# MONT BLANC RESOURCES INC.

# FINANCIAL STATEMENTS

# FOR THE YEARS ENDED

# JANUARY 31, 2008 AND 2007

**SmytheRatcliffe**
CHARTERED ACCOUNTANTS

# AUDITORS' REPORT

## TO THE SHAREHOLDERS OF MONT BLANC RESOURCES INC.

We have audited the balance sheet of Mont Blanc Resources Inc. as at January 31, 2008 and the statements of operations, shareholders' equity and cash flows for the year 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 audit.

We conducted our audit 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at January 31, 2007 and for the year then ended were audited by another firm of auditors who expressed an opinion without reservation in their report dated May 17, 2007.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia
May 30, 2008



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**MONT BLANC RESOURCES INC.**

**BALANCE SHEETS (Note 1)**

**AS AT JANUARY 31, 2008 and 2007**

| | **2008** | **2007** |
|---|---|---|
| | **$** | **$** |
| | | (Note 13) |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | 160,749 | 82,463 |
| Amounts receivable | 15,264 | 13,960 |
| Prepaids | 6,770 | 4,019 |
| | 182,783 | 100,442 |
| Restricted investment (Note 4) | 11,566 | 11,532 |
| Mineral property interests (Note 6) | 594,728 | 0 |
| Property and equipment (Note 5) | 1,474 | 206,956 |
| | 790,551 | 318,930 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | 36,355 | 18,193 |
| Due to related parties (Note 7) | 20,995 | 264,705 |
| | 57,350 | 282,898 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 8) | 8,604,432 | 7,854,268 |
| Share subscriptions receivable | 0 | (23,000) |
| Contributed surplus | 219,577 | 230,577 |
| Deficit | (8,090,808) | (8,025,813) |
| | 733,201 | 36,032 |
| | 790,551 | 318,930 |

Commitments and Contingency (Note 11)
Subsequent Event (Note 12)

Approved on Behalf of the Board:

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

See notes to financial statements.

**MONT BLANC RESOURCES INC.**

**STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED JANUARY 31, 2008 AND 2007**

| | 2008<br>$ | 2007<br>$<br>(Note 13) |
|---|---|---|
| EXPENSES | | |
| Consulting fees | 42,851 | 35,250 |
| Professional fees | 34,076 | 49,362 |
| Management fees | 30,000 | 30,000 |
| Travel and meals | 29,681 | 25,313 |
| Rent | 24,120 | 17,813 |
| Office and miscellaneous | 15,736 | 12,170 |
| Transfer agent and other listing fees | 12,986 | 21,891 |
| Promotion and shareholder communication | 11,503 | 16,277 |
| Stock-based compensation | 0 | 14,327 |
| Amortization | 1,673 | 986 |
| | (202,626) | (223,389) |
| OTHER ITEM | | |
| Interest expense, net | 448 | (270) |
| LOSS FROM CONTINUING OPERATIONS | (202,178) | (223,659) |
| GAIN (LOSS) FROM DISCONTINUED OPERATIONS (Note 5) | 137,183 | (1,207,354) |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR | (64,995) | (1,431,013) |
| LOSS PER SHARE FROM CONTINUING OPERATIONS | (0.01) | (0.02) |
| GAIN (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS | 0.01 | (0.10) |
| LOSS PER SHARE | (0.00) | (0.12) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 14,796,658 | 12,319,654 |

See notes to financial statements.

