

**MARIFIL MINES LIMITED**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006



**BDO Dunwoody LLP**  
Chartered Accountants

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## **AUDITORS' REPORT**

To the Shareholders of  
Marifil Mines Limited

We have audited the consolidated balance sheets of Marifil Mines Limited as at December 31, 2007 and 2006 and the consolidated statements of operations, changes in shareholders' equity 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 December 31, 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.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada  
April 25, 2008

**MARIFIL MINES LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2007 and 2006

	<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current			
Cash and cash equivalents		\$ 922,218	\$ 1,430,584
GST recoverable		34,935	19,133
Advances receivable		31,563	16,813
Prepaid expense		<u>7,182</u>	<u>27,941</u>
		995,898	1,494,471
Equipment – Note 3		12,071	12,210
Mineral properties – Notes 4, 6 and 8		<u>6,261,408</u>	<u>3,996,414</u>
		<u>\$ 7,269,377</u>	<u>\$ 5,503,095</u>

**LIABILITIES**

Current			
Accounts payable and accrued liabilities – Note 6		<u>\$ 380,248</u>	<u>\$ 97,702</u>

**SHAREHOLDERS' EQUITY**

Share capital – Notes 5 and 8			
Authorized:			
Unlimited number of Class A common and Class B preferred shares with no par value			
Issued and outstanding:			
34,394,418 (2006: 28,974,138) Class A common shares		10,432,320	8,072,172
Subscriptions received		-	107,755
Contributed surplus – Note 5		1,216,593	437,533
Deficit		<u>(4,759,784)</u>	<u>(3,212,067)</u>
		<u>6,889,129</u>	<u>5,405,393</u>
		<u>\$ 7,269,377</u>	<u>\$ 5,503,095</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1  
Subsequent Event – Note 8

APPROVED BY THE DIRECTORS:

<u>“John Hite”</u>	Director	<u>“Richard Walters”</u>	Director
John Hite		Richard Walters	

SEE ACCOMPANYING NOTES

**MARIFIL MINES LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
for the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Administrative expenses		
Accounting and audit – Note 6	\$ 78,414	\$ 80,739
Amortization	4,956	7,159
Bank charges and interest	3,122	3,166
Consulting fees – Note 6	140,220	161,088
Directors’ fees – Note 6	17,722	14,746
Filing fees and investor relations	212,447	131,823
Insurance	24,288	23,625
Legal fees	7,878	9,001
Office and miscellaneous	15,023	28,786
Stock-based compensation – Note 5	986,160	142,845
Travel and promotion	<u>101,505</u>	<u>57,554</u>
Loss before other items	(1,591,735)	(660,532)
Other items:		
Write-off of mineral properties – Note 4	(47,194)	(865,515)
Loss on disposal of marketable securities	(2,256)	-
Foreign exchange	(126,516)	26,306
Interest income	44,972	10,755
Other income – Note 4	<u>175,012</u>	<u>82,873</u>
Net loss and comprehensive loss for the year	<u>\$ (1,547,717)</u>	<u>\$ (1,406,113)</u>
Basic and diluted loss per share	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>
Weighted average number of shares outstanding	<u>31,388,645</u>	<u>21,261,904</u>

SEE ACCOMPANYING NOTES

**MARIFIL MINES LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Activities		
Net loss for the year	\$ (1,547,717)	\$ (1,406,113)
Add non-cash items:		
Write-off of mineral properties	47,194	865,515
Amortization	4,956	7,159
Stock-based compensation	<u>986,160</u>	<u>142,845</u>
	(509,407)	(390,594)
Changes in non-cash working capital:		
Advances receivable	(14,750)	(448)
GST recoverable	(15,802)	(2,934)
Prepaid expenses	20,759	(13,069)
Accounts payable	<u>282,546</u>	<u>(160,405)</u>
	<u>(236,654)</u>	<u>(567,450)</u>
Financing Activities		
Shares issued for cash	2,045,293	2,989,360
Share subscriptions received	<u>-</u>	<u>107,755</u>
	<u>2,045,293</u>	<u>3,097,115</u>
Investing Activities		
Acquisition of equipment	(4,817)	(2,647)
Mineral properties	<u>(2,312,188)</u>	<u>(1,289,037)</u>
	<u>(2,317,005)</u>	<u>(1,291,684)</u>
Increase (decrease) in cash	(508,366)	1,237,981
Cash, beginning of year	<u>1,430,584</u>	<u>192,603</u>
Cash, end of year	<u>\$ 922,218</u>	<u>\$ 1,430,584</u>
Cash and cash equivalents consist of:		
Cash	\$ 197,218	\$ 380,584
Term deposits	<u>725,000</u>	<u>1,050,000</u>
	<u>\$ 922,218</u>	<u>\$ 1,430,584</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

