FLETCHER NICKEL INC.

(A Development Stage Company)

Financial Statements

Years ended December 31, 2006 and 2005

AUDITORS' REPORT

To the Shareholders of
Fletcher Nickel Inc.
(A Development Stage Company)

We have audited the balance sheets of Fletcher Nickel Inc. as at December 31, 2006 and 2005 and the statements of operations 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 financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
March 28, 2007

FLETCHER NICKEL INC.
(A Development Stage Company)
BALANCE SHEETS

As at December 31,	2006	2005
ASSETS		
Current assets		
Cash	$ 2,134	$ 104
Cash held in escrow	-	751,892
Accounts receivable	6,564	14,903
Prepaid expenses	4,200	4,200
	12,898	771,099
Mineral exploration properties (note 3)	7,036,870	369,457
Long-term investment - at cost	6,000	6,000
Deferred financing costs	86,058	147,567
Office equipment (note 4)	-	512
	$ 7,141,826	$ 1,294,635
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 136,995	$ 158,224
Due to related parties (note 10)	215,608	41,437
Dividends payable	100,000	-
Non-interest bearing loan with no set terms of repayment (note 13)	100,000	-
	552,603	199,661
Convertible debenture (note 5)	77,739	-
Preference shares (note 6)	4,517,623	-
	5,147,965	199,661
SHAREHOLDERS' EQUITY		
Common shares (note 7)	1,501,962	547,400
Equity component of convertible debenture (note 5)	436,740	-
Special warrants (note 8)	627,000	627,000
Warrants (note 9)	612,459	148,000
Contributed surplus (note 7)	123,000	-
Deficit	(1,307,300)	(227,426)
	1,993,861	1,094,974
	$ 7,141,826	$ 1,294,635

See accompanying notes to financial statements

Approved by the board of directors

Director　　　　Director

FLETCHER NICKEL INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31,	2006	2005	Cumulative since inception
Revenue			
Interest income	**$ 3,101**	$ 1,892	$ 4,993
Administrative costs			
Accounting	**9,470**	4,700	14,170
Accretion of preference shares (note 6)	**208,933**	-	208,933
Accretion of convertible debenture (note 5)	**36,324**	-	36,324
Administrative and general expenses	**56,756**	44,190	154,747
Amortization	**512**	510	1,534
Audit and legal	**8,700**	8,350	44,019
Consulting	**309,239**	7,000	326,454
Interest	**35,270**	-	35,375
Interest on preference shares (note 6)	**266,527**	-	266,527
Rent	**22,800**	24,200	68,000
Stock-based compensation (note 7)	**106,984**	-	106,984
Travel	**21,460**	16,829	49,226
	1,082,975	105,779	1,312,293
Net loss	**(1,079,874)**	(103,887)	(1,307,300)
Deficit, beginning of year	**(227,426)**	(123,539)	-
Deficit, end of year	**$ (1,307,300)**	$ (227,426)	$ (1,307,300)
Loss per share basic and fully diluted	**$ (0.14)**	$ (0.02)	
Weighted average number of shares outstanding during the year	**7,845,267**	5,010,959	

See accompanying notes to financial statements

FLETCHER NICKEL INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

Years ended December 31,	2006	2005	Cumulative since inception
Cash provided by (used in)			
Operations			
Net loss	**$ (1,079,874)**	$ (103,887)	$ (1,307,300)
Items not involving cash			
Amortization	**512**	510	1,534
Accretion of convertible debenture	**36,324**	-	36,324
Accretion of preferences shares Series A	**208,933**	-	208,933
Non-cash interest payments	**125,000**	-	125,000
Non-cash consulting fees	**25,939**	-	25,939
Stock-based compensation	**106,984**	-	106,984
	(576,182)	(103,377)	(802,586)
Net change in non-cash working capital			
Accounts receivable	**8,339**	(315)	(6,544)
Prepaid expenses	**-**	9,277	(4,200)
Accounts payable and accrued liabilities	**(21,229)**	127,420	136,995
	(589,072)	33,005	(676,335)
Financing			
Proceeds from special warrants	**-**	750,000	750,000
Proceeds from issuance of warrants	**44,000**	-	44,000
Proceeds from issuance of common shares	**332,500**	-	644,000
Share issuance costs	**(166,680)**	-	(314,247)
Deferred financing costs	**(86,058)**	(76,900)	(86,058)
Advances from shareholders	**174,171**	41,437	315,608
Proceeds from convertible debenture	**750,000**	-	750,000
Proceeds on non-interest bearing loan	**100,000**	-	-
	1,147,933	714,537	2,103,303
Investing			
Mineral exploration properties	**(1,308,723)**	(28,955)	(1,417,300)
Investment in Claim Lake Resources	**-**	-	(6,000)
Cash held in escrow	**751,892**	(751,892)	-
Purchase of office equipment	**-**	-	(1,534)
	(556,831)	(780,847)	(1,424,834)
Net change in cash during the year	**2,030**	(33,305)	2,134
Cash, beginning of year	**104**	33,409	-
Cash, end of year	**$ 2,134**	$ 104	$ 2,134