**MONT BLANC RESOURCES INC.**

**STATEMENTS OF SHAREHOLDERS' EQUITY**

**FOR THE YEARS ENDED JANUARY 31, 2008 AND 2007**

| | Number of Shares | Share Capital $ | Share Subscriptions Receivable $ | Contributed Surplus $ | Accumulated Deficit $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance - January 31, 2006** | 10,388,552 | 6,611,003 | 0 | 216,250 | (6,594,800) | 232,453 |
| Issuance of shares for cash: | | | | | | |
| Private placement | | | 0 | | | |
| (Note 8(b)(i)) | 2,040,000 | 1,020,000 | | 0 | 0 | 1,020,000 |
| Private placement - | | | | | | |
| flow-through (Note 8(b)(ii)) | 717,831 | 323,024 | (23,000) | 0 | 0 | 300,024 |
| Share issuance costs | 0 | (99,759) | 0 | 0 | 0 | (99,759) |
| Stock-based compensation | 0 | 0 | 0 | 14,327 | 0 | 14,327 |
| Net loss for the year | 0 | 0 | 0 | 0 | (1,431,013) | (1,431,013) |
| **Balance - January 31, 2007** | 13,146,383 | 7,854,268 | (23,000) | 230,577 | (8,025,813) | 36,032 |
| Issuance of shares for cash: | | | | | | |
| Private placement | | | 0 | | | |
| (Note 8(b)(iii)) | 4,000,000 | 400,000 | | 0 | 0 | 400,000 |
| Exercise of options | | | 0 | | | |
| (Note 8(b)(iv)) | 50,000 | 21,000 | | (11,000) | 0 | 10,000 |
| Shares issuance costs | 0 | (3,120) | 0 | 0 | 0 | (3,120) |
| Issued for acquisition of mineral | | | 0 | | | |
| property interests | | | | | | |
| (Note 8(b)(v)) | 1,500,000 | 442,500 | | 0 | 0 | 442,500 |
| Renouncement of exploration | | | 0 | | | |
| expenditures related to | | | | | | |
| flow-through shares | 0 | (110,216) | 0 | 0 | 0 | (110,216) |
| Share subscriptions receivable | 0 | 0 | 23,000 | 0 | 0 | 23,000 |
| Net loss for the year | 0 | 0 | 0 | 0 | (64,995) | (64,995) |
| **Balance - January 31, 2008** | 18,696,383 | 8,604,432 | 0 | 219,577 | (8,090,808) | 733,201 |

**MONT BLANC RESOURCES INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JANUARY 31, 2008 AND 2007**

| | **2008** | **2007** |
|---|---|---|
| | **$** | **$** |
| OPERATING ACTIVITIES | | (Note 13) |
| Loss from continuing operations | (202,178) | (223,659) |
| Items not involving cash | | |
| Stock-based compensation | 0 | 14,327 |
| Amortization | 1,673 | 986 |
| Changes in operating assets and liabilities: | | |
| Amounts receivable | (1,304) | (8,245) |
| Prepaids | (2,751) | (616) |
| Accounts payable and accrued liabilities | 18,162 | 3,959 |
| Due to related parties | (8,881) | 25,808 |
| Net Cash Used In Operating Activities | (195,279) | (187,440) |
| INVESTING ACTIVITIES | | |
| Restricted investment | (34) | (32) |
| Purchase of mineral interests and equipment | (152,228) | (1,957) |
| Net Cash Used in Investing Activities | (152,262) | (1,989) |
| FINANCING ACTIVITY | | |
| Share capital, net of subscriptions receivable and share issuance costs | 429,880 | 1,220,265 |
| CASH FLOWS FROM DISCONTINUED OPERATIONS | | |
| Net cash used in investing activities | (4,053) | (1,176,334) |
| NET INCREASE (DECREASE) IN CASH | 78,286 | (145,498) |
| CASH – BEGINNING OF YEAR | 82,463 | 227,961 |
| CASH – END OF YEAR | 160,749 | 82,463 |
| Supplemental Disclosures: | | |
| Due to related parties related to discontinued oil and gas properties | 0 | 234,829 |
| Shares issued for mineral property interests | 442,500 | 0 |
| Interest paid | 0 | 0 |
| Income taxes | 0 | 0 |

See notes to financial statements.

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 (the "Exchange") on March 19, 1996 and traded on NEX until April 6, 2006. Effective April 7, 2006, the Company's listing was transferred from NEX to the 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 focused on exploration and development of precious and base metal projects in Mexico.