**MARIFIL MINES LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
for the years ended December 31, 2007 and 2006

		Class A Common <u>Number</u>	<u>Amount</u>	Subscriptions <u>Received</u>	Contributed <u>Surplus</u>	<u>Deficit</u>	<u>Balance</u>
Balance, December 31, 2005		20,432,931	\$ 5,022,812	\$ 60,000	\$ 294,688	\$ (1,805,954)	\$ 3,571,546
For cash							
for private placement	- at \$0.25 each	2,090,000	522,500	(60,000)	-	-	462,500
for private placement	- at \$0.30 each	2,667,000	800,499	-	-	-	800,499
for private placement	- at \$0.60 each	2,166,664	1,299,990	-	-	-	1,299,990
Exercise of warrants	- at \$0.20 each	1,000,000	200,000	-	-	-	200,000
	- at \$0.50 each	220,043	110,022	-	-	-	110,022
	- at \$0.35 each	347,500	121,625	-	-	-	121,625
	- at \$0.40 each	50,000	20,000	-	-	-	20,000
Less: share issue costs		-	(25,276)	-	-	-	(25,276)
Stock-based compensation		-	-	-	142,845	-	142,845
Share subscriptions		-	-	107,755	-	-	107,755
Net loss for the year ended December 31, 2006		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,406,113)</u>	<u>(1,406,113)</u>
Balance, December 31, 2006		28,974,138	8,072,172	107,755	437,533	(3,212,067)	5,405,393
For cash							
For private placement	- at \$0.45 each	2,181,655	982,045	-	-	-	982,045
Less: share issue costs		-	(58,200)	-	-	-	(58,200)
Exercise of options	- at \$0.20 each	190,000	38,000	-	-	-	38,000
	- at \$0.30 each	690,000	207,000	-	-	-	207,000
Exercise of warrants	- at \$0.35 each	697,500	244,125	(14,000)	-	-	230,125
	- at \$0.40 each	1,275,165	510,066	-	-	-	510,066
	- at \$0.50 each	237,835	118,917	(93,755)	-	-	25,162
	- at \$0.75 each	148,125	111,095	-	-	-	111,095
Stock-based compensation plan		-	-	-	986,160	-	986,160
Transfer from contributed surplus on exercise of options		-	207,100	-	(207,100)	-	-
Net loss for the year ended December 31, 2007		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,547,717)</u>	<u>(1,547,717)</u>
Balance, December 31, 2007		<u>34,394,418</u>	<u>\$ 10,432,320</u>	<u>\$ -</u>	<u>\$ 1,216,593</u>	<u>\$ (4,759,784)</u>	<u>\$ 6,889,129</u>

SEE ACCOMPANYING NOTES

**MARIFIL MINES LIMITED**  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES**  
December 31, 2007 and 2006

	Las Aguilas, San Luis Province	Amarillo, San Juan Province	Davicino Properties, Rio Negro Province	Tembrao (Davicino) - Pailemen, Rio Negro Province	Toruel (Davicino), Rio Negro Province	San Roque, Rio Negro Province	Other Properties	Total
Balance, December 31, 2006	\$ 124,924	\$ 1,124,536	\$ 339,132	\$ 60,522	\$ 1,391,175	\$ 147,314	\$ 646,403	\$ 3,834,006
Acquisition	-	-	-	-	-	-	-	-
Property payments	3,104	62,319	-	19,631	86,218	42,624	81,611	295,507
General exploration	9,486	21,094	-	4,160	41,275	326,932	80,569	483,516
Administrative and general	2,890	5,531	-	1,618	7,678	91,840	37,474	147,031
Contract and consultants	3,160	25,779	-	106	1,445	130,841	85,988	247,319
Drilling	-	-	-	-	-	729,757	-	729,757
Geophysics	-	-	-	-	-	-	14,080	14,080
Geochemical	-	-	-	-	13	60,278	5,487	65,778
Field support	305	1,459	-	-	3,877	171,721	39,060	216,422
Travel and accommodation	183	174	-	-	-	144,425	5,164	149,946
Land environment	-	-	-	2,332	-	7,624	2,831	12,787
Miscellaneous	-	-	-	-	-	-	10,388	10,388
Deduct: option payments received	(144,052)	(51,047)	-	-	-	-	-	(195,099)
Deduct: shares received (option payments)	-	(36,000)	-	-	-	-	-	(36,000)
Deduct: write-off	-	-	-	-	-	-	(47,194)	(47,194)
	<u>(124,924)</u>	<u>29,309</u>	<u>-</u>	<u>27,847</u>	<u>140,506</u>	<u>1,706,042</u>	<u>190,534</u>	<u>2,094,238</u>
Subtotal before IVA taxes paid	-	1,153,845	339,132	88,369	1,531,681	1,853,356	836,937	5,803,320
Accumulated IVA paid, net of recoveries	-	-	-	-	-	-	-	458,088
Balance, December 31, 2007	<u>\$ -</u>	<u>\$ 1,153,845</u>	<u>\$ 339,132</u>	<u>\$ 88,369</u>	<u>\$ 1,531,681</u>	<u>\$ 1,853,356</u>	<u>\$ 836,937</u>	<u>\$ 6,261,408</u>

