

CONQUEST RESOURCES LIMITED
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006

CONQUEST RESOURCES LIMITED
(A Development Stage Company)
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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Conquest Resources Limited
(A Development Stage Company)

We have audited the consolidated balance sheets of Conquest Resources Limited (a development stage company) as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 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 financial statement presentation.

In our 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 in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in black ink that reads 'McGovern, Hurley, Cunningham, LLP'.

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 13, 2008

	2007 \$	2006 \$
ASSETS		
CURRENT		
Cash and cash equivalents	599,963	1,295,851
Amounts receivable	27,164	87,584
Prepaid expense	<u>9,965</u>	<u>9,965</u>
	637,092	1,393,400
INVESTMENT (Note 4)	50,000	90,000
EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Note 5)	<u>2,805,365</u>	<u>3,017,189</u>
	<u>3,492,457</u>	<u>4,500,589</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 7)	<u>126,008</u>	<u>180,283</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6(a))	9,081,236	9,217,228
WARRANTS (Note 6(b))	147,146	147,146
CONTRIBUTED SURPLUS (Note 6(d))	1,542,840	1,519,740
ACCUMULATED OTHER COMPREHENSIVE INCOME	-	-
DEFICIT	<u>(7,404,773)</u>	<u>(6,563,808)</u>
	<u>3,366,449</u>	<u>4,320,306</u>
	<u>3,492,457</u>	<u>4,500,589</u>

COMMITMENTS AND CONTINGENCIES (Notes 1, 5 and 10)

APPROVED ON BEHALF OF THE BOARD:

Signed "T. N. McKILLEN" _____, Director

Signed "JOHN F. KEARNEY" _____, Director

CONQUEST RESOURCES LIMITED
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31,

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	2007	2006
	\$	\$
EXPENSES		
Office and general	132,714	256,050
Corporate expenses	80,166	95,180
Professional fees	51,943	45,332
Property evaluation expense	9,764	59,488
Travel	<u>7,701</u>	<u>13,152</u>
Loss before the under-noted	<u>282,288</u>	<u>469,202</u>
Write down of investment (Note 4)	28,000	70,500
Write down of exploration properties and deferred exploration expenditures (Note 5)	644,669	-
Write off of option payment receivable (Note 5)	<u>10,000</u>	<u>-</u>
	<u>682,669</u>	<u>70,500</u>
Loss before income taxes	964,957	539,702
Future income tax recovery (Note 8(a))	<u>(135,992)</u>	<u>-</u>
NET LOSS FOR THE YEAR	828,965	539,702
DEFICIT , beginning of year	6,563,808	6,024,106
Adjustment to deficit (Note 3(k))	<u>12,000</u>	<u>-</u>
DEFICIT , end of year	<u>7,404,773</u>	<u>6,563,808</u>
NET LOSS PER COMMON SHARE – Basic and diluted	0.01	0.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	62,663,830	59,894,632

See accompanying notes to the consolidated financial statements.

CONQUEST RESOURCES LIMITED
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

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	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the year	(828,965)	(539,702)
Adjustments for:		
Stock-based compensation	23,100	92,050
Future income tax	(135,992)	-
Write down of investment (Note 4)	28,000	70,500
Write down of exploration properties and deferred exploration expenditures (Note 5)	644,669	-
Write off of option payment receivable (Note 5)	10,000	-
	<u>(259,188)</u>	<u>(377,152)</u>
Changes in non-cash working capital balances	<u>34,567</u>	<u>(111,142)</u>
Cash flows from operating activities	<u>(224,621)</u>	<u>(488,294)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Private placement of flow-through shares and warrants, net (Note 6)	<u>-</u>	<u>341,141</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration properties and deferred exploration expenditures, net of recoveries	<u>(471,267)</u>	<u>(181,127)</u>
Decrease in cash and cash equivalents	<u>(695,888)</u>	<u>(328,280)</u>
Cash and cash equivalents, beginning of year	<u>1,295,851</u>	<u>1,624,131</u>
Cash and cash equivalents, end of year	<u><u>599,963</u></u>	<u><u>1,295,851</u></u>

SUPPLEMENTAL INFORMATION (Note 9)

See accompanying notes to the consolidated financial statements.

