

Consolidated Financial Statements

**Fortune Minerals Limited**

Unaudited

March 31, 2007

**Fortune Minerals Limited**  
 Incorporated under the laws of Ontario

**CONSOLIDATED BALANCE SHEETS**

As at	Unaudited	
	March 31, 2007 \$	December 31, 2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 7(a)]</i>	9,314,501	11,942,358
Short-term investments	—	267,872
Accounts receivable	156,041	1,398,971
Prepaid expenses	4,192	29,557
<b>Total current assets</b>	<b>9,474,734</b>	<b>13,638,758</b>
Reclamation bonds <i>[note 4]</i>	560,497	563,785
Investment in and advances to affiliated company	331,915	331,389
Capital assets, net <i>[note 3]</i>	24,750	28,128
Mining properties <i>[note 4]</i>	49,247,335	45,674,725
	<b>59,639,231</b>	<b>60,236,785</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	526,731	1,090,180
Income taxes payable	24,333	24,333
<b>Total current liabilities</b>	<b>551,064</b>	<b>1,114,513</b>
Future income taxes <i>[note 6]</i>	8,330,000	7,230,000
<b>Total liabilities</b>	<b>8,881,064</b>	<b>8,344,513</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 5]</i>	49,653,793	50,753,793
Contributed surplus	3,418,059	3,418,059
Deficit	(2,313,685)	(2,279,580)
<b>Total shareholders' equity</b>	<b>50,758,167</b>	<b>51,892,272</b>
	<b>59,639,231</b>	<b>60,236,785</b>

*See accompanying notes*

**Fortune Minerals Limited**

**CONSOLIDATED STATEMENTS OF LOSS  
AND DEFICIT**

For the three month periods ended March 31

	Unaudited	
	2007	2006
	\$	\$
<b>REVENUE</b>		
Interest and other income	<b>109,340</b>	139,502
<b>EXPENSES</b>		
Administrative	<b>95,800</b>	91,429
Promotion and shareholder relations	<b>42,001</b>	31,382
Stock-based compensation	—	160,000
Amortization	<b>1,689</b>	2,287
	<b>139,490</b>	285,098
Loss before other items	<b>(30,150)</b>	(145,596)
Share in (gain) loss of equity investee	<b>(526)</b>	70
<b>Net loss for the period</b>	<b>(29,624)</b>	(145,666)
Deficit, as previously reported	<b>(2,279,580)</b>	(2,240,375)
Adoption of financial instruments standards <i>[note 2]</i>	<b>(4,481)</b>	—
<b>Deficit, end of period</b>	<b>(2,313,685)</b>	(2,386,041)
<b>Basic and diluted loss per share <i>[note 5[b]]</i></b>	—	—

*See accompanying notes*

**Fortune Minerals Limited**

**CONSOLIDATED STATEMENTS OF  
CASH FLOWS**

For the three month periods ended March 31

	Unaudited	
	2007	2006
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(29,624)	(145,666)
Add items not involving cash		
Stock-based compensation expense	—	160,000
Amortization	1,689	2,287
Share in (gain) loss in equity investee	(526)	70
	<b>(28,461)</b>	16,691
Changes in non-cash working capital balances related to operations		
Accounts receivable	1,242,930	(156,531)
Prepaid expenses	25,365	13,002
Accounts payable and accrued liabilities	(563,449)	13,239
<b>Cash provided by (used in) operating activities</b>	<b>676,385</b>	<b>(113,599)</b>
<b>INVESTING ACTIVITIES</b>		
Advances to affiliated company	—	(200)
Net (increase) decrease in short-term investments	268,325	(488)
Other deferred or prepaid expenses	—	(1,008,992)
Purchase of capital assets	(112,833)	(639,286)
Posting of security for reclamation bonds	(1,646)	(70,351)
Increase in deferred exploration expenditures	(3,458,088)	(3,486,320)
<b>Cash used in investing activities</b>	<b>(3,304,242)</b>	<b>(5,205,637)</b>
<b>FINANCING ACTIVITY</b>		
Proceeds on issuance of shares and warrants, net	—	272,303
<b>Net decrease in cash and cash equivalents</b>	<b>(2,627,857)</b>	<b>(5,046,933)</b>
Cash and cash equivalents, beginning of period	11,942,358	23,199,434
<b>Cash and cash equivalents, end of period</b>	<b>9,314,501</b>	<b>18,152,501</b>

*See accompanying notes*

## **Fortune Minerals Limited**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2007

## **1. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared by Fortune Minerals Limited [the "Company" or "Fortune"] in accordance with Canadian generally accepted accounting principles. These unaudited condensed notes to the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the fiscal year ended December 31, 2006.

Certain comparative amounts have been reclassified to conform to the current period presentation.

## **2. ADOPTION OF NEW ACCOUNTING STANDARDS**

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530 Comprehensive Income, Section 3855 Financial Instruments - Recognition and Measurement including the related Section 3860 Financial Instruments – Hedging and Section 3861 Financial Instruments – Financial Instrument Disclosure and Presentation and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments, as well as the recognition of certain transition adjustments. The comparative interim consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

The adoption of these Sections has been completed retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the effect of adopting these standards was to increase short-term investments by \$453, decrease reclamation bonds by \$4,934 and increase deficit by \$4,481.