See accompanying notes to financial statements

Supplementary information

Interest paid	**$ 176,797**	$ -	

1. NATURE OF OPERATIONS AND GOING CONCERN

Fletcher Nickel Inc. (the “Company”) is a development stage company and currently has interests in exploration and development properties in Canada. Substantially all of the Company’s efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in mineral exploration properties contain mineral reserves which are economically recoverable.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

The Company has a need for equity capital and financing in order to explore and develop its properties and for working capital requirements. Because of limited working capital and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those reported. Management believes that the estimates are reasonable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates (continued)

The Black Scholes option pricing model, used by the Company, was developed for use in the estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in subjective input assumptions can materially affect the fair value estimate and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's warrants granted during the year.

Interest in Mineral Exploration Properties

The costs of mineral exploration properties and related exploration expenditures are deferred until the properties to which they relate are placed into production, sold or allowed to lapse. These costs will be amortized over the estimated useful life of the properties following commencement of production or written off if the properties are sold or allowed to lapse. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures are charged to operations as incurred.

The Company reviews its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

Property and Equipment

Office equipment is stated at acquisition cost. Amortization is provided on the straight-line basis over three years.

Asset Retirement Obligations

The Company recognizes a liability for its legal obligations associated with the retirement of its tangible long-lived assets, which includes mineral exploration properties and property and equipment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset, provided a reasonable estimate of the obligation can be made. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. The liability may be adjusted prospectively in future periods as a result of changes in estimates relating to timing or amounts of underlying cash flows.

As at December 31, 2006 and 2005, the Company has not incurred or committed any asset retirement obligations related to its mineral exploration properties

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Interest income is recorded when earned.

Loss Per Share

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted tax rates expected to apply when these temporary differences are expected to reverse. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

Flow-through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock. Related exploration expenditures have been charged to mineral properties and deferred exploration expenditures. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce share capital.

Deferred financing costs

Costs associated with obtaining financing are deferred and amortized on a straight-line basis over the original term of the debt or netted against capital stock.

Stock-based Compensation

The Company accounts for stock-based compensation using the fair value-based method. The fair value of each option granted is accounted for in operations over the expected life of the option and the related credit is included in contributed surplus.

3. MINERAL EXPLORATION PROPERTIES

	Acquisition and option payments	Exploration and deferred costs	Total costs
New Texmont Project			
Balance, December 31, 2003	$ -	$ -	$ -
Common share issue	-	-	-
Cash payments	-	44,202	44,202
Balance, December 31, 2004	-	44,202	44,202
Common share issue	-	-	-
Cash payments	-	28,055	28,055
Balance, December 31, 2005	-	72,257	72,257
Common share issue (note 7(a))	1,050,000	-	1,050,000
Preference share issue (note 6)	4,308,690	-	4,308,690
Cash payments	1,002,178	285,394	1,287,572
Balance, December 31, 2006	6,360,868	357,651	6,718,519
Porcupine Mining District			
Balance, December 31, 2003	$ -	$ -	$ -
Common share issue	260,900	15,600	276,500
Cash payments	19,800	-	19,800
Balance, December 31, 2004	280,700	15,600	296,300
Common share issue	-	-	-
Cash payments	-	900	900
Balance, December 31, 2005	280,700	16,500	297,200
Common share issue	-	-	-
Cash payments	20,236	915	21,151
Balance, December 31, 2006	300,936	17,415	318,351
Total Mineral Exploration properties	**$ 6,661,804**	**$ 375,066**	**$ 7,036,870**