SEE ACCOMPANYING NOTES

**MARIFIL MINES LIMITED**  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES**  
December 31, 2007 and 2006

	Carrizal, San Juan Province	Manantiales, San Juan Province	Las Aguilas, San Luis Province	Amarillo, San Juan Province	Davicino Properties, Rio Negro Province	Tembrao (Davicino) - Pailemen, Rio Negro Province	La Rosita (Davicino), Santa Cruz Province	Toruel (Davicino), Rio Negro Province	San Roque, Rio Negro Province	Other Properties	Total
Balance, December 31, 2005	\$ 373,968	\$ 274,419	\$ 30,568	\$ 1,092,182	\$ 339,132	\$ 501	\$ 27,262	\$ 899,899	\$ -	\$ 327,766	\$ 3,365,697
Acquisition	-	-	-	-	-	-	-	-	-	-	-
Property payments	3,413	28,626	40,404	56,872	-	27,081	50,152	59,800	10,412	53,739	330,499
General exploration	1,751	5,697	22,524	18,300	-	9,482	17,272	93,377	24,801	44,578	237,782
Administrative and general	-	1,734	3,727	3,672	-	1,885	2,632	45,138	9,932	14,556	83,276
Contract and consultants	341	1,683	12,259	14,274	-	14,290	21,750	67,259	32,637	63,267	227,760
Drilling	-	-	-	-	-	-	-	142,347	-	3,493	145,840
Geophysics	-	-	-	-	-	-	-	-	-	7,279	7,279
Geochemical	-	-	-	333	-	784	2,421	19,608	6,569	3,880	33,595
Field support	-	1,080	13,783	5,096	-	4,473	4,927	53,869	52,680	40,551	176,459
Travel and accommodation	-	259	1,109	817	-	2,026	1,782	9,878	10,283	11,164	37,318
Land environment	-	-	550	-	-	-	-	-	-	3,012	3,562
Miscellaneous	-	-	-	-	-	-	-	-	-	(20,400)	(20,400)
Deduct: option payments received	-	-	-	(67,010)	-	-	-	-	-	-	(67,010)
Deduct: write-off	(379,473)	(313,498)	-	-	-	-	(128,198)	-	-	(31,406)	(852,575)
	(373,968)	(274,419)	94,356	32,354	-	60,021	(27,262)	491,276	147,314	193,713	343,385
Subtotal before IVA taxes paid	-	-	124,924	1,124,536	339,132	60,522	-	1,391,175	147,314	521,479	3,709,082
Accumulated IVA paid, net of recoveries	-	-	-	-	-	-	-	-	-	-	287,332
Balance, December 31, 2006	\$ -	\$ -	\$ 124,924	\$ 1,124,536	\$ 339,132	\$ 60,522	\$ -	\$ 1,391,175	\$ 147,314	\$ 521,479	\$ 3,996,414

SEE ACCOMPANYING NOTES

**MARIFIL MINES LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

Note 1 Nature of Operations and Ability to Continue as a Going Concern

Marifil Mines Limited (the "Company") was incorporated on December 2, 2003 under the Yukon Business Corporation Act and is in the exploration stage. The Company is in the business of acquiring, exploring and evaluating mineral resource properties.

During the year ended December 31, 2005, the Company completed an initial public offering and obtained a listing on the TSX Venture Exchange. Also, in conjunction with the offering and listing, the Company acquired by the purchase of an Argentine company, Marifil SA, an interest in mineral properties located in Argentina.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2007, the Company had not yet achieved profitable operations, had working capital of \$615,650 which may not be sufficient to sustain operations over the next twelve months and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgement. Actual results may vary from these estimates.

The financial statements, have in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary and are prepared in Canadian dollars in accordance with generally accepted accounting principles in Canada. All significant inter-company transactions and balances have been eliminated upon consolidation.

Note 2      Summary of Significant Accounting Policies – (cont'd)

b) Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash within 90 days when purchased.

c) Equipment

Equipment is recorded at cost and amortized over their useful lives using the declining balance method using the following annual rates:

Office equipment	20%
Computer equipment	30%
Software	100%

Additions during the year are amortized at one-half the annual rates.

d) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

e) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for the properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Note 2 Summary of Significant Accounting Policies – (cont'd)

e) Mineral Properties – (cont'd)

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing. The properties in which the Company has committed to earn an interest are located in Argentina.

IVA taxes paid to the government of Argentina are recorded in the accounts when paid. Where there is reasonable assurance that the Company will be able to obtain a refund of IVA taxes, the amounts received by the Company will be credited to the cost of the properties.

f) Foreign Currency Translation

The Company and its wholly-owned subsidiary maintain accounting records in their functional currencies, Canadian dollars and Argentine pesos, respectively. The Company and its subsidiary translate foreign currency transactions into their respective functional currencies in the following manner: at the transaction date, each asset, liability, revenue and expense is translated into the functional currency by the use of the exchange rate in effect at that date; at the period-end, foreign currency monetary assets and liabilities are re-evaluated into the functional currency by using the exchange rate in effect at the balance sheet date. The resulting foreign exchange gains and losses are included in operations.

