

**AMI RESOURCES INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2007**

**AUDITORS' REPORT**

**CONSOLIDATED BALANCE SHEETS**

**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

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## AUDITORS' REPORT

To the Shareholders of AMI Resources Inc.

We have audited the consolidated balance sheets of AMI Resources Inc. as at February 28, 2007 and 2006 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DMCL”

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED ACCOUNTANTS

Vancouver, Canada  
June 7, 2007

**AMI RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS**

	February 28, 2007	February 28, 2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 2,329,835	\$ 23,385
Marketable securities (Note 3)	-	8,000
Prepaid and deposits	31,306	10,666
Other receivables and advances	27,043	3,410
	2,388,184	45,461
<b>EQUIPMENT</b> (Note 4)	72,938	6,233
<b>MINERAL PROPERTIES AND DEFERRED COSTS</b> (Note 5)	2,887,293	2,205,906
	\$ 5,348,415	\$ 2,257,600
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 50,536	\$ 43,092
Due to related parties (Note 6)	28,932	109,813
Note payable (Note 7)	-	5,802
	79,468	158,707
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 8)	5,891,896	3,111,496
<b>CONTRIBUTED SURPLUS</b> (Note 8)	1,849,797	852,755
<b>DEFICIT</b>	(2,472,746)	(1,865,358)
	5,268,947	2,098,893
	\$ 5,348,415	\$ 2,257,600

**Going Concern (Note 1)**  
**Contingency (Note 5)**  
**Commitments (Notes 10 and 11)**  
**Subsequent Events (Note 11)**

Approved on behalf of the Board

“Dustin Elford”  
Dustin Elford– Director

“William Pettigrew”  
William Pettigrew – Director

The accompanying notes are an integral part of these consolidated financial statements

**AMI RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

	Year ended February 28, 2007	Year ended February 28, 2006
<b>EXPENSES</b>		
Amortization	\$ 2,897	\$ 2,315
Consulting (Note 6)	90,000	60,000
Director fees (Note 6)	37,000	-
Finance fees	452	916
Foreign exchange loss (gain)	4,307	358
Investor relations	109,152	36,342
Management fees (Note 6)	90,000	60,000
Office and general	45,176	42,416
Professional fees (Note 6)	50,731	19,461
Stock-based compensation (Note 8)	162,478	184,397
Transfer agent and filing fees	36,373	15,250
Travel and promotion	14,127	30,085
<b>NET LOSS BEFORE THE FOLLOWING</b>	<b>(638,693)</b>	<b>(451,540)</b>
<b>INTEREST INCOME</b>	<b>17,805</b>	<b>37</b>
<b>GAIN (LOSS) ON DISPOSAL OF MARKETABLE SECURITIES (Note 3)</b>	<b>13,500</b>	<b>(5,300)</b>
<b>WRITE-DOWN OF MARKETABLE SECURITIES (Note 3)</b>	<b>-</b>	<b>(5,700)</b>
<b>NET LOSS FOR THE YEAR</b>	<b>(607,388)</b>	<b>(462,503)</b>
<b>DEFICIT, BEGINNING OF YEAR</b>	<b>(1,865,358)</b>	<b>(1,402,855)</b>
<b>DEFICIT, END OF YEAR</b>	<b>\$ (2,472,746)</b>	<b>\$ (1,865,358)</b>
 <b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	 <b>\$ (0.03)</b>	 <b>\$ (0.03)</b>
 <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING –</b>		
<b>basic and diluted</b>	<b>20,216,938</b>	<b>13,515,090</b>

The accompanying notes are an integral part of these consolidated financial statements

