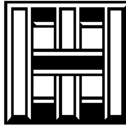
MONT BLANC RESOURCES INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JANUARY 31, 2007 AND 2006



MANNING ELLIOTT

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Mont Blanc Resources Inc.

We have audited the balance sheets of Mont Blanc Resources Inc. as at January 31, 2007 and 2006 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 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.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

May 17, 2007

MONT BLANC RESOURCES INC.

BALANCE SHEETS

AS AT JANUARY 31, 2007 and 2006

	2007 **$**	**2006** **$**
ASSETS		
CURRENT ASSETS		
Cash	82,463	227,961
Amounts receivable	13,960	5,715
Prepaids	4,019	3,403
	100,442	237,079
Restricted investment (Note 3)	11,532	11,500
Property and equipment (Note 4)	206,956	2,176
	318,930	**250,755**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	18,193	14,234
Due to related parties (Note 5)	264,705	4,068
	282,898	18,302
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	7,831,268	6,611,003
Contributed surplus (Note 9)	230,577	216,250
Deficit	(8,025,813)	(6,594,800)
	36,032	232,453
	318,930	**250,755**

Approved on Behalf of the Board:

"Dennis Petke"	*"Jens Biertumpel"*
Dennis Petke, Director	Jens Biertumpel, Director

MONT BLANC RESOURCES INC.

STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED JANUARY 31, 2007 AND 2006

	2007 $	2006 $
EXPENSES		
Amortization	986	176
Consulting fees (Note 11)	35,250	51,425
Management fees	30,000	15,500
Office and miscellaneous	12,170	7,884
Professional fees (Note 11)	49,362	28,280
Promotion and shareholder communication	16,277	6,910
Rent	17,813	5,685
Stock-based compensation (Note 10)	14,327	216,250
Transfer agent and other listing fees	21,891	13,844
Travel and meals	25,313	8,015
	(223,389)	(353,969)
OTHER ITEMS		
Interest expense, net	(270)	(591)
Gain on debt forgiveness	–	26,498
Impairment of oil and gas properties (Note 4)	(1,207,354)	-
	(1,207,624)	25,907
NET LOSS FOR THE YEAR	(1,431,013)	(328,062)
DEFICIT, BEGINNING OF YEAR	(6,594,800)	(6,266,738)
DEFICIT, END OF YEAR	(8,025,813)	(6,594,800)
LOSS PER SHARE-BASIC AND DILUTED	(0.12)	(0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	12,319,654	6,399,000

MONT BLANC RESOURCES INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2007 AND 2006

	2007 $	2006 $
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss for the year	(1,431,013)	(328,062)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment of oil and gas properties	1,207,354	–
Stock based compensation	14,327	216,250
Gain on debt forgiveness	–	(26,498)
Accrued interest unpaid	–	591
Amortization expense	986	176
Changes in operating assets and liabilities:		
Amounts receivable	(8,245)	(3,669)
Prepaids	(616)	(3,403)
Accounts payable and accrued liabilities	3,959	23,445
Due to related parties	260,637	80,500
Net Cash From (Used in) Operating Activities	47,389	(40,670)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Restricted investments	(32)	(11,500)
Purchase of property and equipment	(1,416,120)	(2,352)
Net Cash Used in Investing Activities	(1,413,152)	(13,852)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share capital, net of subscriptions receivable and issue costs	1,220,265	280,000
Net Cash From Financing Activities	1,220,265	280,000
NET INCREASE (DECREASE) IN CASH	(145,498)	225,478
CASH – BEGINNING OF YEAR	227,961	2,483
CASH – END OF YEAR	82,463	227,961
Non-cash Investing and Financing Activities:		
Shares issued to settle debt	–	402,800
Supplemental Disclosures:		
Interest paid	–	–
Income taxes paid	–	–

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

Mont Blanc Resources Inc. (the "Company") was incorporated on November 23, 1983 under the name Southern Star Resources Ltd. After undergoing several earlier name changes, the Company changed its name from Alda Industries Corporation to Crux Industries Inc. on July 14, 1999. The Company was deemed inactive by the TSX Venture Exchange on March 19, 1996 and traded on the NEX until April 6, 2006. Effective April 7, 2006, the Company's listing was transferred from NEX to the TSX Venture Exchange. At the September 13, 2005 annual general meeting the Company received approval from the shareholders to change its name from Crux Industries Inc. to Mont Blanc Resources Inc. The Company is currently actively engaged in an arrangement exploring oil and gas opportunities in Alberta.