In preparing consolidated financial statements, the Company translates the monetary assets and liabilities of its subsidiary into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate prevailing at the respective translation dates. Revenue and expenses are translated into Canadian dollars at the average exchange rate for the applicable period except for amortization, which is translated at historical exchange rates. Translation gains or losses are included in operations.

g) Loss per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Common shares issuable on exercise of stock options and warrants totalling 3,915,828 (2006: 7,503,747) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

Note 2 Summary of Significant Accounting Policies – (cont'd)

h) Stock-based compensation

The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

i) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At December 31, 2007, the Company cannot reasonably estimate the fair value of the resource properties' site restoration costs, if any.

j) Changes in Accounting Policies

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Consistent with the requirements of the new accounting standards, the Company has not restated any prior period amounts as a result of adopting the accounting changes. The effect of the adoption of these standards is summarized below:

Note 2 Summary of Significant Accounting Policies – (cont'd)

j) Changes in Accounting Policies – (cont'd)

i) Comprehensive Income, Section 1530

This Section establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. Adoption of this standard did not result in any comprehensive income for the year.

ii) Financial instruments – Recognition and Measurement, Section 3855

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on the balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in either the statements of operations or the statement of comprehensive income.

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect.

Under these new standards, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities.

Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into operations, using the effective interest method.
- Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings.

Note 2 Summary of Significant Accounting Policies – (cont'd)

j) Changes in Accounting Policies – (cont'd)

ii) Financial instruments – Recognition and Measurement, Section 3855 – (cont'd)

- Held for trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as available for sale. They are recorded at fair value at initial recognition. Subsequent revaluation resulting in gains or losses is recorded in the statements of other comprehensive income. There was no impact on the opening balance of accumulated other comprehensive income upon the adoption of these new standards.
- Advances receivable is classified as loans and receivables. They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

iii) Financial Instruments – Disclosure and Presentation, Section 3861

This standard sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

Note 2      Summary of Significant Accounting Policies – (cont'd)

j)      Changes in Accounting Policies – (cont'd)

iii) Financial Instruments – Disclosure and Presentation, Section 3861 – (cont'd)

The Company has chosen to recognize all transaction costs to the statement of net loss on all financial liabilities that have been designated as other than held for trading.

iv) Hedging, Section 3865

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

v) Accounting Changes, Section 1506

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards discussed in this note.

k)      International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are expected to converge with the International Financial Reporting Standards (IFRS) as at January 1, 2011. The Company continues to assess the impact of these standards on the consolidated financial statements.

Note 3 Equipment

	2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office equipment	\$ 22,386	\$ 10,853	\$ 11,533
Computer equipment	1,520	982	538
Software	<u>5,074</u>	<u>5,074</u>	<u>-</u>
	<u>\$ 28,980</u>	<u>\$ 16,909</u>	<u>\$ 12,071</u>
	2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office equipment	\$ 15,569	\$ 6,264	\$ 11,035
Computer equipment	1,520	615	905
Software	<u>5,074</u>	<u>5,074</u>	<u>-</u>
	<u>\$ 24,163</u>	<u>\$ 11,953</u>	<u>\$ 12,210</u>

Note 4 Resource Properties

Carrizal Property

Pursuant to an agreement dated April 14, 2004 and amended June 7, 2005, the Company had the right to acquire up to a 100% interest in the Carrizal property located in San Juan province Argentina. In order to maintain the agreement in good standing, the Company was required to pay US\$300,000 by April 14, 2009. The Company could have exercised the option by paying US\$1,000,000 of which US\$300,000 is to be paid through the issuance of common shares and US\$700,000 in cash. The property was subject to a 1.5% net smelter return. The Company could have purchased 50% of the NSR by paying US\$750,000.

During the year ended December 31, 2006, the Company decided not to continue with the property and accordingly wrote off the costs incurred of \$379,437.

Manantiales Property

Pursuant to an agreement dated April 14, 2004 and amended April 2005, the Company had the right to acquire up to a 100% interest in the Manantiales property located in San Juan province Argentina. In order to maintain the agreement in good standing, the Company was required to pay US\$660,000 by October 14, 2010. The Company could have exercised the option by paying US\$1,000,000 of which US\$300,000 was payable through the issuance of common shares and US\$700,000 in cash. The property was subject to a 1.5% net smelter return. The Company could have purchased 50% of the NSR by paying US\$750,000.

Note 4      Resource Properties – (cont'd)

Manantiales Property – (cont'd)

During the year ended December 31, 2006, the Company decided not to continue with the property and accordingly wrote off the costs incurred of \$313,498.

San Luis Project (Las Aquillas)

The Company has a 100% interest in mining rights covering approximately 225 square kilometres located in San Luis province Argentina.

On November 20, 2003, the Company granted BHP Billiton World Exploration Inc. (“BHP”) the option to acquire up to an 80% interest in the properties. Effective August 29, 2005, BHP and the Company agreed to terminate the option agreement and in consideration thereof the Company agreed to purchase from BHP a 100% interest, subject to a 2% NSR to BHP, in properties adjacent to the San Luis Project. Consideration payable was US\$23,700 (paid).

