MILLSTREAM MINES LTD.

Financial Statements
(An Exploration Stage Company)

August 31, 2007 and 2006

Millstream Mines Ltd.
(An Exploration Stage Company)
Financial Statements
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AUDITORS' REPORT

To the Shareholders of
Millstream Mines Ltd.

We have audited the balance sheets of Millstream Mines Ltd. (an exploration stage company) as at August 31, 2007 and 2006 and the statements of operations, retained earnings 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 audit.

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 August 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"

Markham, Ontario
December 20, 2007

Harris & Partners, LLP
Licensed Public Accountants

Millstream Mines Ltd.
(An Exploration Stage Company)
Balance Sheets
As at August 31, 2007 and 2006

	2007	2006
ASSETS		
Current		
Cash	$ 1,585,339	$ 24,765
Accounts receivable	85,993	4,013
Prepaid expenses	307,708	5,708
	1,979,040	34,486
Oil and gas interests (Note 1)	1	1
Mining claims and deferred exploration expenditures (Note 2)	11,600,276	9,588,899
	$ 13,579,317	$ 9,623,386
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 510,011	$ 35,135
Due to related parties (Note 3)	3,268,499	3,416,184
	3,778,510	3,451,319
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	14,800,326	11,966,202
Contributed surplus (Note 4)	1,730,101	545,363
Deficit	(6,729,620)	(6,339,498)
	9,800,807	6,172,067
	$ 13,579,317	$ 9,623,386

Approved by the Board

Director "Ernest Harrison" Director "E.F. Martinello"

See accompanying notes

Millstream Mines Ltd.
(An Exploration Stage Company)
Statements of Operations and Retained earnings
For the Years Ended August 31, 2007 and 2006

	2007	2006
Income	$ 19,455	$ -
Expenses		
Write-off of abandoned mining claims	172,342	-
Shareholder information	134,539	47,399
General and administrative	102,473	3,675
Stock based compensation	41,860	151,326
Professional fees	22,985	23,959
Corporate services	7,200	7,200
Rent	6,568	-
Transfer agent fees	4,295	3,418
Interest expense	1,315	3,264
	493,577	240,241
Loss before income taxes	(474,122)	(240,241)
Future income tax recovery (Note 5)	(84,000)	(72,000)
Net loss	(390,122)	(168,241)
Deficit, beginning of year	(6,339,498)	(6,171,257)
Deficit, end of year	$ (6,729,620)	$ (6,339,498)
Net loss per share (Note 6)	$ (0.01)	$ (0.01)
Fully diluted loss per share (Note 6)	$ (0.01)	$ (0.01)

See accompanying notes

Millstream Mines Ltd.
(An Exploration Stage Company)
Statements of Cash Flows
For the Years Ended August 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operating activities		
Net loss	$ (390,122)	$ (168,241)
Adjustments for items not affecting cash		
Stock based compensation	41,860	151,326
Future income tax recovery	(84,000)	(72,000)
Write-off of abandoned mining claims	172,342	-
	(259,920)	(88,915)
Changes in non-cash components of working capital		
Accounts receivable	(81,980)	997
Prepaid expenses	(302,000)	(5,708)
Accounts payable and accrued liabilities	474,875	(29,603)
	(169,025)	(123,229)
Investment activities		
Mining claims and deferred expenditures	(2,183,718)	(418,787)
Financing activities		
Due to related parties	(147,685)	(32,977)
Issuance of common shares	4,061,002	595,350
	3,913,317	562,373
Increase in cash	1,560,574	20,357
Cash, beginning of year	24,765	4,408
Cash, end of year	$ 1,585,339	$ 24,765
Supplementary information:		
Interest paid	$ 1,315	$ 3,264
Income taxes paid	$ -	$ -

See accompanying notes

Millstream Mines Ltd.
Notes to Financial Statements
For the Years Ended August 31, 2007 and 2006

1. Summary of significant accounting policies

Nature of operations

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is in the process of exploring its resource properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of the amounts shown for resource properties and the related deferred expenditures is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain necessary financing to complete the development, future profitable production and the support of the Company's trade creditors.

The financial statements do not give effect to any adjustments to the amount of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the ordinary course of business.

Mining claims

Mining claims are carried at cost until they are brought into production at which time they are depleted on a unit-of-production basis.