The Company has incurred significant operating losses and its continued existence is dependent upon the continued support of its shareholders and its ability to obtain additional financing and generate profitable operations in the future.

These financial statements have been prepared on the going concern basis of accounting which assumes that the Company will continue for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has an accumulated deficit of $8,025,813 and has a working capital deficit of $182,456 as at January 31, 2007. A failure to continue as a going concern would require that stated amounts of assets and liabilities be reflected on a liquidation basis, which will differ from the going concern basis. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Measurement Uncertainty

The preparation of the 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 at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The Company uses estimates to calculate amortization, stock based compensation and to assess impairment of oil and gas properties.

For oil and gas properties, the Company calculates depletion and assesses impairment using management estimates of oil and gas reserves remaining in properties, commodity prices and capital costs required to develop those reserves. By their nature, estimates of volumes and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the financial statements of future periods could be material. Such reserve estimates, which have been estimated by independent engineering firms, are subject to change as additional information becomes available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Oil and gas properties

The Company employs the full cost method of accounting for oil and gas properties whereby all costs relating to exploration and development of reserves are capitalized into geographical cost centres. Capitalized costs include lease acquisition costs, the costs of geological and geophysical activities, the costs of drilling both productive and non-productive wells, carrying charges for non-producing properties and overhead costs directly related to exploration and development activities.

Capitalized costs are depleted using the unit-of-production method based on estimated proven reserves, as determined by an independent engineer. For the purposes of the depletion calculation, proven reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

In applying the full-cost method, the Company performs a ceiling test to ensure that capitalized costs, net of accumulated depletion, do not exceed the estimated future net revenues from production of proven reserves. The carrying values of the properties are compared annually to estimated future net cash flows from production or proven reserves expected to result from those properties. Future net cash flows are estimated using undiscounted values of future net revenues from proven reserves, based on current prices and costs, less estimated future site restoration costs, and other relevant assumptions.

When the ceiling test indicates an excess of carrying value, the Company measures the amount of impairment by comparing the carrying amounts of property to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the sale of unproved properties. Any excess carrying value is recorded as a permanent impairment.

Proceeds on disposal of properties are normally recorded as reductions of the capitalized costs without recognition of a gain or loss, except where such a disposal would alter the depletion rate by 20% or more.

Costs of acquisition and evaluation of unproven properties are initially excluded from the depletion calculation. The Corporation periodically reviews costs associated with unproven properties to determine whether they are likely to be recovered. When such costs are not likely to be recovered, or when proved reserves are found to be attributable to the properties, the values of these properties are moved to the depletion pool.

When the Company evaluates its unproven properties it takes the following conditions into consideration:

- the existence of future plans for further drilling for the property;
- negative results obtained from studies;
- negative results obtained from studies conducted on properties in the same geographical area; and
- the adequacy of remaining terms to allow for further studies or drilling.

c) Cash and short term investments

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. Short-term investments are recorded at the lower of cost or fair market value.

d) Office equipment

Office equipment is stated at cost less accumulated amortization over its estimated useful life using the declining balance method at 30%. One half of the rate is applied in the year of acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Asset retirement obligation

The Company recognizes and measures the liabilities for obligations associated with the retirement of petroleum and natural gas properties when those obligations result from the acquisition, construction, development or normal operation of the asset. The obligation is measured at fair value and the related costs recorded as part of the carrying value of the related asset. In subsequent periods, the liability is adjusted for the change in present value and any changes in the amount or timing of the underlying future cash flows required to settle the obligation. Actual costs to retire petroleum and natural gas properties are deducted from the accrued liability as these costs are incurred. As at January 31, 2007, the Company has not incurred any asset retirement obligation related to the development of its petroleum and natural gas properties.

f) Stock-based compensation

The Company follows CICA Handbook Section 3870, “stock-based compensation and other stock-based payments”, which established standards for recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash or other assets or are stock appreciation rights that call for settlement through the issuance of equity instruments. This standard requires the fair value of the compensation cost attributable to the issuance of stock options granted to employees or directors to be measured at the grant date and expensed over the vesting period with a corresponding increase in contributed surplus. Consideration paid by employees on the exercise of stock options is recorded as share capital.

g) Income taxes

The Company recognizes income taxes using the asset and liability method of tax allocation. Future income tax assets and liabilities are determined based on temporary differences and are measured using the current, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

h) Flow-through shares

The Company follows EIC-146, for flow-through share transactions. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures, to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized for the net tax effect of the deductions renounced, and share capital is reduced.