December, 2006 Agreement

By an agreement dated December 13, 2006, the Company entered into an agreement to grant an option on 50% of its Las Aguillas property located in San Luis province with a predecessor of Castillian Resources Ltd (“Castillian”). The agreement provides for the following consideration and expenditures:

Cash:

- a) US\$100,000 within 60 days of the effective date (received);
- b) US\$125,000 before the first anniversary of the effective date (received);
- c) US\$125,000 before the second anniversary of the effective date;
- d) US\$125,000 before the third anniversary of the effective date.

Exploration:

- a) US\$400,000 before the first anniversary of the effective date;
- b) US\$600,000 before the second anniversary of the effective date;
- c) US\$1,000,000 before the third anniversary of the effective date;
- d) US\$1,000,000 before the fourth anniversary of the effective date.

The Optionee has the right to increase their interest to 60% if it increases expenditures by a further US\$2,000,000 and by paying to the Company an additional US\$100,000 on or before 48 months and 60 months of the effective date and US\$100,000 each year until the commencement of commercial production and by providing a bankable feasibility study within 72 months of the effective date.

Note 4      Resource Properties – (cont'd)

San Luis Project (Las Aquillas) – (cont'd)

Castillian can earn a further 5% interest by arranging for total project financing and by paying the Company US\$150,000 per year until the project commences commercial production.

April, 2007 Agreement

By a further agreement dated April 19, 2007, the Company signed an agreement with Castillian wherein Castillian will acquire 54,790.62 hectare exploration properties surrounding the Las Aguillas property. This is a separate agreement with Castillian. Under the terms of the agreement, Castillian has the right to earn a 50% interest in the property for the following consideration and expenditures:

Cash:

- a) US\$10,000 on execution of the agreement (received);
- b) US\$40,000 on or before 30 days following execution of the agreement (received);
- c) US\$100,000 on or before the first anniversary of the agreement;
- d) US\$115,000 on or before the second anniversary of the agreement;
- e) US\$135,000 on or before the third anniversary of the agreement;
- f) US\$200,000 on or before the fourth anniversary of the agreement.

Exploration:

- a) US\$200,000 to be spent on or before the first anniversary of the agreement;
- b) US\$300,000 to be spent on or before the second anniversary of the agreement;
- c) US\$400,000 to be spent on or before the third anniversary of the agreement;
- d) US\$600,000 to be spent on or before the fourth anniversary of the agreement; and
- e) US\$1,500,000 to be spent on or before the fifth anniversary of the agreement.

If Castillian makes all of the commitments and payments listed above then Castillian will have the right to earn a further 10% interest by;

- a) Spending US\$2,000,000 per year for each of the next two years in work obligations; and
- b) Paying the Company US\$165,000 before the end of each year and continuing each year until Castillian produces a “bankable” feasibility study.

Castillian can earn a further 5% interest by arranging for total project financing and by paying the Company US\$150,000 per year until the project commences commercial production.

The option proceeds received are in excess of costs incurred on the property and the excess proceeds of \$175,012 have been included in other income.

Note 4      Resource Properties – (cont'd)

Maipu Project

The Company has a 100% interest in the Maipu properties located in Santa Cruz province Argentina.

Somuncura Property

The Company has a 100% interest in fifteen properties located in the Rio Negro province of Argentina.

Alto Rio Chubut Project

The Company has staked five properties in the Rio Negro province of Argentina.

Valle Daza Project

The Valle Daza project covers approximately 140 square kilometres located in La Pampa province, Argentina.

Amarillo Project

Pursuant to an agreement dated May 25, 2004 (the Closing Date) and amended June 7, 2005, the Company entered into an option agreement to acquire up to a 55% interest in the Amarillo properties located in San Juan province Argentina. In order to maintain the agreement in good standing, the Company must incur minimum exploration expenses of US\$3,125,000 and pay US\$380,000 by April 14, 2012 as follows:

- a) US\$15,000 upon execution of the agreement;
- b) US\$15,000 no later than May 25, 2005;
- c) US\$20,000 no later than November 25, 2005;
- d) US\$30,000 no later than May 25, 2006;
- e) US\$30,000 no later than November 25, 2006;
- f) US\$60,000 no later than May 25, 2007;
- g) US\$60,000 no later than November 25, 2007;
- h) US\$75,000 no later than May 25, 2008; and
- i) US\$75,000 no later than November 25, 2008.

After making all of the above payments, the Company can acquire a further 24% interest pay paying US\$900,000 in cash in two instalments: US\$300,000 upon the fifth anniversary of the agreement and US\$600,000 upon the sixth anniversary of the agreement. The Company may acquire the remaining 21% interest by, prior to the seventh anniversary of the agreement, paying US\$1,000,000 for each 7% increment or US\$3,000,000 for the full 21% interest.

Note 4      Resource Properties – (cont'd)

Amarillo Project – (cont'd)

The property is subject to a 1.5% net smelter return. There are no Royalty payments payable to the optionor.