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 $8,090,808 (2007 - $8,025,813) and working capital (deficiency) of $125,433 (2007 - $(182,456)) as at January 31, 2008. 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.

These financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate because management believes that actions taken or planned will mitigate the adverse conditions that raise doubts about the Company's viability.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Effective February 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income. The adoption of this standard had no impact on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Comprehensive income

Effective February 1, 2007, the Company adopted the CICA Handbook Section 1530, "Comprehensive Income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for the period, other than changes attributed to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period. The Company has no items of other comprehensive income in any period presented. Accordingly, net loss as presented in the Company's statement of operations equals comprehensive loss.

c) Computer equipment

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

d) 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 proven plus probable reserves and the sale of unproven 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 Company quarterly 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Oil and gas properties (continued)

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.

e) Mineral property interests

The Company capitalizes all costs related to investment in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

All capitalized costs are reviewed on a property-by-property basis to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interests pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee; the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

Capitalized costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the applicable mineral rights are allowed to lapse.

f) Revenue recognition

Revenue from the sale of oil and gas is recognized when title passes to an external party and is based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

Interest revenue is recognized at the stated interest rate on an accrual basis.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

ii) Non-monetary assets, at historical exchange rates; and

iii) Revenue and expenses, at the average rate of exchange by quarter.

Gains and losses arising from this translation of foreign currency are included in net loss for the year.

h) 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, 2008, the Company has not incurred any asset retirement obligation related to the development of its oil and gas properties or mineral property interests.

i) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

j) Income taxes

Future income taxes are recorded using the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

k) Flow-through shares

The tax attributes of qualifying expenditures are renounced to the subscribers of flow-through shares. The tax impact to the Company of the renouncement is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in share capital and the recognition of a future tax liability.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Use of estimates and measurement uncertainty

The preparation of 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. Significant areas requiring the use of estimates include rates of depletion and amortization of property and equipment, realization of the carrying value of property and equipment, valuation of accrued liabilities, the assumptions used in determination of stock-based compensation, the assessment of impairment of oil and gas properties and mineral property interests, valuation allowance for future income tax assets and asset retirement obligations. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

m) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method. Diluted loss per share amounts have not been presented as the effect of outstanding options and warrants is anti-dilutive.

n) Future accounting changes

i) Capital disclosures

In February 2007, the CICA issued Handbook Section 1535, “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and procedures for managing capital. The new section is effective for the Company for the year beginning February 1, 2008. The Company is in the process of assessing the impact of this new section on its financial statements.

ii) Financial instruments

In February 2007, the CICA issued two new standards, Section 3862, “Financial Instruments Disclosures”, and Section 3863, “Financial Instruments Presentation”. These sections will replace the existing Section 3861, “Financial Instruments Disclosure and Presentation”. Section 3862 provides users with information to evaluate the significance of the financial instruments of the entity’s financial position and performances, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The new sections are effective for the Company for the year beginning February 1, 2008. The Company is in the process of assessing the impact of these new sections on its financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Future accounting changes (continued)

iii) Going concern

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of a company's ability to continue as a going concern. When financial statements are not prepared on a going concern basis that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going concern. The new section is effective for the Company effective February 1, 2008. The Company is in the process of assessing the impact of this new section on its financial statements.

iv) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010 and earlier where applicable. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. FINANCIAL INSTRUMENTS

a) Fair value

Financial instruments include cash, restricted investment, accounts payable and accrued liabilities, and due to related parties, which approximate their fair value. Restricted investment is designated as held-to-maturity; and accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

Prior to the adoption of Section 3855, the Company disclosed the fair value of its financial instruments. In prior years, the carrying values of accounts payable and accrued liabilities, and due to related parties approximated their fair values because of the short-term maturity of these financial instruments.

b) Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term maturity of its monetary current assets and current liabilities. To the extent that payments made on the Company's monetary liabilities are affected by changes in prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

c) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and restricted investment. The Company's cash and restricted investment are held at Tier 1 Canadian financial institutions.