Exploration expenditures relating to mining claims are deferred until the properties are brought into production at which time they are amortized on a unit-of-production basis.

The cost of claims abandoned or sold and the deferred exploration costs relating to claims abandoned or sold are charged to operations in the current year.

Administrative expenses

Administrative expenses are charged to operations in the year incurred.

Oil and gas interests

The Company follows the successful efforts method of accounting for oil and gas interests whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized until their economic status has been evaluated.

All costs of successful wells are amortized over their useful lives.

Use of estimates

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts reported and disclosed in the financial statements. Actual results could differ from those estimates.

Millstream Mines Ltd.
Notes to Financial Statements
For the Years Ended August 31, 2007 and 2006

1. **Summary of significant accounting policies** (cont'd)

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

Stock based compensation

The Company accounts for stock-based compensation in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". This standard requires that stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting.

Flow-through shares

The Company will from time to time issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations, when the renunciations are made.

Earnings per share

Basic income per share is computed using the weighted average number of common shares outstanding during the year. Diluted income per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method.

Oil and gas interests

The Company holds a 6.25% interest in a non-producing well in Canadian County, Oklahoma, U.S.A. with royalty interests not exceeding 25%. The well is recorded on the books of the Company at the nominal value of $1.

Foreign currency translation

The monetary assets and liabilities of the Company denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the period. Exchange gains or losses are included in operations.

1. Summary of significant accounting policies (cont'd)

Accounting changes

The CICA issued section 1506 of the CICA Handbook, *Accounting Changes*, which establishes criteria for changing accounting policies and describes how to apply changes in accounting policies, accounting estimates, and changes resulting from the correction of errors. These changes, including the related disclosure requirements, came into effect as of January 1, 2007 and did not impact our financial statements.

Recent accounting pronouncements - Canadian GAAP

Financial instruments

In January 2005, the CICA issued Handbook Section 3855, "Financial instruments - Recognition and Measurement" and "Section 3861, Financial Instruments - Disclosure and Presentation." Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Both sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2006 and will be adopted by the Company on August 1, 2007. Transitional provisions are complex and vary based on the type of financial instruments under the consideration. The effect on the Company's financial statements is not expected to be material.

Comprehensive income

CICA Handbook Section 1530, "Comprehensive Income," was issued in January 2005 to introduce new standards for reporting and presenting comprehensive income. Comprehensive income is the change in equity (net assets) of a company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except for changes resulting from investments by owners and distributions to owners. It applies to interim and annual financial statements for fiscal periods beginning on or after October 1, 2006 and will by adopted by the Company on August 1, 2007. Financial statements for prior periods will be required to be restated for certain comprehensive income items. The effect on the Company's financial statements is not expected to be material.

Equity

In January 2005, the CICA issued Handbook Section 3251, "Equity," which replaces Section 3250, "Surplus." It establishes standards for the presentation of equity and changes in equity during reporting periods beginning on or after October 1, 2006. Financial statements for prior periods are required to be restated for certain specified adjustments. For other adjustments, the adjusted amount must be presented in the opening balance of accumulated other comprehensive income. The Company plans to adopt this Section on August 1, 2007. The effect on the Company's financial statements is not expected to be material.

Millstream Mines Ltd.
Notes to Financial Statements
For the Years Ended August 31, 2007 and 2006

2. Mining claims and deferred exploration expenditures

	Opening	Additions	Reductions	Closing
Potter Mine, Ontario				
Acquisition	$ 4,360,000	$ -	$ -	$ 4,360,000
Exploration	3,696,044	1,364,756	-	5,060,800
Falconbridge Twp. Airport Property, Ontario				
Exploration	414,592	203,434	-	618,026
Falconbridge Twp. Airport East Property, Ontario				
Acquisition	78,000	-	-	78,000
Tamarack, Montana				
Acquisition	231,090	331,951	-	563,041
Exploration	324,547	244,578	-	569,125
Koval Property, Ontario				
Acquisition	24,000	39,000	-	63,000
Exploration	288,284	-	-	288,284
Falcon Gold, Ontario				
Acquisition	22,500	-	(22,500)	-
Exploration	149,842	-	(149,842)	-
	$ 9,588,899	$ 2,183,719	$ (172,342)	$ 11,600,276

Potter Mine, Ontario

The company holds 100% interest in the Potter Mine Property. An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation, the vendor of the property, but remains the sole director and chief executive officer of all of the companies within Harrison Group of Companies. The vendor retains a 2.5% net smelter return royalty on the property, which the company may purchase at any time for $3,000,000. A $1,600,000 promissory note was issued by the company to the vendor as part of the purchase consideration and remains outstanding to date.