By an agreement dated December 11, 2006, the Company has entered into an agreement to grant an option on 51% of the property. The option agreement provides for the following consideration and expenditures:

Cash and shares:

- a) US\$57,500 and 37,500 shares by January 17, 2007 (received);
- b) US\$50,000 and 50,000 shares by January 17, 2008 (subsequently received);
- c) US\$75,000 and 75,000 shares by January 17, 2009;
- d) US\$100,000 and 100,000 shares by January 17, 2010;
- e) US\$150,000 by January 17, 2011;
- f) US\$150,000 by January 17, 2012.

Exploration:

- a) US\$500,000 before the first anniversary of the effective date;
- b) US\$1,000,000 before the second anniversary of the effective date;
- c) US\$2,500,000 before the third anniversary of the effective date.

The optionee can earn an additional 14% for a total of 65% by incurring an additional US\$3,000,000 and delivering a bankable feasibility study before 48 months after the effective date and by making payments of \$150,000 on the sixth anniversary date and US\$100,000 on each anniversary date until the commencement of commercial production. The optionee may earn an additional 5% for a total of 70% by providing for the Company's share of expenses through to commercial production.

Davicino Gold Properties

In May, 2004, the Company entered into three option agreements to acquire a group of seven properties located in Rio Negro and Santa Cruz Provinces, Argentina (the "Davicino Gold Project"), being the Cerro Covadonga, El MENDIANO, Dos Amigos, Tembrao, Pailiman, Rosita and Alianza properties.

i) Cerro Covadonga & El Meridiano

On May 8, 2004, the Company entered into an option agreement to acquire up to a 100% interest in the Davicino I Properties. In order to maintain the agreement in good standing, the Company was required to pay US\$83,000 over six years. The property was subject to a 2.0% net smelter return. The Company could have purchased the NSR by paying US\$750,000.

Note 4      Resource Properties – (cont'd)

Davicino Gold Properties – (cont'd)

i) Cerro Covadonga & El Meridiano– (cont'd)

During the year ended December 31, 2006, the Company decided not to continue with this property and accordingly wrote off the costs incurred of \$13,872.

ii) Tembrao Property

On May 8, 2004, the Company entered into an option agreement to acquire up to a 100% interest in the Davicino II Properties. In order to maintain the agreement in good standing, the Company must pay US\$150,000 over six years as follows:

- a) US\$3,000 upon execution of agreement;
- b) US\$3,000 no later than November 8, 2004;
- c) US\$5,000 no later than May 8, 2005;
- d) US\$5,000 no later than November 8, 2005;
- e) US\$12,000 no later than May 8, 2006;
- f) US\$12,000 no later than November 8, 2006;
- g) US\$20,000 no later than May 8, 2007;
- h) US\$20,000 no later than November 8, 2007;
- i) US\$35,000 no later than May 8, 2008;
- j) US\$35,000 no later than November 8, 2008. and
- k) US\$230,000 on or after May 8, 2009.

The property is subject to a 2.0% net smelter return. The Company may purchase the NSR by paying US\$750,000.

The Tembrao property is located in a conservatory area and no exploration work is permitted at this time.

iii) La Rosita Property

On May 8, 2004, the Company entered into an option agreement to acquire up to a 100% interest in the Davicino III Properties. In order to maintain the agreement in good standing, the Company was required to pay US\$230,000 over six years. The property was subject to a 2.0% net smelter return. The Company could have purchased the NSR by paying US\$750,000.

During the year ended December 31, 2006, the Company decided not to continue with the property and accordingly wrote off the costs incurred to date of \$128,198.

Note 4      Resource Properties – (cont'd)

Davicino Gold Properties – (cont'd)

iv) Tourel Property

The Tourel Project is covered by three separate agreements as follows:

a) M.I.M. Argentina Exploraciones

Marifil is obligated to spend US\$178,000 on exploration based on the following schedule:

US\$20,000 before the first anniversary date  
US\$30,000 before the second anniversary date  
US\$35,000 before the third anniversary date  
US\$43,000 before the fourth anniversary date  
US\$50,000 before the fifth anniversary date

The Company may purchase the property for US\$375,000 anytime within the term of the option. There are no Royalty payments payable to the optionor.

b) Davicino

The second contract is with Ruben Daviceno and was signed on May 8, 2004 for the Dos Amigos, Paileman I and II, and Tembrao I and II claims. The payments in respect of this portion of the property are included in the Tembrau payments schedule. The Dos Amigos claims are part of the Tourel project.

The optionor retains a 2% NSR, and the Company has the right to purchase this for US\$750,000. There are no Royalty payments payable to the optionor.

The third contract is with Ana Benda and Veronica Alduvino for the Sonito claim. Contract payments as follows:

<u>Payments</u>	<u>Due Dates</u>
US\$2,500	On signing
US\$7,500	December 31, 2005
US\$7,000	June 30, 2006
US\$8,000	December 31, 2005
US\$15,000	June 30, 2007
US\$15,000	December 31, 2007
US\$40,000	June 30, 2008
US\$50,000	December 31, 2008
US\$100,000	June 30 2009
US\$100,000	December 31, 2009

There are no Royalty payments payable to the optionor.

