During the year ended December 31, 2006, the Company granted the following options:

- 650,000 share purchase options to certain directors of the Company, exercisable at \$0.30 per share, expiring on January 10, 2011.
- 200,000 share purchase options to certain consultants of the Company, exercisable at \$0.33 per share, expiring on March 23, 2011.
- 100,000 share purchase options to a certain investor relations consultant of the Company, exercisable at \$0.51 per share, expiring on July 12, 2011.

During the year ended December 31, 2007, the Company granted the following options:

- 50,000 share purchase options to a certain consultant of the Company, exercisable at \$0.62 per share, expiring on April 12, 2012.
- 150,000 share purchase options to certain directors and consultants of the Company, exercisable at \$0.70 per share, expiring on July 3, 2012.

The Company used the Black-Scholes option pricing model to determine the fair value of the options with the following assumptions:

	<u>2007</u>	<u>2006</u>
- weighted average risk-free interest rate	4.50%	3.75%
- dividend yield of	0%	0%
- volatility of	73.39%	106.00%
- an expected life	5 years	5 years

7. Share Capital – cont'd

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and; therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.

e) Share Purchase Warrants

	Number of Shares	Weighted Average Exercise Price \$	Weighted Average Life Remaining
Balance, December 31, 2006	1,550,570	0.40	0.42
Expired	(305,000)	0.45	-
Exercised	(1,031,850)	0.40	-
Exercised	(213,720)	0.35	-
Granted	536,250	0.85	0.09
Granted	165,000	0.80	0.09
Granted	137,750	0.80	0.09
Granted	715,000	0.85	0.50
Granted	714,300	0.95	2.00
Granted	38,000	0.95	2.00
Granted	76,287	0.95	2.00
Balance, December 31 2007	<u>2,382,587</u>	<u>0.69</u>	<u>0.81</u>

At December 31, 2007, the following share purchase warrants were outstanding:

Number of Shares	Weighted Average Exercise Price \$	Expiry Dates
536,250	0.85	Jan 15, 2008
165,000	0.80	Jan 15, 2008
137,750	0.80	Jan 15, 2008
715,000	0.85	Jun 14, 2008
714,300	0.95	Dec 28, 2009
38,000	0.95	Dec 28, 2009
76,287	0.95	Dec 28, 2009

7. Share Capital – cont'd

f) Contributed Surplus

Summary of contributed surplus is as follows:

	<u>Amount</u>
Balance December 31, 2006	\$ <u>261,636</u>
Fair value of stock options exercised	(25,900)
Stock-based compensation	86,184
Fair value of broker warrants	31,311
Fair value of warrants issued for finder's fee	<u>14,931</u>
Balance, December 31, 2007	\$ <u>368,162</u>

8. Related Party Transactions

During the normal course of operations, the Company paid consulting fees of \$Nil (2006 - \$12,600) and legal and accounting fees of \$Nil (2006 - \$14,500) to directors or companies controlled by officers and directors of the Company. A total of \$31,373 (2006 - \$31,373) is included in accounts payable and accrued liabilities at December 31, 2007. The loan payable to related party is non-interest bearing and due on demand.

The above-captioned amounts are measured at the exchange amounts, which is the amount of consideration agreed to by the related parties.

9. Income Taxes

There was no current income tax expense or recovery for 2007 or 2006.

Income tax expense differs from the amount which would result from applying the statutory Canadian income tax rate for the following reasons:

	<u>2007</u>	<u>2006</u>
Loss for the year	\$ (2,133,917)	\$ (873,081)
Canadian income tax rate	34.1%	34.1%
Tax based on statutory income tax rate	\$ (727,666)	\$ (297,721)
Change in valuation allowance	433,189	184,756
Other	<u>294,477</u>	<u>112,965</u>
	<u>\$ -</u>	<u>\$ -</u>

9. Income Taxes – cont'd

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	<u>2007</u>	<u>2006</u>
Future income tax assets		
Capital assets	\$ 470,345	\$479,319
Canadian resource deductions	1,006,244	556,616
Losses carried forward	924,597	94,903
	<u>2,401,186</u>	<u>1,130,838</u>
Valuation allowance	<u>(2,401,186)</u>	<u>(1,130,838)</u>
Net future tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has approximately \$2,700,000 of non-capital losses which expire in various years up to 2027 and approximately \$3,300,000 of capital losses which may be carried forward indefinitely.

10. Segment Disclosures

The Company considers itself to operate in a single operating segment, being resource exploration and development, and operates in a single geographic segment being Canada.

11. Commitments

The Company is committed to minimum annual operating lease payments on its premises as follows:

2008	<u>33,910</u>
	<u>\$ 33,910</u>

12. Subsequent Events

Subsequent to December 31, 2007:

The Company completed a non-brokered private placement of 555,000 shares at \$1.50 per share and finder's fees of \$49,950.

535,000 share purchase warrants were exercised at \$0.85 per share.

839,000 share purchase and broker's warrants exercisable at \$0.80 to \$0.85 per share expired on January 15, 2008.

The Company announced the granting of 250,000 incentive stock options to certain directors and consultants at a price of \$1.30 per share for a period of five years.