On April 11, 2001, the company sold a 10% net profit interest royalty in and to the Potter Mine Tailings property for $300,000 in cash. Net profits are determined quarterly and the final payment of net profits are due no later than 6 months after the end of the Project Operation's accounting year.

2. Mining claims and deferred exploration expenditures (cont'd)

Falconbridge Twp. Airport Property

On August 7, 2000 the Company, as stated in its August 11, 2000 press release, negotiated to increase its purchase option agreement from a 50% interest to 100% interest in the Falconbridge Township Airport Property located in Ontario. The property consists of 45 mining claims. A payment of $60,000 is to be made on or before the third anniversary date of this new agreement and an advance royalty payment of $60,000 per year commencing November 1, 2000 is due up to the date when commercial production commences in lieu of further work commitments. The property now has a 3% net smelter return (NSR) royalty for which the company has the right to purchase two thirds (2/3 being 2%) for a payment of $2,000,000 up to the date when commercial production commences.

In June 2003, the Company entered into a participation and joint venture agreement with Crowflight Minerals Inc. In order for Crowflight Minerals Inc. to earn its 50% interest, it had to have a $60,000 property payment and fund an initial $325,000 exploration program. In December 2005 Crowflight Minerals Inc. elected to withdraw from further participation and relinquished all and any interest in the property. The Company now retains a 100% undivided interest in these claims.

Falconbridge Twp. Airport East Property

On August 4, 2003, the Company entered into purchase agreement with an individual for a 100% undivided interest consisting of 11 mining claims located in Falconbridge Township and 7 mining claims located in Street Township in Ontario. The property is contiguous to the Falconbridge Township Airport Property held by the Company as disclosed above. The Company's purchase price is $30,000 in cash and 600,000 common voting shares equally divided over 3 payment due dates of September 4, 2004; September 4, 2005 and July 5, 2006. All cash payments and share issues have been completed in accordance with the purchase agreement.

The individual retains a 2% net smelter return (NSR) royalty on all production from the property. The Company has the first right of refusal on the sale of the NSR royalty and the right to purchase 50% of the NSR royalty at a fixed price of $1,000,000 at any time prior to the 4th month after commercial production has commenced.

Tamarack, Montana

Pursuant to a Memorandum of Understanding dated April 19, 1998, the Company acquired a 50.5% undivided interest in the Tamarack property for $161,500 US ($231,089 CDN) The Company has agreed to supply further funding for planned exploration and exploitation and shall be entitled to 80% of all revenues until funding provided by the Company has been recaptured and 50.5% thereafter. The Company continues to collect historical data of the property in addition to the exploration of the surface and the structural control (faults) to best establish drill targets. Management is of the opinion that the property potential is in finding a high-grade gold - low tonnage per day mine since the milling capacity is already on the site. Funding to advance the property towards production remains to be raised at this time.

In October 2006, the Company negotiated a 50% ownership in the Uncle Sam Gold mine located in southwestern part of the state of Montana, U.S.A. The Company's interest is fully vested based on the consideration that it has completed a substantial amount of development work and exploration expenditures on the property in the past.

2. Mining claims and deferred exploration expenditures (cont'd)

Tamarack, Montana

In May 2007, the Company entered into an agreement with its partner to purchase the remaining 49.5% interest. In exchange for $300,000 US ($331,950 CDN), the Company acquired 100% ownership of the property. The ex-partner will retain a 0.5% NSR on the gold output alone, which the Company has a right to purchase for $400,000 US.