1. ONGOING OPERATIONS

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that Conquest Resources Limited (the "Company") will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, with no history of profitability. There is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its properties.

The Company's continued operation is dependent upon its ability to obtain the financing necessary to provide adequate working capital for the foreseeable future. Management believes that the Company has sufficient working capital for the next year. Management continues to actively pursue additional financing and strives to obtain and thereafter maintain profitable operations to support the validity of the "going concern" assumption.

2. NATURE OF OPERATIONS

The exploration activities of the Company are directed towards the search, evaluation and development of exploration properties. There has been no determination whether the Company's interests in exploration properties contain ore reserves which are economically recoverable. The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labor standards. In order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted. Major expenditures are required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. The recoverability of valuations assigned to mineral properties is dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development and future profitable production or proceeds from disposition. Management reviews the carrying value of the Company's interest in each property and where necessary, exploration properties are written down to their estimated recoverable amount. Although management has made its best estimate of these factors, it is reasonably possible that certain events could adversely affect management's estimates of recoverable amounts and the need for, as well as the amount of, provision for impairment in the carrying value of exploration properties and related assets.

Although the Company has taken steps to verify title to exploration properties 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 government licensing requirements or regulations, unregistered prior agreements or transfers or native land claims, and title may be affected by undetected defects.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company and its subsidiaries are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year, except as disclosed below. Outlined below are those policies considered particularly significant.

(a) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All references to the Company should be treated as references to the Company and its subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

(b) Translation of Foreign Currencies

The Canadian dollar is the functional currency of all of the Company's operations, which are classified as integrated for foreign translation purposes.

Under the temporal method, monetary assets and liabilities are translated at the rate of exchange prevailing at the year end; plant and equipment and exploration properties are translated at the rates prevailing at the acquisition dates; and revenue and expenses are translated at average rates of exchange during the year, with the exception of amortization which is translated at historical exchange rates. Exchange gains and losses are included in the consolidated statements of operations and deficit.

(c) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. The Company invests cash in term deposits maintained in high credit quality institutions.

(d) Exploration Properties and Deferred Exploration Expenditures

These assets are carried at historical cost. The cost of exploration properties and related exploration and development costs are deferred. These costs will be amortized over the estimated useful life of the properties following commencement of commercial production or written off if the properties are sold, allowed to lapse, or the property shows no promise from prior exploration results, or management determines that there is a permanent and significant impairment in value. All of the Company's properties are considered to be in the exploration or development stage and none have achieved commercial production. Accordingly, any revenue generated from testing or pilot plant processing is credited to deferred exploration expense. The Company does not accrue the future costs to keep the properties in good standing. Administrative expenditures, not directly related to property maintenance, are charged to operations as incurred.

(e) Asset Retirement Obligations

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral exploration properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration properties and deferred exploration expenditures and is amortized over the useful life of the property. Management is not aware of any asset retirement obligations.

(f) Interests in Joint Ventures:

A portion of the Company's exploration activities is conducted jointly with others wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Expenditures on these properties are capitalized to exploration properties. Joint venture accounting, which reflects the Company's proportionate interest in exploration properties, is applied by the Company only when the parties have earned their respective interests and enter into formal comprehensive agreements for ownership and exploration participation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Use of Estimates

The preparation of the consolidated financial statements in conformity 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 and the reported amounts of revenue and expenses during the year. Actual results could differ from estimates. During the fiscal years presented, management has made a number of significant estimates and valuation assumptions, including the recoverability of investments in exploration properties, the future costs associated with environmental remediation and site restoration matters, fair value of financial instruments, valuation of investments, valuation of tax accounts and factors affecting the valuation of stock-based compensation and share purchase warrants. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as an assumption about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

(g) Flow-through Financing

The Company has financed a portion of its exploration activities in Canada through the issuance 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 and the related exploration costs have been charged to exploration 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 will reduce share capital.

(h) 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 differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

(i) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

(k) New Accounting Standards

On January 1, 2007, the Company adopted the CICA Handbook Sections 1530, Comprehensive Income; Section 3251, Equity, Section 3555, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3865, Hedges.