(a) New Texmont Project

On March 22, 2004 the Company signed a letter of intent with New Texmont Mines Limited for the acquisition of a 100% interest in the Texmont Mine in the Porcupine Mining District of Ontario. The parties then amended the terms of the proposed acquisition in a memorandum dated June 29, 2004 and the Company commissioned a number of technical studies. The purchase was completed on March 15, 2006 and the Company acquired (a) an assignment from New Texmont Explorations Limited (“NTE”) of fourteen mining leases, and (b) an assignment from Sheridan Geophysics Limited (“SGL”) of its accrued interest in the leases acquired by its construction of mining and milling facilities at the Texmont mine in exchange for $1,000,000 in cash, 1,000,000 common shares and 8,000,000 redeemable preference shares of the Company.

The assigned interest from SGL entitles the Company to recover the cost of construction of the mill, plus accrued interest, from production profits prior to any distributions to other interested parties. The agreed cost of construction of the mill on December 31, 1972 was $3,000,000 and interest is compounded annually at the prime lending rate.

NTE retains a net smelter royalty interest (“NSR”) in the leases under which it will receive 3% of the minerals in concentrate recovered from the property during the first 1095 days of commercial production, and thereafter 5% of such minerals. The Company may acquire up to one-half of the NSR at any time for $2,000,000 and has a right of first refusal on the sale of the NSR by NTE.

3. MINERAL EXPLORATION PROPERTIES (continued)

(b) Porcupine Mining District

On January 6, 2004, the Company acquired a 100% interest in 171 staked mineral claims in the Porcupine Mining District of Ontario (subject to a 1.5% net smelter royalty) for $15,000 cash and 1,500,000 common shares of the Company with deemed consideration of $150,000. A technical report was prepared but the exploration work recommended to assess the claims was not undertaken and the Company's interest was relinquished. In September 2005, 57 of the claims were re-staked on behalf of the Company and the royalty holders. In November 2005, an additional 17 claims were re-staked on behalf of the Company and the royalty holders.

On February 28, 2004, the Company acquired a 100% interest in 149 staked mineral claims in the Porcupine Mining District of Ontario (subject to a 1.5% net smelter royalty) for 279,600 common shares of the Company with deemed consideration of $69,900. The Company also acquired 38 adjacent mineral claims in February 2004, by staking. On March 15, 2004, the Company acquired a 100% interest in an additional 110 staked claims (subject to a 1.5% net smelter royalty) for 164,000 common shares of the Company with deemed consideration of $41,000. As no assessment work was undertaken, the Company's interest in all 297 claims was relinquished. In November and December 2006, 150 of the claims were re-staked on behalf of the Company and the royalty holders.

4. OFFICE EQUIPMENT

	Cost	Accumulated Amortization	2006 Net	2005 Net
Computer equipment	**$ 1,534**	**$ 1,534**	**$ -**	$ 512

5. CONVERTIBLE DEBENTURE

On January 4, 2006 the Company issued for cash a $750,000 principal amount special note, convertible into a $750,000 principal amount unsecured convertible debenture and an aggregate of 1,500,000 common share purchase warrants, each such warrant entitling the holder to purchase one common share at $0.65 until January 4, 2008. This special note was converted on March 15, 2006 and the $750,000 principal amount unsecured convertible debenture and 1,500,000 warrants were issued upon such conversion. The unsecured convertible debenture matures on March 14, 2011, bears interest at 4% per annum and may be converted by the holder at any time into an aggregate of up to 1,500,000 units of the Company at a deemed price of $0.50 per unit. Each unit will comprise one common share and one common share purchase warrant, each such warrant entitling the holder to purchase one common share at $0.65. In addition, compensation warrants were issued to an agent entitling them to purchase up to 150,000 common shares of the Company at $0.50 each at any time prior to January 4, 2008.