Koval Property, Ontario

On March 16, 2004, the Company entered in a three year Purchase Option agreement with an individual to purchase a 100% undivided interest in a prospective gold property. The Koval Property, located in the District of Thunder Bay Beckington Lake area in Ontario, consists of 3 contiguous Leased Mining Claim Units. The Company made an initial $10,000 payment. Additionally, to maintain its option, the Company must issue to the individual, its common voting shares and cash payments as follows:

- 25,000 shares and a $5,000 cash payment of September 16, 2004;
- 25,000 shares and a $5,000 cash payment of March 16, 2005;
- 50,000 shares and a $5,000 cash payment of March 16, 2006;
- a $30,000 cash payment on or before March 17, 2007.

The individual retains a 1.5 net smelter return (NSR) royalty on all production from the Koval Property. The Company has a first right of refusal on the sale of the NSR royalty and the right to purchase 50% of the NSR royalty or any part thereof, including the right to purchase 50% of the NSR at a fixed price of $500,000. Additional consideration includes an advance royalty payment of $10,000 per year to maximum of $100,000 commencing one day after the fourth anniversary of the Agreement, March 15, 2004, or until a production decision is taken, whichever comes first. Such advance royalty payments shall be credited towards future royalty calculations and payments.

The Company made the second cash payment of $5,000 and issued 25,000 common shares in 2005 to the individual pursuant to the Purchase Option Agreement.

The cash payment and share issue due on or before March 16, 2006 and the cash payment due on or before March 17, 2007 have been deferred pending negotiation of an extension, but have been provided for in the financial statements. The 21 year lease agreement was approved by the Ministry of Northern Development and Mines.

Falcon Gold Property, Ontario

On September 10, 2003 the Company and Crowflight Minerals Inc., represented as a joint venture, entered into a Participation and Joint Venture Agreement with Kinross Gold Corporation. Kinross granted the Company a sole irrevocable option for 3 years to earn a 60% undivided interest in and to the Kinross's Falcon Gold Property. Upon execution of their agreement an initial cash payment of $45,000 was made to Kinross Gold Corporation of which $22,500 was reimbursed by the Company during the year. To maintain the option, the Company must make the following amount of exploration expenditures on behalf of the property:

a) by the first anniversary date $75,000
b) by the third anniversary date $400,000.

2. Mining claims and deferred exploration expenditures (cont'd)

Falcon Gold Property, Ontario

Following the earning by the Company of it's 60% interest, each party is obligated to fund further expenditures in accordance with its held interest in the property.

The Company completed the $75,000 in exploration expenditures.

The subsequent $400,000 expenditure was not made by September 2006 and as such, the purchase option no longer exists. Therefore, the property was written off in 2007.

3. Due to related parties

An officer of the Company controlling and directing the controlling block of shares in the Company is also the sole director and chief executive officer of the entities within The Harrison Group of Companies.

	2007	2006
The Harrison Group of Companies		
a) Harrison Mining & Engineering Corp.	$ 392,157	$ 491,157
b) demand loan	1,274,763	1,274,763
c) promissory note (principal)	1,600,000	1,600,000
	3,266,920	3,365,920
d) Demand loan from related company	1,579	50,264
	$ 3,268,499	$ 3,416,184

a) An officer of the Company controlling and directing the control block of shares in the Company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation but remains the sole director and chief executive office of the Harrison Group of Companies.

b) In July 2003, Harrison Mining & Engineering Corp. agreed to defer its debt from the Company for a period up to April 2008. This loan is not currently subject to interest.

c) This promissory note bears interest at the rate of the Toronto Dominion Bank prime plus 1% per annum, compounded annually, and due on April 3, 2000, provided that a commercial production decision has been announced on or before that date. In consideration of permitting Ernest Harrison to continue to actively control and be the driving force of the Company, Harrison Mining & Engineering Corp. has waived the accumulated interest charges to date, and for a further period extending to April 3, 2008 at which time the repayment terms of this note will be revisited.

d) During 2006, the Company entered into a loan agreement in the amount of $50,000 with 607638 Ontario Limited. A director and officer of 607638 Ontario Limited is also a director and officer of the Company. The loan is payable at an interest rate of 6% compounded monthly. The interest and principal are repayable on demand.

3. **Due to related parties** (cont'd)

Related party transactions

The Company capitalized $127,127 (2006 - $39,056) during the year for site and exploration services in the normal course of business, provided by related parties managed by the president of the Company. These expenditures are recorded at the exchange amount agreed upon by the two related parties.