These new standards resulted in no changes to amounts previously reported.

(i) Financial Instruments

Under the new standards, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

The Company's investment is classified as "held-for-trading" and is measured at fair value. Changes in their value are recognized in net income for the year. Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange and for which no sales restrictions apply are recorded at values based on the current bid prices.

The Company has determined that the adoption of this new policy has resulted in an increase to the deficit of \$12,000 which reflects the classification of the investment as "held-for-trading" and measuring it at fair value at January 1, 2007. (See Note 4)

(ii) Comprehensive Income

Section 1530 establishes standards for reporting and presenting comprehensive income. Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income for the Company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the statement of operations and comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity. The adoption of this standard has had no impact on the Company's financial statements and as such, a statement of comprehensive income has not been presented.

(iii) Hedging

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and during the twelve month period ended December 31, 2007, the Company had no hedges.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) Accounting Changes

Effective January 1, 2007, the Company adopted the revised CICA section 1506, "Accounting Changes." Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retrospectively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosures required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect of financial statement line items

(I) Future Accounting Changes

Capital Disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective January 1, 2008, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Company.

Financial Instruments - Disclosure and Presentation

In December 2006, the CICA issued Section 3862, "Financial Instruments - Disclosure", and Section 3863, "Financial Instruments - Presentation" to replace the existing Section 3861 "Financial Instruments - Disclosure and Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective January 1, 2008. This new requirement is for disclosure only and will not impact the financial results of the Company.

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("ACSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with IFRS by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

4. INVESTMENT

Investment in Trade Winds Ventures Inc.

As at December 31, 2007, the Company owned 200,000 shares of Trade Winds Ventures Inc. ("Trade Winds"), a company listed on the TSX Venture Exchange with a quoted market value of \$50,000. During 2004, 50,000 shares of Trade Winds with market value of \$59,000 were received. On April 25, 2005, the Company received 100,000 shares of Trade Winds with a market value of \$68,000. On May 8, 2006, the Company received 50,000 shares of Trade Winds with a market value of \$33,500. These shares were received pursuant to an agreement whereby the Company granted rights to Trade Winds to earn a 60% interest in part of the Aurora property (Note 5(c)). At January 1, 2007, upon adoption of the new Financial Instrument accounting policy, the investment in Trade Winds was written-down to market value by \$12,000 to \$78,000. On December 31, 2007, the investment in Trade Winds was further written down by \$28,000 to its quoted market value of \$50,000.

5. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Balance December 31, <u>2006</u> \$	Additions (Recoveries) \$	Impairment Provisions and Write offs \$	Balance December 31, <u>2007</u> \$
<u>CANADA</u>				
a) Alexander Property				
Exploration	1,411,124	10,013	-	1,421,137
b) Smith Lake Property				
Exploration	635,069	-	(635,069)	-
c) Aurora Property				
Exploration	746,815	4,982	-	751,797
Recovery	(260,500)	-	-	(260,500)
d) King Bay Property				
Exploration	469,121	417,850	-	886,971
Others				
Exploration	<u>5,960</u>	<u>-</u>	<u>-</u>	<u>5,960</u>
Total Canada	<u>3,007,589</u>	<u>432,845</u>	<u>(635,069)</u>	<u>2,805,365</u>
<u>AFRICA</u>				
e) Tanzania Properties	<u>9,600</u>	<u>-</u>	<u>(9,600)</u>	<u>-</u>
Total Africa	<u>9,600</u>	<u>-</u>	<u>(9,600)</u>	<u>-</u>
TOTAL	<u>3,017,189</u>	<u>432,845</u>	<u>(644,669)</u>	<u>2,805,365</u>

The additions of \$471,267 to exploration properties and deferred exploration expenditures, net of recoveries in the Consolidated Statements of Cash Flows are after a decrease in property related accounts payable and accrued liabilities of \$38,422.

5. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

	Balance December 31, <u>2005</u> \$	Additions (Recoveries) \$	Balance December 31, <u>2006</u> \$
<u>CANADA</u>			
a) Alexander Property			
Exploration	1,398,722	12,402	1,411,124
b) Smith Lake Property			
Exploration	635,069	-	635,069
c) Aurora Property			
Exploration	733,528	13,287	746,815
Recovery	(227,000)	(33,500)*	(260,500)
d) King Bay Property			
Exploration	287,162	181,959	469,121
Others			
Exploration	<u>5,960</u>	<u>-</u>	<u>5,960</u>
Total Canada	<u>2,833,441</u>	<u>174,148</u>	<u>3,007,589</u>
<u>AFRICA</u>			
e) Tanzania Properties	<u>21,400</u>	<u>(11,800)</u>	<u>9,600</u>
Total Africa	<u>21,400</u>	<u>(11,800)</u>	<u>9,600</u>
TOTAL	<u>2,854,841</u>	<u>162,348</u>	<u>3,017,189</u>

* Trade Winds Ventures Inc. shares received (Note 4).

The addition of \$181,127 in the Consolidated Statements of Cash Flows is after a non-cash recovery of \$45,300 and an increase in property related accounts payable of \$26,521.

Continued...

5. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

CANADA

(a) Alexander Property, Red Lake, Ontario

Pursuant to a Letter Agreement dated April 25, 2002 with Energold Minerals Inc. ("Energold"), the Company has earned a 100% interest in the Alexander Property, a group of 27 patented mining claims situated in Central Balmer Township, Red Lake Mining District, Ontario, subject to a 2% net smelter return ("NSR") in favour of Energold, by spending a total of \$500,000 on exploration and development before December 31, 2006. Cumulative expenditures at December 31, 2007 were approximately \$1,400,000. Energold is controlled by a director of the Company.

(b) Smith Lake Property, Missinabie, Ontario

The Company holds six patented claims in the Missinabie area of Northern Ontario, in Leeson Township, Sault Ste. Marie Mining Division, located approximately 100 kilometres northeast of Wawa. During 2007, the Company wrote down the carrying value of the Smith Lake Property by \$635,069, as required by CICA Accounting Guideline 11, which requires a write-down in the event that development activity has been delayed beyond three years.

(c) Aurora Property, Detour Lake, Ontario

Pursuant to a Letter Agreement dated March 7, 2002 with Prism Resources Inc. ("Prism"), as amended March 3, 2004 and as further amended July 25, 2004, the Company acquired all of Prism's rights to earn up to a 100% interest in the Aurora Property, subject to a 7.5% net profits interest payable ("NPI") to Prism.

The Aurora Property consists of a group of 11 mining leases and 18 mining claims situated at Detour Lake, Ontario, comprising three blocks named Aurora, Sunday Lake and Nash Creek, which are subject to an underlying Joint Venture Agreement between Prism and Boliden Westmin (Canada) Limited ("Boliden Canada"). The Company earned an initial 60% interest in the Aurora Property by spending in excess of \$350,000 on exploration and development prior to June 30, 2004. The Company has elected to earn a further 40% (total 100%) interest in the property, subject to a 2% NSR payable to Boliden Canada and a 7.5% NPI payable to Prism, by spending a cumulative \$4,385,816 on exploration and development programs by December 31, 2012.

In order for the Company to be vested with its initial 60% interest, Prism was required to make a payment of \$200,000 to Boliden Canada by July 1, 2004. In 2004, the Company negotiated an agreement with Boliden Canada which provided that the \$200,000 payment could be satisfied by the issue to Boliden Canada of 1,000,000 common shares of the Company at an agreed price of \$0.20 per share and Boliden Canada agreed to extend the deadline for such payment. In July 2004 Boliden Canada was acquired by Breakwater Resources Limited. The above-mentioned agreement with Boliden Canada has not yet been consummated and the payment to Boliden Canada has not been made.

Pursuant to a Letter of Intent dated April 13, 2004 with Trade Winds Ventures Inc. ("Trade Winds") the Company granted Trade Winds the right to earn up to a 60% interest in the Aurora block part of the Aurora Property by: (i) paying the Company \$100,000 (paid); (ii) issuing to the Company 200,000 common shares by May 7, 2006 (issued); (iii) subscribing for a \$500,000 private placement of Units of the Company at a price of \$0.40 per Unit (subscribed); and (iv) maintaining the property in good standing and completing annual exploration commitments totaling \$4,400,000 by April 30, 2008.