3. FINANCIAL INSTRUMENTS (continued)

d) Currency risk

The Company translates US transactions into Canadian dollars using rates approximating the average exchange rate each quarter. The exchange rate may vary from time to time. The Company does not utilize derivatives or other techniques to manage foreign currency risk.

4. RESTRICTED INVESTMENT

The Company has pledged a GIC to provide collateral for the Company's credit cards. The GIC earns interest of prime minus 2.25% and has a maturity date of December 17, 2008. The pledged GIC is classified as a restricted investment as these funds are not available for the Company's daily operations.

5. PROPERTY AND EQUIPMENT

| | **Cost** | **Accumulated Depletion and Amortization** | **2008 Net Book Value** | **Cost** | **Accumulated Depletion and Amortization** | **2007 Net Book Value** |
|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Proven developed oil and gas properties and well equipment | 0 | 0 | 0 | 203,809 | 0 | 203,809 |
| Computer hardware and software | 3,562 | 2,088 | 1,474 | 4,309 | 1,162 | 3,147 |
| | 3,562 | 2,088 | 1,474 | 208,118 | 1,162 | 206,956 |

Oil and Gas Properties – Taber Joint Venture

On January 11, 2006, the Company entered into a joint venture ("JV") arrangement ("Magnum Arrangement") with Magnum Energy Inc. ("Magnum") with respect to 50% of a Farm-out and Overriding Royalty Agreement (the "FORA"), also dated January 11, 2006, to drill a minimum of six 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 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.

Pursuant to the terms of the Magnum Arrangement, the Company agreed to pay 55% of Magnum's drilling costs pursuant to the FORA to earn 50% of Magnum's interest in the FORA properties.

Pursuant to the agreement, the Company paid 55% of all costs, expenses, obligations, risks and liabilities necessarily incurred by Magnum on certain wells and earned a 25% working interest in those 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.

5. PROPERTY AND EQUIPMENT (continued)

Oil and Gas Properties – Taber Joint Venture (continued)

During the 2007 year-end the Company incurred $1,411,163 to acquire and develop the property pursuant to these arrangements, $234,829 of which was paid by Magnum on the Company's behalf. Also during the 2007 year-end, 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 their fair value of $203,809. The fair value of the oil and gas properties was calculated using estimated cash flows from the Company's interest in oil and gas reserves discounted at 10%.

During the 2008 year-end, pursuant to these arrangements, the Company incurred an additional $58,224 in net capital expenditures to develop the property, all of which was paid by Magnum on the Company's behalf. Also during 2008, the Company's portion of the pipeline cost was $417,933. As at January 31, 2008, the total capital expenditures paid by Magnum on the Company's behalf was $710,986, all of which is subject to a 300% penalty as the Company is in default of its obligations according to the Magnum Agreement. As such, Magnum is entitled to the Company's share of operating income until 300% of the default has been recovered.

| | **Amount Under Default** **$** |
|---|---|
| Expenditures paid by Magnum on behalf of the Company | |
| To January 31, 2007 | 234,829 |
| To January 31, 2008 | 476,157 |
| Total amount under default | 710,986 |
| 300% of the amount under default | 2,132,958 |
| Company portion of net operating income recovered by Magnum | (61,947) |
| Remaining balance | 2,071,011 |

Previously, the Company had recorded the amounts due to Magnum as part of the oil and gas property. However, as the Company became unable to pay for its share of the joint venture expenditures, its interest in the joint venture effectively has been reduced to $nil, with no further income from the joint venture until 300% of the default has been recovered by Magnum. The Company does not expect the wells it is participating in to generate an amount in excess of $2,071,011 and, accordingly, a write-down of the entire cost of the oil and gas property was recorded in 2008.