Note 4      Resource Properties – (cont'd)

Lago Fontana (Ferrocarillera) Project

The Company acquired this property by staking and has optioned it to Silex Argentina (“Silex”), a wholly owned subsidiary of Apex Silver Mines Ltd. Under the terms of the agreement Silex must make payments and incur exploration expenses as follows in order to earn a 55% interest in the property.

Exploration expenditures

US\$ 250,000	Before April 10, 2007
US\$ 400,000	Before April 10, 2009
US\$ 750,000	Before April 10, 2010
US\$1,000,000	Before April 10, 2011

Cash payments

US\$ 50,000	April 10, 2006 (received)
US\$ 25,000	October 10, 2006 (received)

Silex has declared a force majeure due to inability to obtain permitting. The property has been returned and a new joint venture is being sought. The amount received of \$Nil (2006: \$82,873 (US\$75,000)) has been recorded as other income.

Araucana Property

The Company has entered into an agreement to option the Araucana Molybdenum Property located in Mendoza Province Argentina. Under the terms of the agreement, the Company must pay as follows:

- a) US\$5,000 upon execution of agreement;
- b) US\$5,000 before December 31, 2006;
- c) US\$50,000 no later than July 12, 2007;
- d) US\$100,000 no later than December 31, 2008;
- e) US\$150,000 no later than December 31, 2009; and
- f) US\$180,000 no later than December 31, 2010.

Once these payments have been made and the Company has expended US\$500,000, it shall immediately earn a 25% interest in the property. An additional 55% can be purchased by spending US\$2,500,000 in three equal instalments. The remaining 20% will be subject to a dilution clause and if the interest falls below 10%, it will automatically convert to a 1% NSR which can be purchased for US\$1,500,000.

A temporary ban on mining activity has been imposed by Mendoza Province.

During the year ended December 31, 2007, management of the Company abandoned the property and wrote off the aggregate costs incurred of \$27,051.

Note 4      Resource Properties – (cont'd)

San Roque Project

The Company has signed an agreement to acquire the San Roque gold project in Rio Negro province, Argentina. The Company has committed to spending US\$50,000 annually in work on the property for four years. The Company has the right to purchase 100% of the property at any time by making a single cash payment of US\$400,000.

Other Properties

The Company also owns a limestone property, an oil and gas property and a red-bed copper prospect. The limestone property is subject to a significant finder's fee payable on any proceeds received in respect of the property. This arrangement is the subject of renegotiation discussions currently underway.

Note 5      Share Capital

Shares

During the year ended December 31, 2007, the Company issued 2,181,655 common shares pursuant to a non-brokered private placement of units of \$0.45 per unit for total proceeds of \$982,045. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.75 per share for a period of one year. Finders' fees relating to this private placement was cash of \$58,200.

During the year ended December 31, 2006, the Company issued 6,923,664 common shares pursuant to the following private placements:

- a) 2,090,000 units at \$0.25 per unit for total proceeds of \$522,500. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.35 per share for a period of one year.
- b) 2,667,000 units at \$0.30 per unit for total proceeds of \$800,499. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.40 per share for a period of one year.
- c) 2,166,664 units at \$0.60 per unit for total proceeds of \$1,299,990. Each unit consists of one common share and one-half of one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.75 per share for a period of one year.

Note 5 Share Capital – (cont'd)

Shares – (cont'd)

Finders' fees relating to the above 2006 private placements were cash of \$25,276.

All proceeds from the above private placements were allocated to share capital with no amounts allocated to the attached warrants.

Stock Option Plan

The Company has an incentive stock option plan whereby share purchase options may be granted to directors, officers, employees and consultants of the Company and its subsidiaries. The total number of shares reserved under the plan may not exceed more than 10% of the outstanding shares at the time of granting the option. Options are granted at the market price at the date of the grant, less any discounts permitted by regulatory authorities. Unless otherwise stated options vest when granted.

Stock-based Compensation

On March 24, 2006, the Company granted options to purchase 440,000 shares at an exercise price of \$0.30 per share and on November 21, 2006, a further 70,000 shares at \$0.60 per share. On February 11, 2007, the Company granted options to purchase 100,000 shares at an exercise price of \$0.58 per share. On May 29, 2007 the Company granted options to purchase 1,610,000 shares at an exercise price of \$0.66 per share and on June 19, 2007, a further 150,000 shares at \$0.60 per share. The fair value of stock options granted totalling \$958,093 (2006: \$437,533) was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2007</u>	<u>2006</u>
Expected dividend yield	0%	0%
Expected stock price volatility	88.03% - 92.19%	66.4% – 119.6%
Risk-free interest rate	3.90%	3.90% - 3.91%
Expected life of options	5 years	2 - 5 years

Note 5 Share Capital – (cont'd)

Stock Options Outstanding

As at December 31, 2007, options outstanding are as follows:

<u>Number</u>		<u>Vested</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
150,000*	Consultant	112,500	\$0.60	June 20, 2009
900,000	Directors	900,000	\$0.50	March 16, 2010
65,000	Employees	65,000	\$0.60	November 21, 2011
100,000**	Employee	100,000	\$0.58	February 10, 2012
1,200,000	Directors	1,200,000	\$0.66	May 28, 2012
150,000	Officer	150,000	\$0.66	May 28, 2012
200,000***	Consultants	150,000	\$0.66	May 28, 2012
	Consultant and			
<u>60,000***</u>	Officer of Marifil SA	<u>45,000</u>	\$0.66	May 28, 2012
<u>2,825,000</u>		<u>2,722,500</u>		

\* These options vest as to 25% on June 20, 2007, 25% on December 31, 2007 and 25% every three months thereafter.