The Company paid $98,690 in administration fees and $6,568 in rent to the Harrison Group. These transactions occur in the normal course of operations and are recorded at the exchange amount agreed upon by the two related parties.

The Company paid $1,315 (2006 - $3,264) in interest to 607638 Ontario Limited.

4. **Common shares**

(a) Authorized

	Number of shares	Amount
Unlimited Common shares		
Balance, August 31, 2005	40,182,043	$ 11,623,736
Common shares issued for mining claims	400,000	32,000
Common shares issued for cash	5,266,666	660,000
Share issue costs	-	(22,650)
Fair value of purchase warrants issued	-	(254,884)
Reduction for future income tax liability	-	(72,000)
Balance, August 31, 2006	45,848,709	11,966,202
Common shares issued for cash	14,928,833	4,226,545
Share issue costs	-	(165,543)
Fair value of purchase warrants exercised	-	121,046
Fair value of purchase options exercised	-	9,678
Fair value of purchase warrants issued	-	(1,273,602)
Reduction for future income tax liability	-	(84,000)
Balance, August 31, 2007	60,777,542	$ 14,800,326

In 2006, 400,000 common shares with a value of $32,000 were issued in addition to cash payments for the mining claims relating to the Airport property.

On December 15, 2005, 2,000,000 common shares were issued for $200,000 cash.

On January 26, 2006, 600,000 units were issued for $60,000 cash. Each unit consisted of one common share and a warrant to purchase common shares at a price of $0.15 per share, expiring January 26, 2008.

On April 12, 2006, the Company completed a private placement of 2,666,666 units for net proceeds of $377,350. Each unit consisted of one flow-through share and a warrant to purchase common shares at a price of $0.22 per share, expiring April 11, 2008.

4. Common shares (cont'd)

On January 10, 2007, the Company completed a non-brokered flow-through private placement of 1,442,332 units for proceeds of $216,350. Each unit consisted of one flow-through share and a one half common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.25 per share, expiring January 9, 2009.

On January 11, 2007, the Company completed a non-brokered flow-through private placement of 2,000,000 units for proceeds of $400,000. Each unit consisted of one flow-through share and one purchase warrant that entitles the holder to purchase one common share at a price of $0.25 per share, expiring January 10, 2009.

On January 29, 2007, the Company completed a non-brokered flow-through private placement of 1,459,998 units for proceeds of $219,000. Each unit consisted of one flow-through share and a one half common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.20 per share, expiring January 28, 2008.

On April 13, 2007, the Company completed a non-brokered flow-through private placement of 5,999,995 units for net proceeds of $1,952,674. Each unit consisted of one flow-through share and a one half purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.50 per share, expiring April 12, 2008.

On May 14, 2007, the Company completed a non-brokered flow-through private placement of 20,000 units for net proceeds of $7,000. Each unit consisted of one flow-through share and a one half purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.50 per share, expiring May 13, 2008.

On June 8, 2007, the Company completed a non-brokered flow-through private placement of 3,000,000 units for net proceeds of $1,031,783. Each unit consisted of one flow-through share and a one half common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.50 per share, expiring June 7, 2008.

On June 14, 2007, 906,500 purchase warrants were exercised in exchange for 906,500 common shares for gross proceeds of $209,195.

On June 29, 2007, 100,000 purchase options were exercised in exchange for 100,000 common shares for gross proceeds of $25,000.

(b) Contributed surplus

	2007	2006
Balance, beginning of year	$ 545,363	$ 139,153
Fair value of stock based compensation	41,860	151,326
Fair value of purchase warrants issued	1,273,602	254,884
Fair value of options exercised	(9,678)	-
Fair value of warrants exercised	(121,046)	-
Balance, end of year	$ 1,730,101	$ 545,363

4. Common shares (cont'd)

(c) Share subscription

During 2007, $21,385 was received as subscription for shares to be issued after year end.

(d) Purchase Warrants issued and outstanding

Balance, August 31, 2005	7,200,000
Issued with private placements during 2006	3,266,666
Expired	(7,200,000)
Balance, August 31, 2006	3,266,666
Issued with private placements during 2007	7,961,166
Exercised during 2007	(906,500)
Balance, August 31, 2007	10,321,332

The fair value of the 600,000 and 2,666,666 purchase warrants was $45,954 and $208,930 respectively, using the Black Scholes warrant pricing model with the following assumptions; average risk-free rate of 3.94% average expected life of two (2) years, expected volatility of 181.33% and 150.135% respectively and no expected dividends. $254,884 has been charged to share capital and a corresponding credit of $254,884 to contributed surplus.