If the Company has sufficient unrecognized tax losses carried forward or other unrecognized future income tax assets to offset all or part of this future income tax liability, a portion of such unrecognized future income tax assets is recorded as a future income tax recovery up to the amount of the future income tax liability that would otherwise be recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments

The fair values of cash, amounts receivable, restricted investment, accounts payable and amounts due to related parties approximate their fair values due to the short-term maturity of these financial instruments. In management's opinion, the Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments.

j) Loss per share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the periods. The treasury stock method is used for the calculation of diluted net earnings (loss) per share. Stock options and warrants are dilutive when the average market prices of the common shares during the period exceed the exercise price of the options and warrants.

k) Comparative figures

Certain comparative figures for 2006 have been reclassified to conform to the current period's presentation.

3. RESTRICTED INVESTMENT

The Company has pledged a GIC to provide collateral for the Company's credit cards. The pledged GIC is classified as restricted investments because these funds are not available for the Company's daily operations.

4. PROPERTY AND EQUIPMENT

	Cost $	Accumulated Depletion and Amortization $	2007 Net Book Value $	2006 Net Book Value $
Proven developed oil and gas properties	192,885	–	192,885	–
Well equipment	10,924	–	10,924	–
Computer hardware and software	4,309	1,162	3,147	2,176
	208,118	1,162	206,956	2,176

On January 11, 2006 the Company entered into a joint venture arrangement ("Magnum Arrangement") with Magnum Energy Inc. with respect to 50% of a Farm-out and Overriding Royalty Agreement ("the FORA") also dated January 11, 2006 to drill a minimum of 6 medium-risk exploration wells in Southern Alberta. The Magnum Arrangement is a related party transaction as Magnum and the Company have one director in common.

Magnum Energy Inc. ("Magnum") entered into the FORA with a private Alberta company ("Farmor"). The FORA calls for Magnum to pay 100% of the drilling costs to earn a 50% working interest in drill space units as detailed in the FORA. Before payout, Magnum will receive 100% of the production and will pay the Farmor a 15% gross overriding royalty. Following payout, the "Farmor" will have the option to convert its royalty to a 50% working interest.

4. PROPERTY AND EQUIPMENT (continued)

Pursuant to the terms of the Magnum Arrangement, Mont Blanc has agreed to pay 55% of Magnum's drilling costs pursuant to the FORA where after Mont Blanc will earn 50% of Magnum's interest in the FORA properties. Following the effect of both, the FORA and Magnum Arrangement, the Company will pay 55% of the drilling costs to earn a 25% working interest in the properties.

Pursuant to the agreement the Company agreed to pay 55% of all costs, expenses, obligations, risks and liabilities necessarily incurred by Magnum until such time as certain wells were drilled to earn a 25% working interest in the properties. As at January 31, 2007 the Company owed Magnum $234,829 for its share of joint interest billings on the various wells. The Company accounts for its interest in the Magnum arrangement by directly recording the Company's share of assets, liabilities and expenses in these financial statements.

During the year, the Company incurred $1,411,163 to acquire and develop the property pursuant to these arrangements.

Also during the 2007 year, the Company performed a ceiling test on the oil and gas properties and determined that the value was impaired, and accordingly the properties were written down by $1,207,354 to the fair value of $203,809. The fair value of $203,809 includes the future estimated $375,000 cost for a pipeline, which the Company is committed to incur in the 2008 fiscal year end. The fair value of the oil and gas properties is calculated using estimated cash flows from the Company's interest in oil and gas reserves discounted at 10%.

5. DUE TO RELATED PARTIES

The following is a summary of amounts owing to directors and/or companies controlled by directors of the Company or companies with common directors which are all unsecured, non-interest bearing and due on demand.