The components of these financial instruments, consisting of the debenture, warrants and conversion features were valued on a pro-rata basis based on the relative fair values of each component. The fair value of the debenture was estimated by discounting the future cash flows at an interest rate applicable to non-convertible debt. The fair value of the warrants were valued using the Black-Scholes option pricing model assuming a risk-free rate interest rate of 3.97% on the date of issue, an expected life of 2 years, a volatility of 85% and dividends of $Nil. The fair value of the conversion was similarly valued, with the exception of an expected life of 5 years.

5. CONVERTIBLE DEBENTURE (continued)

The debt component of the convertible debenture will be accreted to its face value over the 5 year term of the debenture.

	2006	2005
Equity component	**$ 436,740**	$ -
Equity component value attributed to warrants	**211,845**	-
Debt component	**45,016**	-
Net value attributed	**693,601**	-
Transaction costs	**56,399**	-
Face value of the convertible debenture	**750,000**	-
Balance to be accreted	**(672,261)**	-
Net convertible debenture	**$ 77,739**	$ -

6. PREFERENCE SHARES

	2006	2005
Preference shares Series A - 8,000,000 shares (note 7(a))	**$ 8,000,000**	$ -
Balance to be accreted	**(3,482,377)**	-
	$ 4,517,623	$ -

The preference shares Series A shares entitle the holder to receive a 5% per share fixed cumulative annual preferential cash dividend, payable in quarterly installments on the fifteenth (15th) day of February, May, August and November. The Company may at any time, upon a minimum 14 day notice, redeem all or any part of the preference share Series A shares at a price of $1.00 per share, together with unpaid dividends accrued to the date of redemption. On the eighth anniversary date of issuance, March 15, 2014, the Company must redeem all of the preference share Series A shares at a price of $1.00 per share, together with unpaid dividends accrued to the date of redemption

The value of the preference shares has been determined by discounting the future interest payments until March 15, 2014 at a discount rate of 15% which represents the borrowing rate available to the Company for similar instruments of debt having no conversion rights.

The Company accretes the value assigned as debt to the par value of $8,000,000. Dividend expense related to the preference shares is recorded as interest. For the year ended December 31, 2006, the Company recorded $208,933 of accretion expense and $266,527 of dividends as interest expense.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized

The authorized share capital consists of an unlimited number of common shares and an unlimited number of preference shares.

Common shares issued

	Number of shares	Amount	Contributed Surplus
Balance, December 31, 2002	-	$ -	$ -
Issued for cash	3,000,000	1,500	$ -
Balance, December 31, 2003	3,000,000	1,500	-
Issued for cash	1,600,000	310,000	-
Issued for property	1,943,600	260,900	-
Warrants issued	-	(25,000)	-
Balance, December 31, 2004 and 2005	6,543,600	547,400	-
Issued for property (note (a))	1,000,000	1,050,000	-
Issued for cash (note (b))	265,000	332,500	-
Issued for services rendered (note (c))	120,000	60,000	-
Warrants issued	-	(173,691)	-
Share issue costs	-	(314,247)	-
Warrants expired	-	-	123,000
Balance, December 31, 2006	7,928,600	$ 1,501,962	$ 123,000

(a) Units issued for acquisition of New Texmont Project

On March 15, 2006 and the Company acquired (a) an assignment from New Texmont Explorations Limited ("NTE") of fourteen mining leases, and (b) an assignment from Sheridan Geophysics Limited ("SGL") of its accrued interest in the leases acquired by its construction of mining and milling facilities at the Texmont mine in exchange for $1,000,000 in cash, 1,000,000 common shares and 8,000,000 preference shares of the Company. In addition, compensation warrants were issued to an agent entitling them to purchase up to 150,000 common shares of the Company at $0.50 each at any time prior to January 4, 2008.

The value of the 1,000,000 common shares was determined to be $1,050,000 using the weighted average price of shares issued. The value of the 8,000,000 preference shares was determined to be $4,517,623 using the discounted cash flow method.