600,000 purchase warrants are reserved for issue upon the exercise of the purchase warrants. These outstanding purchase warrants will entitle the holder to purchase one Common Share at $0.15 per share to January 26, 2008.

2,666,666 purchase warrants are reserved for issue upon the exercise of the purchase warrants. These outstanding purchase warrants will entitle the holder to purchase one Common Share at $0.22 per share to April 11, 2008.

The fair value of the 721,166 purchase warrants issued on January 10, 2007 was $71,147, using the Black Scholes warrant pricing model with the following assumptions; risk-free rate of 4.01%, an expected life of two (2) years, expected volatility of 200.048% and no expected dividends. $71,147 has been charged to share capital and a corresponding credit of $71,147 to contributed surplus. These warrants entitle the holder to purchase one common share at $0.25 per share to January 9, 2009.

The fair value of the 2,000,000 purchase warrants issued on January 11, 2007 was $162,429, using the Black Scholes warrant pricing model with the following assumptions; risk-free rate of 4.05%, an expected life of two (2) years, expected volatility of 199.878% and no expected dividends. $162,429 has been charged to share capital and a corresponding credit of $162,429 to contributed surplus. These warrants entitle the holder to purchase one common share at $0.25 per share to January 10, 2009.

4. Common shares (cont'd)

The fair value of the 730,000 purchase warrants issued on January 29, 2007 was $110,235, using the Black Scholes warrant pricing model with the following assumptions; risk-free rate of 4.14%, an expected life of one (1) year, expected volatility of 199.321% and no expected dividends. $110,235 has been charged to share capital and a corresponding credit of $110,235 to contributed surplus. These warrants entitle the holder to purchase one common share at $0.20 per share to January 28, 2008.

The fair value of the 3,000,000 purchase warrants issued on April 13, 2007 was $579,772, using the Black Scholes warrant pricing model with the following assumptions; risk-free rate of 4.17%, an expected life of one (1) year, expected volatility of 193.924% and no expected dividends. $579,772 has been charged to share capital and a corresponding credit of $579,772 to contributed surplus. These warrants entitle the holder to purchase one common share at $0.50 per share to April 12, 2008.

The fair value of the 10,000 purchase warrants issued on May 13, 2007 was $1,518, using the Black Scholes warrant pricing model with the following assumptions; risk-free rate of 4.26%, an expected life of one (1) year, expected volatility of 191.856% and no expected dividends. $1,518 has been charged to share capital and a corresponding credit of $1,518 to contributed surplus. These warrants entitle the holder to purchase one common share at $0.50 per share to May 13, 2008.

The fair value of the 1,500,000 purchase warrants issued on June 8, 2007 was $348,502, using the Black Scholes warrant pricing model with the following assumptions; risk-free rate of 4.68%, an expected life of one (1) year, expected volatility of 190.516% and no expected dividends. $348,502 has been charged to share capital and a corresponding credit of $348,502 to contributed surplus. These warrants entitle the holder to purchase one common share at $0.50 per share to June 7, 2008.

(e) Stock based compensation

In accordance with the Company's stock option plan, options have an exercise price equal to the market price at the date of grant.

The fair value of the 850,000 stock options granted during the year ended August 31, 2006, was $69,563 based on the date of grant using the Black-Scholes option pricing model with the following assumptions: average risk-free rate of 3.94%, average expected life of 264 days, expected volatility of 150.598% and no expected dividends. $69,563 has been charged to expense and a corresponding credit to contributed surplus.

The fair value of the 600,000 stock options granted during the year ended August 31, 2006, was $43,980 based on the date of grant using the Black-Scholes option pricing model with the following assumptions: average risk-free rate of 3.94%, average expected life of 319 days, expected volatility of 148.882% and no expected dividends. $43,980 has been charged to expense and a corresponding credit to contributed surplus.