	2007	2006
Due to a company controlled by a director	$ 15,813	$ 427
Due to a company controlled by a director	6,563	3,641
Due to a director of the company	7,500	-
Due to Magnum, a company with a common director (see Note 4)	234,829	-
	$ 264,705	$ 4,068

6. COMMITMENTS

Effective August 1, 2006, the Company negotiated a replacement agreement with Q4 Financial Group Inc., a company controlled by a director, for monthly and quarterly, accounting, administration and filing services for fees totalling $2,000 per month plus GST. This agreement may be terminated by the Company or by Q4 Financial Group Inc. with three months notice.

Effective August 1, 2005, the Company negotiated an agreement with Mont Blanc Capital Corp., a company controlled by a director, for monthly management services totalling $2,500 per month. This agreement may be terminated by the Company or by Mont Blanc Capital Corp. with 3 months notice.

7. SHARE CAPITAL

Authorized share capital – 100,000,000 common shares without par value.

	Number of Shares	Amount
Issued:		
Balance, January 31, 2005	4,960,552	$5,928,203
Issued for debt (a)	4,028,000	402,800
Issued for cash (b)	1,400,000	280,000
Balance, January 31, 2006	10,388,552	6,611,003
Issued for cash (c)	2,040,000	1,020,000
Issued for cash (d)	717,831	323,024
Share issue costs	-	(99,759)
Share subscriptions receivable	-	(23,000)
Balance, January 31, 2007	13,146,383	$7,831,268

a) Issued for debt - the Company issued 4,028,000 shares at $0.10 per share to settle debts totalling $402,800. Included in the shares for debt settlement were 170,000 common shares issued to Q4 Financial Group Inc., a company controlled by the CFO, and 2,020,000 common shares issued to the CEO and his company, Mont Blanc Capital Corp.

b) Issued for cash - On November 21, 2005 the Company completed a private placement of 1,400,000 shares at a price of $0.20 per share for proceeds of $280,000.

c) Issued for cash - The Company completed a three part private placement, which consisted of a total of 2,040,000 units at a price of $0.50 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one share at a price of $1.00 per Share for a period of two years. The shares and warrants issued pursuant to this offering have a four-month hold period.

d) Issued for cash - The Company completed a flow-through private placement on October 18, 2006 consisting of 717,831 Units at $0.45 per Unit for gross proceeds of $323,024. Each Unit consisted of one flow-through common share and one share purchase warrant. Each warrant entitles the holder to acquire one non-flow-through common share, at a price of $0.60 per share until April 17, 2007 and at a price of $1.00 per share from April 18, 2007 until April 17, 2008. The shares, and any shares issued on exercise of the warrants, are subject to a hold period until February 18, 2007.

   The Company did not receive $23,000 of the proceeds related to this financing until after its year end.

7. SHARE CAPITAL (continued)

e) Warrants

The following share purchase warrants were outstanding at January 31, 2007:

Number of Warrants	Exercise Price	Expiry Dates
1,000,000	$0.60 and $1.00	January 31, 2007/March 6, 2008 (*)
800,000	$0.60 and $1.00	January 31, 2007April 10, 2008 (*)
240,000	$0.60 and $1.00	January 31, 2007/May 19, 2008 (*)
717,831	$0.60 and $1.00	April 17, 2007/April 17, 2008
2,757,831		

(*) The Company received TSX Venture approval to re-price its warrants. The warrants are exercisable at $0.60 per share until January 31, 2007 and $1.00 thereafter according to their original expiry dates.

8. STOCK OPTIONS

The Company has a fixed stock-based compensation plan in effect which provides that up to ten percent of the number of shares outstanding may be reserved for stock option grants to eligible optionees. Stock options granted under the plan vest immediately. At January 31, 2007, this plan provided for the grant of stock options to purchase a maximum of 1,314,638 common shares of which 1,079,000 have been granted and 235,638 options are available for future grants.