**AMI RESOURCES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended February 28, 2007	Year ended February 28, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (607,388)	\$ (462,503)
Adjusted for items not affecting cash:		
- stock-based compensation	162,478	184,397
- amortization	2,897	2,315
- (gain) loss on disposal of marketable securities	(13,500)	5,300
- write-down of marketable securities	-	5,700
- net changes in non-cash working capital items	(117,710)	147,715
Cash flows used in operating activities	(574,525)	(117,076)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Equipment	(69,602)	-
Proceeds from sale of marketable securities	21,500	17,800
Exploration costs	(681,387)	(256,007)
Cash flows used in investing activities	(729,489)	(238,207)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of note payable	(5,802)	(10,816)
Shares issued for cash on exercise of warrants	685,186	-
Share issuance	(270,222)	-
Shares and share purchase warrants issued for cash by private placement	3,200,000	250,000
Cash flows from financing activities	3,609,162	239,184
<b>INCREASE (DECREASE) IN CASH</b>	2,306,450	(116,099)
<b>CASH, BEGINNING OF YEAR</b>	23,385	139,484
<b>CASH, END OF YEAR</b>	\$ 2,329,835	\$ 23,385
Supplementary Cash Flow Information:		
Cash paid for interest	\$ 52	\$ 916
Cash paid for income taxes	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements

**AMI RESOURCES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FEBRUARY 28, 2007**

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**NOTE 1 – NATURE AND CONTINUANCE OF OPERATIONS**

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts recorded for mineral properties and related deferred costs are dependent upon the discovery of economically recoverable reserves.

The ability of the Company to continue to operate as a going concern is dependent on its ability to ultimately operate its business at a profit. To date, the Company has not generated any revenues from operations and will require additional funds to meet its obligations and the costs of its operations. As a result, further losses are anticipated prior to the generation of any profits. As at February 28, 2007 the Company has a working capital balance of \$2,299,051.

The Company's future capital requirements will depend on many factors, including the costs of exploring its mineral properties, operating costs, competitive environment and global market conditions. The Company's anticipated operating losses and increasing working capital requirements will require that it obtain additional capital to continue operations.

The Company will depend almost exclusively on outside capital. Such outside capital will include the sale of additional shares. There can be no assurance that capital will be available as necessary to meet these continuing exploration and development costs or, if the capital is available, that it will be on terms acceptable to the Company. The issuances of additional equity securities by the Company may result in significant dilution to the equity interests of its current shareholders. Obtaining commercial loans, assuming those loans would be available, will increase the Company's liabilities and future cash commitments. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the business and future success may be adversely affected, thus giving rise to doubt about the Company's ability to continue as a going concern. The financial statements do not reflect adjustments to the carrying values of assets, liabilities or reported results should the Company be unable to continue as a going concern.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary AMI Africa Exploration Ltd. ("AMI Africa", formerly "Norcan Mining Corp."), incorporated in British Columbia. All inter-company transactions and account balances have been eliminated upon consolidation.

**Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars.

**Marketable securities**

Marketable securities are carried at the lower of cost and market value on an aggregate basis.

**Equipment**

Automobiles, computers and office equipment are recorded at cost less accumulated amortization. Automobiles and computers are amortized at a rate of 30% per year and office equipment at a rate of 20% per year over their estimated useful life.

**Financial instruments**

The fair value of the Company's financial instruments included in current assets and current liabilities were estimated by management to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**Risk management**

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company is at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate significant environmental remediation costs or liabilities in respect of its current operations.

The Company is not exposed to significant credit concentration risk. The Company is not exposed to significant interest rate risk.

The Company's functional currency is the Canadian dollar. The Company operates in foreign jurisdictions, giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company's mineral properties are located in Ghana, West Africa, the Company is subject to different considerations and other risks not typically associated with companies in North America. Such risks are associated with the political, economic and legal environments. The Company's results may be adversely affected by changes in the political and social conditions in Ghana and by changes in government policies with respect to laws and regulations.

**Earnings (loss) per share**

The Company has adopted the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from in-the-money stock options and other dilutive instruments are used to repurchase common shares at the prevailing market rate.

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year ended February 28, 2007, of 20,216,938 (2005 – 13,515,090). Diluted loss per share figures are equal to those of basic loss per share for each year as the effects of stock options and share purchase warrants have been excluded since they are anti-dilutive.

**Foreign currency translation**

The financial statements are presented in Canadian dollars. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the period.