4. Common shares (cont'd)

The fair value of the 300,000 stock options granted during the year ended August 31, 2006, was $37,783 based on the date of grant using the Black-Scholes option pricing model with the following assumptions: average risk-free rate of 3.94%, average expected life of 257 days, expected volatility of 136.441% and no expected dividends. $37,783 has been charged to expense and a corresponding credit to contributed surplus.

The fair value of the 100,000 stock options granted January 1, 2007 was $9,678 using the Black-Scholes option pricing model with the following assumption; risk-free rate of 4.02%, expected life of five (5) years, expected volatility of 180.928% and no expected dividends. $9,678 has been charged to expense and a corresponding credit to contributed surplus.

The fair value of the 100,000 stock options granted August 1, 2007 was $32,182 using the Black-Scholes option pricing model with the following assumption; risk-free rate of 4.58%, expected life of one (1) year, expected volatility of 168.793% and no expected dividends. $32182 has been charged to expense and a corresponding credit to contributed surplus.

A summary of the status of the Company's stock option plan as of August 31, 2007 and 2006 and changes during the years then ended are as follows:

	Number of options	2007 Weighted Average Exercise Price	Number of options	2006 Weighted Average Exercise Price
Outstanding, beginning of year	3,850,000	$ 0.13	2,100,000	$ 0.13
Granted during the year	200,000	0.30	1,750,000	0.19
Expired or redeemed during the year	(1,850,000)	(0.19)	-	-
Outstanding, end of year	2,200,000	$ 0.14	3,850,000	$ 0.15

At August 31, 2007 , the following stock options were outstanding:

Options	**Price**	**Expiry**
1,000,000	$ 0.10	May 25, 2008
1,100,000	0.15	February 24, 2009
100,000	0.35	August 1, 2012
2,200,000		

5. Income taxes

A reconciliation comparing income taxes calculated at the statutory rates to the amount provided in the accompanying financial statements is as follows:

	2007	2006
Combined federal and provincial income tax rates	36.1%	36.1%
Net loss before income taxes	$ (474,122)	$ (240,241)
Expected income taxes (recovery)	(171,000)	(87,000)
Non-deductible items	15,000	54,000
Recognition of prior year's losses	-	(39,000)
Losses for which tax benefit has not been recorded	84,000	-
Other items	(12,000)	-
Future income tax recovery	$ (84,000)	$ (72,000)

The significant components of the Company's future income taxes at August 31, 2007 are as follows:

	2007	2006
Future income tax assets		
Mining claims and deferred exploration expenditures	$ (4,188,000)	$ (3,462,000)
Canadian exploration expense	1,267,000	758,000
Canadian development expense	1,723,000	1,680,000
Foreign exploration and development expense	1,333,000	1,214,000
Foreign resource expense	88,000	-
Losses carried forward	609,000	484,000
Valuation allowance	(832,000)	(674,000)
Future income taxes	$ -	$ -

The Company has approximately $1,685,900 of tax loss carryforwards which may be applied to reduce taxable income of future years. These losses expire as follows:

2008	$ 323,000
2009	182,000
2010	491,000
2015	47,000
2026	89,000
2027	553,900
	$ 1,685,900

6. Basic and diluted earnings per share

The weighted-average number of common shares outstanding during the year was 52,651,889 - (2006 - 43,096,765).

7. Commitments

In order to maintain the Company's Mining Permits in good standing, the Company must incur certain explorations costs aggregating approximately $2,133,000 over the next year.

8. Financial instruments

Fair value

For certain of the Company's financial instruments, including cash, accounts payable and accrued liabilities the carrying amounts approximate fair value due to their immediate or short-term maturity.

The fair value of the amounts due to related parties cannot be determined with any degree of certainty, as the commercial lending rate for comparable loans cannot be determined.

Currency risk

The Company undertakes transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company does not use derivative instruments to reduce its exposure to foreign exchange risk.

9. Contingent liability

A claim for general damages has been made by an individual and a related corporation in the amount of $600,000. The plaintiffs allege the Company made negligent misrepresentations to the plaintiffs at the time the plaintiffs provided $300,000 to purchase a 10% net profit interest in the tailings from Potter Mine (Note 2a). The Company is defending the claim on the basis that no misrepresentations were made to the plaintiffs and that the individual, a former director, was aware of the Company's situation. The Company believes the plaintiffs have little chance of being successful as they have yet to take any significant action in these proceedings.