Discontinued Operations

The Company's oil and gas property was discontinued on January 31, 2008. The Company's directors determined that the liability and penalty due to Magnum was higher than estimated future revenues and abandoned its interest in the property as of that date. As Magnum has been garnishing the Company's portion of revenue until the default and penalty has been paid pursuant to the agreements, the Company has no further liability in the Magnum Arrangement and has written-off the default amount of $710,986 due to Magnum. As the default amount is greater than the net book value of $684,019 of the property, the Company recognized a $26,967 cost recovery.

The cost recovery of $26,967 as a result of the discontinued operations, net of future income tax recovery of $110,216, results in a net gain of $137,183.

5. PROPERTY AND EQUIPMENT (continued)

Oil and Gas Properties – Taber Joint Venture (continued)

The assets of the discontinued operations as at January 31, 2008 and 2007 are as follows:

| | **2008** $ | **2007** $ |
|---|---:|---:|
| Opening balance | 203,809 | 0 |
| Expenditures incurred by Magnum | 476,157 | 234,829 |
| Expenditures paid by cash | 4,053 | 1,176,334 |
| Write-off to fair value | (684,019) | (1,207,354) |
| Net book value | 0 | 203,809 |

6. MINERAL PROPERTY INTERESTS

On September 11, 2007, the Company entered into an option agreement to purchase three separate mineral claims in the state of Sonora, Mexico. The Company paid US $50,000 to purchase a two-year option on the three separate mining claims. Under the agreement, the Company has the right to earn a 100% interest in the three properties, named Los Pavitos, Brenda and Christina. In order to exercise the options relating to the Los Pavitos Property and the Christina Property, the Company must, for each property, complete payments of US $50,000 and issue 1,500,000 common shares of the Company. To exercise the option on the Brenda Property, the Company must issue 3,500,000 common shares but no cash payment is required. All three properties are subject to a 2% net smelter return. There are no expenditure commitments in connection with the options on the properties.

On November 27, 2007, the Company exercised its option to acquire 100% of the Los Pavitos mining claim in Sonora, Mexico, by making a cash payment of US $50,000 and by issuing 1,500,000 common shares at a price of $0.295 to the vendors.

Expenditures incurred in the year:

| | **Los Pavitos** $ | **Brenda** $ | **Christina** $ | **Total** $ |
|---|---:|---:|---:|---:|
| Acquisition costs | 514,675 | 19,501 | 19,501 | 553,677 |
| Geological and assay | 22,599 | 338 | 338 | 23,275 |
| Travel and consulting | 6,521 | 3,210 | 3,210 | 12,941 |
| Other | 2,417 | 1,209 | 1,209 | 4,835 |
| | 546,212 | 24,258 | 24,258 | 594,728 |

**Title to Mineral Property Interests**

Title to mineral property interests 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 conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its properties for which titles have been issued are in good standing.

Although the Company has taken steps to verify the title to mineral property interests in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral property interests may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

6. MINERAL PROPERTY INTERESTS (continued)

**Realization of Assets**

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

7. 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.

| | **2008** | **2007** |
|---|---|---|
| | **$** | **$** |
| Due to a company controlled by a director | 10,615 | 15,813 |
| Due to a company controlled by a director | 0 | 6,563 |
| Due to a company controlled by a director | 10,380 | 7,500 |
| Due to Magnum, a company with a common director (see Note 5) | 0 | 234,829 |
| | 20,995 | 264,705 |

8. SHARE CAPITAL

a) Authorized share capital: 100,000,000 common shares without par value.

b) Issued:

i) Issued for cash - The Company completed a three-part private placement on May 19, 2006, 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 common share at a price of $1 per share for a period of two years.

ii) 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 per share from April 18, 2007 until April 17, 2008.