**Mineral properties and deferred costs**

The cost of mineral properties and related exploration expenditures are capitalized until the properties are placed into production, sold or abandoned. These costs will be amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are sold, abandoned or determined by management to be impaired. The recorded costs of mineral properties, including exploration expenditures, represent costs incurred to date and are not intended to reflect present or future values.

The costs include the cash or other consideration and the fair market value of shares issued, if any, on the acquisition of mineral properties. Costs related to properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The proceeds from options granted are deducted from the cost of the related property and any excess is deducted from other remaining capitalized property costs. The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

General exploration costs not related to specific properties and general administrative expenses are charged to operations in the year in which they are incurred.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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**Income taxes**

The Company follows the liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. In the case of unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset or liability on the balance sheet, the recognition of future income tax assets is determined by reference to the likely realization of future income tax reductions. The Company has not recognized potential future benefit amounts as the criteria for recognition under Canadian GAAP have not been met.

**Stock-based compensation**

The Company accounts for stock-based compensation in accordance with the CICA Handbook, Section 3870, *Stock-based compensation and other stock-based payments*, whereby the fair value of all stock-based compensation awards are expensed. The standard requires that all stock based awards provided to employees and non-employees are measured and recognized using a fair value based method. Fair values are determined using the Black-Scholes option pricing model. Any consideration paid by employees on the exercise of the options is credited to share capital.

**Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, resource property carrying values, useful lives for amortization, and determination of fair value for stock based transactions and warrants. Financial results as determined by actual events could differ from those estimates.

**Asset retirement obligations**

The Company has adopted the CICA Handbook section 3110, *Asset retirement obligations*. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for any changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. This section was effective on March 1, 2004. The adoption of this standard did not have a material impact on the financial position and results of operations.

**NOTE 3 – MARKETABLE SECURITIES**

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By agreement dated December 17, 2003, the Company sold all of its interest in the Kutcho Creek property in Northern British Columbia to Western Keltic Mines Inc. (“Keltic”), a publicly traded company on the TSX Venture Exchange. The consideration for this sale was (a) an initial 57,000 units (“Units”) of Keltic valued at \$0.74 per unit or \$42,180, consisting of one common share and one share purchase warrant exercisable into one common share of Keltic at a price of \$0.20 per share until August 12, 2005; (b) 30,000 additional units on the first anniversary of the closing, consisting of one common share and one share purchase warrant exercisable at \$0.585 until August 12, 2006; and (c) 30,000 additional units on the second anniversary of the closing, consisting of one common share and one share purchase warrant exercisable at \$0.435 until August 12, 2007.

In addition the Company will receive a net smelter royalty of 20% of the total 2% royalty payable on the property. No amount has been recorded for the royalties as their fair value is not determinable.

The Company has received all of the agreed upon Units of Keltic and has sold all 117,000 common shares for gross proceeds of \$39,300. A total of 87,000 share purchase warrants expired without being exercised. At February 28, 2007 the Company holds 30,000 share purchase warrants of Keltic with a carrying cost of \$nil and fair market value of \$nil.

**NOTE 4 – EQUIPMENT**

	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer and office equipment	\$ 30,932	\$ 20,612	\$ 10,320	\$ 23,949	\$ 17,716	\$ 6,233
Automobiles	62,618	-	62,618	-	-	-
	<u>\$ 93,550</u>	<u>\$ 20,612</u>	<u>\$ 72,938</u>	<u>\$ 23,949</u>	<u>\$ 17,716</u>	<u>\$ 6,233</u>

The automobiles were acquired in February 2007 and as a result no amortization has been recorded at year end.

**NOTE 5 - MINERAL PROPERTIES AND DEFERRED COSTS**

**North Ashanti Project, Ghana, West Africa**

	February 28, 2007	February 28, 2006
Beginning balance	\$ 2,205,906	\$ 1,949,899
Exploration costs incurred during the year:		
Assays	32,672	25,140
Concession fees	8,625	18,597
Drilling	391,480	57,124
Field costs	33,781	34,827
Geologist fees	44,499	-
Geochem and soil sampling	28,987	4,640
Pitting and trenching	41,811	42,314
Project administration	8,853	54,088
Travel and accommodation	90,679	19,277
	<u>681,387</u>	<u>256,007</u>
Ending balance	<u>\$ 2,887,293</u>	<u>\$ 2,205,906</u>

The North Ashanti Project consists of the Beposo and Anuoro prospecting licenses consisting of 166km<sup>2</sup>. The North Ashanti Project is held by the Company's subsidiary, AMI Africa Exploration Ltd. AMI Africa is the registered holder of these two prospecting licenses. These concessions are subject to a 10% interest held by the Ghanaian Government.