At December 31, 2007, the option agreement with Trade Winds was terminated.

5. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(d) King Bay Property, Sturgeon Lake, Ontario

Pursuant to an agreement dated August 18, 2004 with KBG Minerals Corporation ("KBG"), the Company has earned a 60% working interest in the King Bay gold project by expending \$600,000 on exploration prior to April 30, 2008. Cumulative expenditures to December 31, 2007 were \$886,971.

Upon the Company acquiring its 60% interest, a joint venture was formed with the Company as the Operator of the joint venture. If either party's working interest is reduced below 10% due to non-participation, the interest will be converted to a 10% net profits royalty.

The property is subject to an underlying agreement between KBG and Tribute Minerals Corporation ("Tribute") under which Tribute holds a 1.5% NSR on any production from the Property.

Included in exploration properties and deferred exploration expenditures is \$886,971 (2006 - \$469,121) employed in the above noted joint venture. During the year ended December 31, 2007, \$417,850 (2006 - \$181,959) of cash flows was used in the investing activities of the above noted joint venture.

AFRICA

The Company has properties in Tanzania and Zimbabwe, which have been written off.

6. CAPITAL STOCK

(a) Common shares

Authorized

Unlimited common shares

Issued

62,663,830 Common shares (2006 - 62,663,830)

<u>2007</u>	<u>2006</u>
\$	\$
<u>9,081,059</u>	<u>9,217,228</u>

Transactions during the years 2006 and 2007 are as follows:

<u>Shares</u>	<u>Amount</u>
#	\$

Balance, December 31, 2005

59,971,677	9,042,323
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Issued:

Flow-through private placement, net of cash issue costs (ii)

2,896,153	341,141
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Less: Amount allocated to Warrants (ii)

-	(130,300)
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Amount allocated to Broker compensation options (iii)

-	(16,846)
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Shares cancelled (i)

<u>(204,000)</u>	<u>(19,090)</u>
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Balance, December 31, 2006

62,663,830	9,217,228
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Flow-through shares renunciation (iv)

-	135,992
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Balance, December 31, 2007

<u>62,663,830</u>	<u>9,081,236</u>
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Continued...

6. CAPITAL STOCK (Continued)

(a) Common shares (continued)

- (i) On August 11, 2005, the Company filed a Notice of Intention to make a Normal Course Issuer Bid under which the Company could purchase for cancellation up to 2,998,583 of its outstanding common shares (approximately 5%), through the facilities and in accordance with the rules of the stock exchange, at prevailing market prices until August 31, 2006. As at December 31, 2005, 204,000 common shares were purchased for \$19,090 at an average price of \$0.094. These were being held for cancellation at December 31, 2005 and were cancelled in 2006.
- (ii) In December 2006, the Company completed a private placement of 2,896,153 flow-through units at a price of \$0.13 per unit for gross proceeds of \$376,500. The brokered portion of the placement was 2,307,691 units for gross proceeds of \$300,000. Each unit consisted of one flow-through common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.20 until December 15, 2007 and at an exercise price of \$0.30 between December 16, 2007 and December 15, 2008. The fair value of the share purchase warrants, determined to be \$130,300, was estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 3.95%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 107%. See Note 6(b).
- (iii) The issue costs for the private placement were \$52,206 comprised of legal fees of \$11,360, compensation paid to the broker for the brokered portion of the private placement of \$24,000 and 230,769 compensation options to purchase units at \$0.13 per unit, each unit comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.20 until December 15, 2007 and at an exercise price of \$0.30 between December 16, 2007 and December 15, 2008. The fair value of the options, determined to be \$16,846, was estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 3.95%, expected life of 2 years, expected dividend rate of 0%, and expected volatility of 107%.
- (iv) During the year ended December 31, 2006 the Company renounced to its subscribers of 2,896,153 flow through units Canadian exploration expenditures of \$376,500. The Company has applied the accounting treatment recommended by the Canadian Institute of Chartered Accountants - Emerging Issues Committee Recommendation #146(EI-146) requiring the transaction to be reported during 2007. The net effect of the adoption of EIC-146 has resulted in the recognition in the year of the estimated tax benefits renounced by the Company to the investors in the flow through shares. As a result a future income tax liability of \$135,992 and a corresponding reduction in shareholders' equity was recorded.