8. SHARE CAPITAL (continued)

b) Issued: (continued)

iii) On September 13, 2007 the Company issued 4,000,000 units at $0.10 per unit for gross proceeds of $400,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of $0.20 per share until September 13, 2008.

iv) On November 19, 2007 the Company issued 50,000 common shares at $0.20 per share upon the exercise of options by a director.

v) On January 10, 2008 the Company issued 1,500,000 common shares in connection with the exercise of an option to acquire 100% of the Los Pavitos mining claim (see Note 6). The common shares were issued at a price of $0.295 per share reflecting the market price on November 17, 2007 when the option was exercised.

c) Warrants

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price $ | Number of Warrants | Weighted Average Exercise Price $ |
| Outstanding - beginning of year | 2,757,831 | 0.58 | 0 | 0.00 |
| Issued | 2,000,000 | 0.20 | 2,757,831 | 0.58 |
| Outstanding and exercisable - end of year | 4,757,831 | 0.41 * | 2,757,831 | 0.58 |

* The Company received Exchange approval to re-price these warrants. The re-pricing has been retroactively adjusted on these financial statements.

The following share purchase warrants were outstanding at January 31, 2008 and 2007:

| Expiry Date | Original Exercise Price $ | Exercise Price $ | Number of Warrants 2008 | Number of Warrants 2007 |
|---|---|---|---|---|
| March 6, 2008 * | 1.00 | 0.60 | 1,000,000 | 1,000,000 |
| April 10, 2008 * | 1.00 | 0.60 | 800,000 | 800,000 |
| May 19, 2008 * | 1.00 | 0.50 | 240,000 | 240,000 |
| April 17, 2008 * | 1.00 | 0.50 | 717,831 | 717,831 |
| September 13, 2008 | 0.20 | 0.20 | 2,000,000 | 0 |
| Balance, end of year | | | 4,757,831 | 2,757,831 |
| Weighted average life of warrants outstanding | | | 0.36 years | 1.17 years |

* The Company received Exchange approval to re-price these warrants, which subsequently expired unexercised.

8. SHARE CAPITAL (continued)

d) Options

The Company has a fixed stock-based compensation plan in effect, which provides that up to 10% of the number of common shares outstanding may be reserved for stock option grants to eligible optionees. Stock options granted under the plan vest immediately. At January 31, 2008, this plan provided for the grant of stock options to purchase a maximum of 1,869,638 common shares of which 1,029,000 have been granted and remain unexercised and 840,638 options are available for future grants.

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

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Weighted Average Fair Value $ | Number of Options | Weighted Average Exercise Price $ | Weighted Average Fair Value $ |
| Outstanding - beginning of year | 1,079,000 | 0.21 | 0.24 | 1,029,000 | 0.20 | 0.23 |
| Granted | 0 | 0.00 | 0.00 | 50,000 | 0.50 | 0.54 |
| Exercised | (50,000) | 0.20 | 0.23 | 0 | 0.00 | 0.00 |
| Forfeited/expired | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 |
| Outstanding and exercisable - end of year | 1,029,000 | 0.21 | 0.25 | 1,079,000 | 0.21 | 0.24 |

Additional information regarding options outstanding as of January 31, 2008 and 2007 is as follows:

| | Fair Value at Grant Date $ | Exercise Price $ | Number of Options Outstanding and Exercisable 2008 | 2007 |
|---|---|---|---|---|
| October 21, 2010 | 0.23 | 0.20 | 700,000 | 750,000 |
| November 23, 2010 | 0.23 | 0.20 | 279,000 | 279,000 |
| March 10, 2011 | 0.54 | 0.50 | 50,000 | 50,000 |
| Balance - end of year | | | 1,029,000 | 1,079,000 |
| Weighted average outstanding life of options | | | 2.77 years | 3.75 years |

8. SHARE CAPITAL (continued)

d) Options (continued)

No stock options were granted during the year ended January 31, 2008 (2007 – 50,000). 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:

| | **2008** | **2007** |
|---|---|---|
| Assumptions: | | |
| Risk-free interest rate | N/A | 4.25% |
| Expected life | N/A | 5.0 years |
| Expected volatility | N/A | 54.0% |