On July 11, 2006, the Company received a one year extension to the Beposo mineral prospecting license from the Ghana Minerals Commission. The Company has filed a further extension request and is currently awaiting its approval.

In September 2005, the Company acquired a two year license for the Anuoro Concession which is contiguous to the Beposo concession.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

- a) The Company incurred \$90,000 (2006 - \$60,000) in management fees to a private company controlled by a director. At February 28, 2007, a total of \$nil (2006 - \$53,500) remains owing to this company.
- b) The Company incurred \$90,000 (2006 - \$60,000) in consulting fees to a private company controlled by a director. At February 28, 2007, a total of \$nil (2006 - \$40,300) remains owing to this company.
- c) The Company incurred \$16,932 (2006 - \$825) in legal fees to a law firm in which a director of the Company is a partner. At February 28, 2007, \$16,932 (2006 - \$1,626) remains owing to this law firm.
- d) At February 28, 2007 an amount of \$nil (2006 - \$14,387) is owing to a director for expenses incurred on behalf of the Company.
- e) The Company incurred \$37,000 (2006 - \$nil) in director fees. At February 28, 2007, a total of \$12,000 (2006 - \$nil) remains owing to the directors.
- f) Refer to Note 7.

**NOTE 6 - RELATED PARTY TRANSACTIONS (continued)**

Amounts due to related parties are unsecured, non-interest bearing and repayment is anticipated during the ensuing year. All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**NOTE 7 – NOTE PAYABLE**

The Company had a note payable to a Canadian public company with directors in common. The note bore compound interest at 6%, payable quarterly and was due upon demand. During the year ended February 28, 2007, the principal balance of \$5,802 and all accrued interest was repaid in full.

**NOTE 8 - SHARE CAPITAL**

Authorized:

- Unlimited common shares without par value
- Unlimited preferred shares without par value

	Shares	Value	Contributed Surplus
Common shares issued:			
Balance at February 28, 2005	12,956,186	\$ 2,861,496	\$ 643,358
Issued during the year:			
- for cash by a private placement at \$0.25 per share	1,000,000	250,000	-
- stock based compensation	-	-	184,397
- expiration of share purchase warrants	-	-	25,000
Balance at February 28, 2006	13,956,186	3,111,496	852,755
Issued during the year:			
- for cash by a private placement at \$0.25 per share	4,000,000	850,559	149,441
- share issuance costs	-	(161,930)	44,762
- corporate finance fee units	80,000	20,000	-
- for cash by share purchase warrants exercised at \$0.25	99,625	24,906	-
- for cash by share purchase warrants exercised at \$0.40	1,650,700	660,280	-
- fair value of share purchase warrants exercised	-	71,214	(71,214)
- for cash by a private placement at \$0.20 per share	11,000,000	1,679,104	520,896
- share issuance costs	-	(363,733)	190,679
- stock based compensation	-	-	162,478
Balance at February 28, 2007	30,786,511	\$ 5,891,896	\$ 1,849,797

During the year ended February 28, 2007, the Company completed a private placement of 4,000,000 units at a price of \$0.25 per unit for proceeds of \$1,000,000. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to acquire an additional common share at a price of \$0.40 per share until March 17, 2007 (3,160,000 units) and March 28, 2007 (840,000 units). The fair value of the warrants was estimated to be \$149,441 net of issue costs. The Company paid a cash commission of \$70,000, a corporate finance fee of \$20,000 in units which consist of a common share and a warrant that carries the same terms and conditions as the unit warrant, costs of \$27,168 in cash and issued 280,000 agent's units (valued at \$44,762) which are exercisable at \$0.25 into a common share and a share purchase warrant that carries the same terms and conditions as the unit warrants.