The Company has deposited an executed re-assignment of the mining leases with an escrow agent. NTE may require delivery of the re-assignment by the escrow agent in exchange for delivery of the preference shares for cancellation, at any time the Company has failed to cure a default in payment of the preference share dividends within thirty days of a notice of default from NTE. The Company may also require NTE to deliver the preference shares for cancellation at any time it wishes to relinquish and re-assign the mining leases.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)

(b) Units issued for cash under private placement

On May 12, 2006 the Company, on a private placement basis, issued an aggregate of 200,000 units of securities of the Company at a price of $1.25 per unit for gross proceeds of $250,000. Each unit is comprised of one flow-through share and one warrant enabling the holder to acquire an additional flow-through share at $1.25 until November 12, 2007. The value ascribed to the warrants was $73,500. In addition, compensation warrants were issued to an agent entitling them to purchase up to 20,000 common shares of the Company at $1.25 each at any time prior to November 12, 2007.

On October 25, 2006 the Company, on a private placement basis, issued an aggregate of 50,000 units of securities of the Company at a price of $1.20 per unit for gross proceeds of $60,000. Each unit is comprised of one share and one warrant enabling the holder to acquire an additional share at $1.20 until April 24, 2008. The value ascribed to the warrants was $17,624.

On November 21, 2006 the Company, on a private placement basis, issued an aggregate of 15,000 units of securities of the Company at a price of $1.25 per unit for gross proceeds of $22,500. Each unit is comprised of one flow-through share and one warrant enabling the holder to acquire an additional share at $1.25 until May 20, 2008. The value ascribed to the warrants was $7,199.

(c) Common shares issued for services rendered

During the year, the Company settled $120,000 in commissions payable to an agent for financing for an equal amount of cash and common shares. 120,000 common shares were issued at price of $0.50 per unit for gross consideration of $60,000.

8. SPECIAL WARRANTS

Special warrants issued

	Number of Special Warrants	Consideration
Balance, December 31, 2004	-	$ -
Issued for cash	1,500,000	750,000
Attributed to warrants (note 9)	-	(123,000)
Balance, December 31, 2005 and 2006	**1,500,000**	**$ 627,000**

On September 22, 2005 the Company issued 1,500,000 units for cash consideration of $750,000 under a private placement. Each unit is comprised of one special warrant and one warrant. Each special warrant is convertible into one common share and each warrant entitled the holder to purchase one special warrant at $0.50 until January 22, 2006. The value ascribed to these warrants was $123,000. These warrants expired unexercised. In addition, compensation warrants were issued to an agent entitling them to purchase up to 150,000 common shares of the Company at $0.50 each at any time prior to September 22, 2007.

9. WARRANTS

Warrants issued

Valued attributed on private placements	300,000	25,000
Balance, December 31, 2004	300,000	25,000
Issued on private placements	1,650,000	123,000
Balance, December 31, 2005	1,950,000	148,000
Value attributed under private placements (note 7(b))	265,000	97,719
Issued on conversion of special note (note 5)	1,500,000	211,845
Issued for cash (note (a))	1,100,000	44,000
Issued for bonus payment (note (b))	625,000	25,000
Issued for services rendered (note (c))	50,000	25,939
Issued to broker agents (note 7 (a),(b))	170,000	75,972
Expired (note 8)	(1,500,000)	(123,000)
Expiry extension (note (d))	-	106,984
Balance, December 31, 2006	**4,160,000**	**$ 612,459**

(a) Issued for cash

On September 20, 2006, the Company issued an aggregate of 600,000 warrants to certain employees of the Company for proceeds of $24,000. Each warrant entitles the holder to purchase one common share of the Company at a price of $1.25 until March 20, 2008.

On October 3, 2006, the Company issued an aggregate of 500,000 warrants to an officer of the Company for proceeds of $20,000. Each warrant entitles the holder to purchase one common share of the Company at a price of $1.25 until April 3, 2008. The officer subsequently resigned from the Company and the warrants were repurchased for $20,000.

(b) Issued for bonus payment

On August 28, 2006, the Company issued 625,000 warrants as payment of $25,000 bonus on a $100,000 non-interest bearing loan with no set terms of repayment. Each warrant entitles the holder to purchase one common share of the Company at a price of $1.25 until February 28, 2008.

(c) Issued for services rendered

On September 20, 2006, the Company issued 50,000 warrants for professional services rendered. The value of the warrants was determined to be $25,939. Each warrant entitles the holder to purchase one common share of the Company at a price of $1.25 until March 20, 2008.