(b) Share Purchase Warrants

As at December 31, 2007 and 2006, the Company had the following outstanding share purchase warrants:

<u>Warrants</u>	<u>Value</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
#	\$	\$	
2,896,153	130,300	0.30	December 15, 2008
*461,538	16,846	0.30	See Note 6(a) (ii)
<u>3,357,691</u>	<u>147,146</u>		December 15, 2008

* Comprised of 230,769 broker compensation options exercisable into units and 230,769 warrants included from such units. See Note 6(a)(iii).

Continued...

6. CAPITAL STOCK (Continued)

(b) Share Purchase Warrants (continued)

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

Share purchase warrant transactions for the respective years were as follows:

	<u>Warrants</u>	<u>Weighted average</u> <u>Exercise Price</u>
	#	\$
Balance, December 31, 2005	1,250,000	0.60
Expired	(1,250,000)	0.60
Granted pursuant to private placement	<u>3,357,691</u>	0.25
Balance, December 31, 2006 and 2007	<u>3,357,691</u>	0.25

(c) Stock Options

The board of directors has approved a stock option plan for directors, officers, management, employees and other persons who perform ongoing services for the Company or any of its subsidiaries. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and to benefit from its growth.

The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed ten percent of the total number of common shares outstanding immediately prior to such an issuance. The maximum number of common shares reserved for issuance to any one participant upon the exercise of options is not to exceed five percent of the total number of common shares outstanding immediately prior to such an issuance. The options are non-assignable and may be granted for a term not exceeding ten years. The exercise price of the options is fixed by the board of directors at the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

During 2007, the Company granted 300,000 (2006-1,000,000) stock options to a director of the Company. These stock options are exercisable at \$0.13 per year for a period of five years.

The fair value of options granted during 2007 was estimated on the date of grant at \$23,100 (\$0.077 per share) using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 67%, a risk free interest rate of 3.75% and expected life of the options of five years. Of the stock options granted during 2006, 300,000 stock options are exercisable at \$0.12 and expire on March 12, 2011, 600,000 are exercisable at \$0.15 and expire on June 16, 2011 and 100,000 are exercisable at \$0.13 and expire on June 16, 2011. The grant date fair value of the options was \$0.08, \$0.11 and \$0.11 respectively. The 100,000 stock option grant was to be vested equally over the four quarters following the grant date. The fair value of each option granted in 2006 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 79%, 119% and 119% respectively, a risk free interest rate of 2.0% and expected life of the options of five years.

Continued...

6. CAPITAL STOCK (Continued)

(c) Stock options (continued)

At December 31, 2007, the Company had the following stock options outstanding:

<u>Number of Common shares</u>	<u>Exercise Price</u> \$	<u>Expiry Date</u>
150,000	0.30	March 17, 2008
1,350,000	0.20	September 24, 2008
1,600,000	0.10	March 1, 2010
300,000	0.12	March 12, 2011
600,000	0.15	June 16, 2011
100,000	0.13	June 16, 2011
<u>300,000</u>	0.13	March 18, 2012
<u>4,400,000</u>		

Stock option transactions for the respective years were as follows:

	<u>Number of Options</u> #	<u>Weighted Average Exercise Price</u> \$
Balance, December 31, 2005	4,700,000	0.19
Granted	1,000,000	0.14
Expired	<u>(600,000)</u>	0.20
Balance, December 31, 2006	5,100,000	0.16
Granted	300,000	0.13
Expired	<u>(1,000,000)</u>	0.20
Balance, December 31, 2007	<u>4,400,000</u>	0.15

(d) Contributed Surplus

Contributed surplus transactions for the respective years were as follows:

Balance, December 31, 2005	\$1,382,690
Value of expired warrants	45,000
Stock-based compensation on grant of options to: employees	86,700
non-employees	<u>5,350</u>
Balance, December 31, 2006	1,519,740
Stock-based compensation on grant of options to employees	<u>23,100</u>
Balance, December 31, 2007	<u>\$1,542,840</u>

Continued...