During the year ended February 28, 2007, the Company completed a private placement of 11,000,000 units at a price of \$0.20 per unit for proceeds of \$2,200,000. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to acquire an additional common share at a price of \$0.40 per share until December 21, 2008. The fair value of the warrants was estimated to be \$520,896 net of issue costs. The Company paid a cash commission of \$160,000, costs of \$13,054 in cash and issued 1,000,000 agent's units (valued at \$190,679) which are exercisable at \$0.20 into a common share and a share purchase warrant that carries the same terms and conditions as the unit warrants.

**NOTE 8 - SHARE CAPITAL (continued)**

During the year ended February 28, 2006, the Company completed a private placement of 1,000,000 units at a price of \$0.25 per unit for proceeds of \$250,000. Each unit consisted of one common share and one half of a share purchase warrant. Each whole share purchase warrant entitled the holder to acquire an additional common share at a price of \$0.35 per share until February 6, 2006. The fair value of the warrants was estimated to be \$nil and all of the warrants expired without being exercised.

**Stock options**

At February 28, 2007, the Company had outstanding incentive stock options to directors and employees entitling the holders to purchase an aggregate of 2,745,000 common shares as follows:

Options	Exercise Price	Expiry Date	Weighted Average Life Remaining
175,000	\$ 0.25	September 13, 2007	0.54 yrs
1,520,000	\$ 0.25	October 22, 2007	0.65
650,000	\$ 0.25	March 28, 2011	4.08
400,000	\$ 0.41	December 20, 2011	4.81
<u>2,745,000</u>			<u>2.06 yrs</u>

A summary of the Company's stock options as of February 28, 2007 and changes during the year are as follows:

	2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	1,695,000	\$ 0.25	1,795,000	\$ 0.42
Granted	1,050,000	0.31	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Cancelled	-	-	(100,000)	(0.25)
Options Re-priced	-	-	-	(0.17)
Balance, end of year	<u>2,745,000</u>	<u>\$ 0.27</u>	<u>1,695,000</u>	<u>\$ 0.25</u>

During the year ended February 28, 2007 the Company granted a total of 650,000 stock options with a fair value of \$113,334 which was estimated using the Black-Scholes option pricing model assuming an expected life of 5 years, a risk-free interest rate of 4.25%, a nil dividend yield and an expected volatility of 79%. These options have fully vested and the Company recorded a stock based compensation expense of \$113,333 during the year ended February 28, 2007.

During the year ended February 28, 2007 the Company granted a total of 400,000 stock options which vest over a period of nine months with a fair value of \$117,947 which was estimated using the Black-Scholes option pricing model assuming an expected life of 5 years, a risk-free interest rate of 4.25%, a nil dividend yield and an expected volatility of 90%. The Company recorded a stock based compensation expense of \$49,145 relating to options vested as at February 28, 2007 and will record a further \$68,802 upon vesting of the remaining options in the next fiscal year.

In June 2005, the Company re-priced 1,795,000 options to \$0.25 per share and extended the expiry dates to September 13, 2007 and October 22, 2007. As a result, the Company recorded an additional compensation charge of \$102,582 which was determined in accordance with the provisions of CICA Handbook Section 3870, *Stock-based compensation and other stock-based payments* using the Black-Scholes option pricing model assuming an expected life of 2.24 – 2.33 years, a risk-free interest rate of 4.25%, a nil dividend yield and an expected volatility of 72%.

During the year ended February 28, 2005 the Company granted a total of 720,000 stock options with a fair value of \$178,760 which was estimated using the Black-Scholes option pricing model assuming an expected life of 2-3 years, a risk-free interest rate of 3%, a nil dividend yield and an expected volatility of 80-84%. The Company recorded a stock based compensation expense of \$81,815 upon vesting of a portion of the options in the year ended February 28, 2006.