9. RELATED PARTY TRANSACTIONS

During the years ended January 31, 2008 and 2007, the Company incurred the following related party transactions:

a) The Company paid $30,000 (2007 - $30,000) for management services to Mont Blanc Capital Corp. (“Mont Blanc Capital”), a company controlled by the CEO.

b) The Company paid $30,625 (2007 - $22,500) for consulting, financial reporting and administrative services to Q4 Financial Group Inc. (“Q4 Financial”), a company controlled by the CFO.

c) The Company paid $nil (2007 - $2,500) to a director for consulting services.

d) The Company paid $2,293 (2007 - $7,500) 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.

10. INCOME TAXES

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

| | **2008**<br>**$** | **2007**<br>**$**<br>(Note 13) |
|---|---|---|
| Canadian statutory income tax rate | 34.12% | 34.12% |
| Income tax recovery at statutory rate | 68,983 | 76,312 |
| Temporary differences | 3,156 | (336) |
| Permanent differences | 3,660 | (12,893) |
| Change resulting from tax rate reduction | (75,799) | 0 |
| Unutilized tax losses | 0 | (63,083) |
| Income tax recovery | 0 | 0 |

10. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant portions of the future tax assets at January 31, 2008 and 2007 are presented below:

| | 2008<br>$ | 2007<br>$<br>(Note 13) |
|---|---|---|
| Non-capital losses carried forward | 1,060,000 | 993,000 |
| Cumulative exploration expenses | 1,564,157 | 1,538,206 |
| Book value of exploration expenses | (594,728) | (203,809) |
| Book value over tax value of assets | 2,835 | 1,162 |
| Share issuance costs | 62,351 | 82,927 |
| Net temporary differences | 2,094,615 | 2,411,486 |
| Canadian statutory income tax rate | 28% | 34.12% |
| Future tax assets before valuation allowance | 586,492 | 822,799 |
| Valuation allowance | (586,492) | (822,799) |
| Future income tax assets | 0 | 0 |

The Company has approximately $1,060,000 in non-capital tax losses available to reduce future years' taxable income, which if unused expire as follows:

| | $ |
|---|---|
| 2009 | 219,000 |
| 2010 | 245,000 |
| 2014 | 62,000 |
| 2026 | 108,000 |
| 2027 | 204,000 |
| 2028 | 222,000 |
| | 1,060,000 |

The Company also has certain allowances in respect of resource exploration costs of $1,564,157, which, subject to certain restrictions, are available to be offset against future taxable income.

11. COMMITMENTS AND CONTINGENCY

Effective February 1, 2008, the Company negotiated a Management Agreement with Q4 Financial, a company controlled by the CFO, to provide management and administrative services for a minimum of $2,400 per month. This agreement may be terminated by the Company or by Q4 Financial with three months' notice.

Effective February 1, 2008, the Company entered into an Office Administration Agreement with Q4 Financial for the provision of general office administration/bookkeeping/accounting on a monthly basis for a minimum of $500 per month. This agreement may be terminated by the Company or by Q4 Financial with three months' notice.

Effective February 1, 2008, the Company negotiated a Management Agreement with Mont Blanc Capital, a company controlled by the CEO, to provide services that include evaluating business opportunities, raising capital and performing due diligence on projects approved by the Company for a minimum of $1,500 per month. This agreement may be terminated by the Company or by Mont Blanc Capital with six months' notice.

11. COMMITMENTS AND CONTINGENCY (continued)

Effective April 1, 2008, the Company entered into a one-year sub-lease agreement with Q4 Financial for office space at $1,200 per month plus GST. This agreement may be terminated by Q4 Financial or by the Company with three months' notice.

12. SUBSEQUENT EVENT

Subsequent to January 31, 2008, 2,757,831 share purchase warrants expired unexercised.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.