\*\* These options vest as to 20% every four months from the date of grant

\*\*\* These options vest as to 25% when granted and 25% every three months thereafter.

At December 31, 2007, the 2,825,000 share purchase options outstanding have exercise prices between \$0.50 and \$0.66 and a weighted average remaining contractual life of 3.53 years.

Stock Options Outstanding

A summary of the share purchase options is as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	1,850,000	\$0.40	1,340,000	\$0.42
Granted	1,860,000	\$0.65	510,000	\$0.34
Exercised	(880,000)	\$0.28	-	-
Cancelled	<u>(5,000)</u>	\$0.60	<u>-</u>	-
Outstanding, end of year	<u>2,825,000</u>	\$0.60	<u>1,850,000</u>	\$0.40
Exercisable, end of year	<u>2,625,000</u>		<u>1,692,500</u>	

Note 5 Share Capital – (cont'd)

Warrants Outstanding

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

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
<u>1,090,828</u>	\$0.75	December 28, 2008

A summary of the warrants outstanding is as follows:

	<u>2007</u>			<u>2006</u>		
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life (Years)</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life (Years)</u>
Balance, beginning of year	5,653,747	\$0.55	1.45	3,759,958	\$0.48	1.73
Issued	1,090,828	\$0.75	1.00	3,461,832	\$0.49	1.00
Exercised	(2,358,625)	\$0.42	1.10	(1,568,043)	\$0.28	1.13
Expired	<u>(3,295,122)</u>	\$0.71	1.70	<u>-</u>	-	-
Balance, end of year	<u>1,090,828</u>	<u>\$0.75</u>	<u>1.00</u>	<u>5,653,747</u>	<u>\$0.55</u>	<u>1.45</u>

Note 6 Related Party Transactions

The Company incurred charges with directors, an officer and companies with directors and officers in common as follows:

	<u>2007</u>	<u>2006</u>
Deferred resource properties costs	\$ 94,559	\$ 81,578
Accounting fees	49,788	31,739
Consulting fees	90,220	79,404
Directors' fees	<u>17,722</u>	<u>14,746</u>
	<u>\$ 252,289</u>	<u>\$ 207,467</u>

These transactions were recorded at the exchange amount, which is the amount agreed to by the transacting parties.

At December 31, 2007 accounts payable included \$5,998 (2006 - \$11,558) owing to directors of the Company for unpaid fees and reimbursement of expenses.

Note 7 Income Taxes

At December 31, 2007, the Company has accumulated non-capital losses of approximately \$1,337,000 in Canada and CDN\$1,222,000 in Argentina, which are available to carry forward and offset future years taxable income. The non-capital losses expire as follows:

	<u>Argentina</u>	<u>Canada</u>	<u>Total</u>
2010	\$ 23,000	\$ -	\$ 23,000
2011	17,000	166,000	183,000
2012	221,000	-	221,000
2015	961,000	555,000	1,516,000
2026	-	476,000	476,000
2027	-	<u>139,000</u>	<u>139,000</u>
	<u>\$ 1,222,000</u>	<u>\$ 1,336,000</u>	<u>\$ 2,558,000</u>

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<u>2007</u>	<u>2006</u>
Statutory tax rate	<u>34.12%</u>	<u>34.12%</u>
Loss before income taxes	<u>\$(1,547,000)</u>	<u>\$(1,406,000)</u>
Expected income tax recovery	528,000	480,000
Increase (decrease) in income tax recovery resulting from:		
Change in statutory rates	(126,000)	-
Non-deductible stock-based compensation	(336,000)	(49,000)
Other non-deductible items	(215,000)	6,000
Change in the valuation allowance for future income tax assets	<u>149,000</u>	<u>(437,000)</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2007</u>	<u>2006</u>
Non-capital loss carry forward	\$ 775,000	\$ 500,000
Mineral properties and deferred exploration	(428,000)	(91,000)
Share issuance costs	<u>49,000</u>	<u>73,000</u>
	396,000	482,000
Less: valuation allowance	<u>(396,000)</u>	<u>(482,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

Note 7     Income Taxes – (cont'd)

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely than not that sufficient taxable income will not be realized in the future to utilize all the future tax assets.

Note 8     Subsequent Event – Note 4

Subsequent to December 31, 2007 the Company granted share purchase options to a consultant for the purchase of up to 200,000 common shares at \$0.42 per share subject to TSX approval exercisable for five years.