**NOTE 8 - SHARE CAPITAL (continued)**

**Warrants**

At February 28, 2007, the Company had outstanding warrants entitling the holders to purchase an aggregate of 15,889,675 common shares as follows:

Number of Warrants	Exercise Price	Expiry Date	Weighted Average Life Remaining
279,050	\$ 0.40	March 17, 2007	0.05 yrs
143,425	\$ 0.25	March 17, 2007	0.05
1,685,000	\$ 0.40	March 17, 2007	0.05
36,950	\$ 0.25	March 28, 2007	0.08
51,250	\$ 0.40	March 28, 2007	0.08
694,000	\$ 0.40	March 28, 2007	0.08
1,000,000	\$ 0.20	December 21, 2008	1.81
1,000,000	\$ 0.40	December 21, 2008	1.81
<u>11,000,000</u>	<u>\$ 0.40</u>	<u>December 21, 2008</u>	<u>1.81</u>
<u>15,889,675</u>			<u>1.49 yrs</u>

A summary of the Company's outstanding warrants as of February 28, 2007 are as follows:

	2007		2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, beginning of year	-	\$ -	1,000,000	\$ 0.55
Issued	16,360,000	0.39	500,000	0.35
Exercised	(1,750,325)	0.39	-	-
Expired	-	-	(1,500,000)	0.48
Balance, end of year	<u>14,609,675</u>	<u>\$ 0.39</u>	<u>-</u>	<u>\$ -</u>

**NOTE 9 - INCOME TAXES**

The significant components of the Company's future income tax assets and liabilities are as follows:

	2007	2006
Estimated non-capital losses available	\$ 1,934,322	\$ 1,615,564
Estimated resource deductions	2,887,293	2,205,906
	<u>4,821,615</u>	<u>3,821,470</u>
Estimated corporate income tax rate	34.1%	34%
Potential future income tax assets	1,644,170	1,299,300
Less: valuation allowance	(1,644,170)	(1,299,300)
	<u>-</u>	<u>-</u>
Net future income tax asset	<u>\$ -</u>	<u>\$ -</u>

**NOTE 9 – INCOME TAXES (continued)**

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At February 28, 2007 the Company has non-capital losses remaining to be carried forward of approximately \$1,934,000 (2006: \$1,616,000) which may be available to offset future income for income tax purposes but which expire as follows.

<u>Year of Expiry</u>	<u>Amount</u>
2008	\$ 64,000
2009	154,000
2010	205,000
2014	498,000
2015	284,000
2026	256,000
2027	473,000
	<u>\$ 1,934,000</u>

In addition, the Company has certain resource related deductions of approximately \$2,887,000 (2006 - \$2,206,000), capital losses of \$6,750, and unamortized share issue costs of approximately \$232,000 which may be available to be offset against future taxable income in Canada.

The benefits of all these deductions are not reflected in these financial statements as the criteria for recognizing future income tax assets have not been met due to the uncertainty of realization, and accordingly the Company has recorded a valuation allowance of 100%. The realization of any of these tax benefits in future years will be recorded as an adjustment to the corporate tax provision in the year realized.

**NOTE 10 – COMMITMENTS**

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The Company rented office space at a monthly cost of \$2,111 until June, 2008.

<u>Year</u>	<u>Amount</u>
2007	\$25,338
2008	\$ 8,446

**NOTE 11 – SUBSEQUENT EVENTS**

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Subsequent to the end of the year:

- a) the Company granted 800,000 incentive stock options to directors and consultants which are exercisable at \$0.40 per share for a term of 5 years.
- b) the Company entered into a 12 month management and services contract with SEMS Exploration Services Ltd. (“SEMS”), a consulting firm owned by Simon Meadows Smith. The agreement will pay SEMS US\$2,000 per month plus technical consulting fees. Simon Meadows Smith is the chief geologist and the qualified person under NI43-101 for the Company.
- c) The Company entered into a management contract with a private company controlled by the president. The contract has a term of two years and provides for aggregate compensation of \$10,000 per month.
- d) The Company entered into a management contract with a private company controlled by the Chief Financial Officer. The contract has a term of two years and provides for aggregate compensation of \$10,000 per month.