The following table summarizes the continuity of the Company's stock options:

	Number of Shares	Weighted Average Exercise Price $
Balance, January 31, 2005	–	–
Granted during the year (Note 10)	1,029,000	0.20
Balance, January 31, 2006	1,029,000	0.20
Granted during the year (Note 10)	50,000	0.50
Balance, January 31, 2007	1,079,000	0.21

Additional information regarding options outstanding as of January 31, 2006 is as follows:

Outstanding and exercisable			
Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price $	Expiry Date
750,000	4.8	0.20	October 21, 2010
279,000	4.8	0.20	November 10, 2010
1,029,000		0.20	

8. STOCK OPTIONS (continued)

Additional information regarding options outstanding as of January 31, 2007 is as follows:

Outstanding and exercisable			
Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price $	Expiry Date
750,000	3.72	0.20	October 21, 2010
279,000	3.78	0.20	November 10, 2010
50,000	4.11	0.50	March 10, 2011
1,079,000	3.76	0.21	

9. CONTRIBUTED SURPLUS

	2006	2005
Balance, beginning of year	$ 216,250	$ –
Additions: stock-based compensation (Note 10)	14,327	216,250
Balance, end of year	$ 230,577	$ 216,250

10. STOCK-BASED COMPENSATION

During the year ended January 31, 2007, the Company granted 50,000 (2006 - 1,029,000) stock options to directors of the Company. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions and resulting values:

	2007	2006
Assumptions:		
Risk-free interest rate	4.25%	3.72%
Expected life	5.0 years	5.0 years
Expected volatility	54.0%	107.53%

During the year ended January 31, 2007, the Company recorded $14,327 (2005 - $216,250) in stock-based compensation. The fair value of options granted during the year ended January 31, 2007 was $0.29 (2006 - $0.21).

11. RELATED PARTY TRANSACTIONS

During the year ended January 31, 2007 and 2006, the Company incurred in the following related party transactions:

a) The Company paid $Nil (2006: $42,000) for consulting and $30,000 (2006: $12,500) for management services to Mont Blanc Capital Corp.

b) The Company paid $8,700 (2006: $11,400) for accounting and financial reporting, $13,800 (2006: $8,600) for consulting and administrative services to Q4 Financial Group Inc.

11. RELATED PARTY TRANSACTIONS (continued)

c) The Company paid $2,500 (2006: $Nil) to a director for consulting services.

d) The Company accrued $7,500 (2006: $Nil) to a director for consulting services relating to the oil and gas interests.

All the above transactions are considered in the normal course of operations and in management's opinion undertaken with the same terms and conditions as transactions with unrelated parties.

12. INCOME TAXES

In assessing the value of future tax assets, management has determined that there is less than a 50% chance that the future tax assets will be realized, and accordingly a valuation allowance has been recorded. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which tax carry-forward amounts are deductible. The valuation of future tax assets could change materially in the near term based on future taxable income during the carry-forward period.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2007	2006
Canadian statutory income tax rate	35%	35%
Income tax recovery at statutory rate	$ 500,855	$ 114,822
Effect of income taxes of:		
Non-deductible stock-based compensation expense	(5,014)	(75,688)
Non-deductible write-down of oil and gas interests	(422,574)	-
Other non-deductible expenses	(1,573)	(1,177)
Valuation allowance	(71,694)	(37,957)
Income tax recoverable	$ –	$ –

The tax effects of temporary differences that give rise to significant portions of the future tax assets at January 31, 2007 and 2006 are presented below:

	2007	2006
Non-capital losses carried forward	$ 1,020,000	$ 951,526
Cumulative Canadian exploration expenses	1,510,471	124,219
Oil and gas properties	(203,809)	–
Net temporary differences	2,326,662	1,075,745
Canadian statutory income tax rate	35%	35%
Future tax assets before valuation allowance	814,332	375,511
Valuation allowance	(814,332)	(375,511)
Future income tax assets	$ –	$ –

12. INCOME TAXES (continued)

The Company has approximately $1,020,000 in non-capital tax losses available to reduce future years' taxable income, which if unused expire as follows:

2008	$	155,000
2009		219,000
2010		245,000
2011		62,000
2016		135,000
2027		204,000
	$	1,020,000

The Company also has certain allowances in respect of resource exploration costs of $1,510,471 which, subject to certain restrictions, are available to be offset against future taxable income (also see Note 13)

13. SUBSEQUENT EVENT

On February 28, 2007 the Company renounced $323,024 of Canadian exploration expenses ("CEE"), which includes a commitment to incur a further CEE of $54,940 during the 2008 year-end. The February 28, 2007 CEE renouncement directly reduces the tax carry-forward amount of resource exploration costs (see Note 12).