(d) Extension on expiring warrants issued

On July 5, 2006 the Company extended the expiry date from July 14, 2006 to January 14, 2008 on 300,000 warrants entitling the holders to purchase 300,000 common shares of the Company at a price of $0.75. The estimated fair value of the modification of the warrants at the date of modification under the Black-Scholes option-pricing model was $106,984. The following assumptions were used to estimate the value between the date of grant and the date of modification: expected dividend yield - 0% and 0%, expected volatility - 85% and 85%, risk--free interest rate - 3.25% and 4.20% and an average expected life of 0.2 and 2 years respectively.

9. WARRANTS (continued)

Warrants Outstanding

	Number of Warrants		Exercise Price	Expiry Date
	150,000	$	0.50	Sep 22/07
	200,000		1.25	Nov 12/07
	20,000		1.25	Nov 20/07
	150,000		0.50	Jan 4/08
	1,500,000		0.65	Jan 4/08
	300,000		0.75	Jan 14/08
	625,000		1.25	Feb 28/08
	650,000		1.25	Mar 20/08
	500,000		1.25	Apr 3/08
	50,000		1.20	Apr 24/08
	15,000		1.50	May 20/08
	4,160,000	**$**	**0.94**	**-**

Each warrant entitles the holder to purchase one common share of the Company.

The fair value of warrants issued during 2006 was estimated on the date of issue using the Black-Scholes option-pricing model with the following weighted average assumptions.

	2006	2005
Risk-free interest rate	**4.07%**	2.91%
Expected volatility	**85%**	85%
Expected life of warrants	**1.9 years**	4 months
Expected dividend yield	**Nil**	Nil

10. RELATED PARTY TRANSACTIONS AND BALANCES

		2006		2005
Balances:				
Due to directors and officers	**$**	**215,608**	$	41,437
Transactions:				
Management fees paid to directors and officers	**$**	**299,300**	$	22,000

Amounts due to certain shareholders and directors are non-interest bearing, have no set terms of repayment and are due on demand.

11. INCOME TAXES

(a) Provision for income taxes

The major factors that cause variations from the Corporation's combined federal and provincial statutory Canadian income tax rates of 36.12% (2005 - 36.62%) were the following:

	2006	2006
Loss before income taxes	**$ (1,079,874)**	$ (103,887)
Expected tax recovery at statutory rates	**$ (390,050)**	$ (37,524)
Increase (decrease) resulting from:		
Non-capital losses not recognized	**187,500**	24,000
Dividends on preference shares recorded as interest	**96,000**	-
Accretion of preference shares	**75,500**	-
Stock-based compensation	**38,500**	-
Share issue and financing costs	**(27,000)**	-
Accretion of convertible debenture	**13,000**	-
Non-deductible expenses	**6,550**	13,524
	$ -	$ -

(b) Future tax balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities are as follows:

	2006	2006
Future income tax assets (liabilities)		
Non-capital losses	**$ 261,000**	$ 74,000
Valuation allowance	**(261,000)**	(74,000)
	$ -	$ -

(c) Losses carried forward

In addition to approximately $6,708,000 of tax resource pools which have no expiry date, the Corporation has non-capital losses that will expire, if not utilized, as follows:

Year Incurred	**Year Expires**	**Amount**
2003	2010	$ 4,000
2004	2014	111,000
2005	2015	89,500
2006	2026	519,000
		$ 723,500

12. FINANCIAL INSTRUMENTS

(a) Fair Value

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and dividends payable. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a qu0oted market price, if one exists. The fair value of the convertible debenture and preference shares, as determined by reference to current market prices for debt with similar terms and risks is $77,739 and $4,517,623 respectively. It is not practicable to determine the fair value of the amounts due to related parties due to the nature of such amounts and the absence of a secondary market for such instruments.

(b) Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

13. SUBSEQUENT EVENT

Between February 6 and February 23, 2007, the Company, on a private placement basis, issued an aggregate of 750,000 units of securities of the Company at a price of $1.00 per unit for gross proceeds of $750,000. Each unit is comprised of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one half of one common share of the Company at a price of $1.20 for one year from the date of issue.

On February 6, 2007, the Company converted a $100,000 non-interest bearing loan with no set terms of repayment into 100,000 units of securities of the Company. Each unit is comprised of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one half of one common share of the Company at a price of $1.20 for one year from the date of issue.