7. RELATED PARTY TRANSACTIONS

Transactions with related parties have occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	<u>2007</u>	<u>2006</u>
	\$	\$
Amounts paid and accrued include the following expenditures incurred with directors and corporations controlled by directors of the Company:		
Office and general	62,167	71,890
Corporate expenses	42,000	42,000
Exploration expenditures	39,535	32,550
Consulting and professional fees	-	666
Share issue legal costs	-	11,360
Legal fees	10,055	10,440

Included in accounts payable and accrued liabilities at December 31, 2007 is \$92,913 (2006 - \$104,843) due to the above-related parties.

In 2006, four directors of the Company subscribed for shares as part of a flow-through private placement. 550,000 units were issued for gross proceeds of \$71,500.

See Note 5(a).

8. INCOME TAXES

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 36% (2006 - 36%) were as follows:

	<u>2007</u>	<u>2006</u>
	\$	\$
Loss before income taxes	<u>(964,957)</u>	<u>(539,702)</u>
Expected income tax benefit based on statutory rate	(349,000)	(194,000)
Adjustments to benefit resulting from:		
Write down of investment	10,000	25,000
Share issue costs	-	(13,000)
Expiring losses	3,000	4,000
Stock-based compensation	8,000	33,000
Option payments	-	(16,000)
Other permanent differences	(6,992)	161,000
Change in tax rates	41,000	-
Valuation allowance	<u>158,000</u>	<u>-</u>
Recovery of future income taxes	<u>135,992</u>	<u>-</u>

Continued...

8. INCOME TAXES (Continued)

(b) Future Income Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, approximate the following:

	<u>2007</u>	<u>2006</u>
	\$	\$
Future income tax assets (liabilities)		
Non-capital losses	383,000	612,000
Exploration properties	(249,000)	(638,000)
Fixed assets	2,000	2,000
Investment	16,000	-
Share issue costs	6,000	24,000
Valuation allowance	<u>(158,000)</u>	<u>-</u>
Future income tax liability	<u>-</u>	<u>-</u>

(c) Tax Loss Carry-Forwards

The Company has approximately \$1,948,000 of Canadian development and exploration expenditures which, under certain circumstances, may be utilized to reduce taxable income of future years.

As at December 31, 2007, the Company has approximately \$1,320,000 of non-capital losses in Canada, which can be used to reduce taxable income of future years and expire as follows:

2008	\$ 239,000
2009	408,000
2010	296,000
2011	372,000
2027	<u>5,000</u>
	<u>\$ 1,320,000</u>

Management believes that the Company has tax losses in Zimbabwe and Tanzania that, under certain circumstances, may be carried forward to offset future taxable income, but has not estimated these losses and the resulting future income tax assets at this time. Had the tax losses been determined at this time, a valuation allowance equal to the total amount of any future income tax assets would have been recorded to offset any such benefit.

9. STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION:

	<u>2007</u>	<u>2006</u>
	\$	\$
Investment in Trade Wind Ventures Inc. received for property interest	-	33,500
Cash and cash equivalents are composed of the following:		
Cash	10,485	334,818
Cash equivalents	<u>589,478</u>	<u>961,033</u>
	<u>599,963</u>	<u>1,295,851</u>

Continued...

10. COMMITMENTS

The Company is committed to a minimum rental under a lease for its premises, which will expire on November 30, 2008. Pursuant to agreements with sub-tenants, the Company's share of the rent is not expected to substantially exceed \$38,500. The minimum lease commitments is \$98,148, due within one year.

11. FINANCIAL INSTRUMENTS

Fair value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities on the consolidated balance sheets approximate fair value because of the limited terms of these instruments. Investment is stated at its quoted market value.

Foreign exchange risk

Certain of the Company's expenses are incurred in Zimbabwean, Tanzanian and United States currencies and are therefore subject to gains or losses due to fluctuations in these currencies against the Canadian Dollar.

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 commodities.