### **[a] Section 1530 Comprehensive Income**

This section describes the reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income is composed of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available for sale financial assets, translation gains and losses on self-sustaining foreign operations and accounting for derivative instruments and hedging activities. The components of comprehensive income are disclosed in the consolidated statements of comprehensive income (loss). As at March 31, 2007, the Company has no other comprehensive income (loss) to report therefore its net loss is equal to the comprehensive loss.

### **[b] Section 3855 Financial Instruments**

This section sets out the standards for the recognition and measurement of financial assets and financial liabilities. The standard prescribes when an entity should recognize a financial instrument on the balance sheet and the amount at which financial instruments should be recorded. Depending on their balance sheet designation, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial statement designation, gains and losses on financial instruments are recognized in net income or other comprehensive income.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

The Company has made the following designations:

- Cash and cash equivalents are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.
- Short-term investments are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income
- Accounts receivable is designated as “receivables” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of accounts receivable is on the basis of amortized cost using the effective interest rate method.
- Reclamation bonds are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income
- Accounts payable and accrued liabilities are designated as “other liabilities” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of these liabilities is on the basis of amortized cost using the effective interest rate method.

#### [c] Section 3865 Financial Instruments – Hedging

This Section establishes standards for when and how hedge accounting may be applied. It defines hedge accounting as being optional and requires certain criteria to be met in order to use hedge accounting. Hedging is an activity designed to modify an entity’s exposure to one or more risks, by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item (or changes resulting from a particular risk exposure relating to those items).

The purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses (including the effects of counterbalancing changes in cash flows) are recognized in net income in the same period or periods. Hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in income in a different period than gains, losses, revenues and expenses on the hedged item. Where gains, losses, revenues and expenses on the hedging item and counterbalancing gains, losses, revenues and expenses on the hedged item are recognized in income in the same period, hedge accounting is both considered not necessary and not permitted by the Standards.

As at March 31, 2007, the Company was not a party to any forward foreign exchange or metal pricing contracts, but may use such instruments in the future.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

#### 3. CAPITAL ASSETS

Capital assets consist of the following:

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Accumulated</u>	<u>Cost</u>	<u>Accumulated</u>
	\$	\$	\$	\$
Computer equipment	27,145	17,516	27,145	16,140
Furniture and fixtures	21,457	12,383	21,457	11,108
Leasehold improvements	9,282	4,967	9,282	4,488
Software	4,752	3,020	4,752	2,772
	<b>62,636</b>	<b>37,886</b>	62,636	34,508
Less accumulated amortization	<b>37,886</b>		34,508	
<b>Net book value</b>	<b>24,750</b>		<b>28,128</b>	

#### 4. MINING PROPERTIES

Interests in mining properties consist of the following:

	<u>March 31, 2007</u>			
	<u>Plant and</u>	<u>Property</u>	<u>Deferred</u>	<u>Total -</u>
	<u>Equipment</u>	<u>Costs</u>	<u>Expenditures</u>	<u>Mining</u>
	\$	\$	\$	Properties
	\$	\$	\$	\$
NICO Project (i)	4,861,391	—	25,632,959	30,412,339
Mount Klappan Project (ii)	41,283	3,144,116	13,439,714	16,707,124
Sue-Dianne Project	—	9,164	1,981,167	1,990,331
Other Properties	—	—	137,541	137,541
	<b>4,902,674</b>	<b>3,153,280</b>	<b>41,191,381</b>	<b>49,247,335</b>

  

	<u>December 31, 2006</u>			
	<u>Plant and</u>	<u>Property</u>	<u>Deferred</u>	<u>Total -</u>
	<u>Equipment</u>	<u>Costs</u>	<u>Expenditures</u>	<u>Mining</u>
	\$	\$	\$	Properties
	\$	\$	\$	\$
NICO Project (i)	4,828,781	—	22,894,560	27,723,341
Mount Klappan Project (ii)	44,958	3,144,116	12,664,683	15,853,757
Sue-Dianne Project	—	9,164	1,981,066	1,990,230
Other Properties	—	—	107,397	107,397
	<b>4,873,739</b>	<b>3,153,280</b>	<b>37,647,706</b>	<b>45,674,725</b>

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

During the quarter ended March 31, 2007, \$95,181 of administrative and general expenses, \$85,587 of amortization and \$nil of stock compensation were charged to deferred exploration expenditures.

Plant and Equipment consist of the following:

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Surface facilities under construction	<b>3,620,190</b>	—	3,555,538	—
Surface facilities	<b>756,614</b>	<b>172,159</b>	735,976	141,760
Camp structures	<b>632,898</b>	<b>139,350</b>	632,898	99,142
Mobile equipment	<b>319,001</b>	<b>134,046</b>	291,001	119,590
Site furniture and equipment	<b>28,495</b>	<b>8,969</b>	25,764	6,946
	<b>5,357,198</b>	<b>454,524</b>	5,241,177	367,438
Less accumulated amortization	<b>454,524</b>		367,438	
<b>Net book value</b>	<b>4,902,674</b>		4,873,739	

During the quarter ended March 31, 2007, \$3,188 of amortization was charged to surface facilities under construction.

#### *i.* NICO Project, Northwest Territories

The NICO project and the related claims in the Mazenod Lake Area, Northwest Territories are subject to a joint venture agreement. A company controlled by a director owns a joint venture interest in the NICO project. At December 31, 2006, the joint venture partner owned a 9.99% interest. As of the date of these statements, the joint venture partner has not confirmed their intention to participate in the planned expenditures during 2007. As a result, their interest will be diluted in accordance with the joint venture agreement. Based on the expenditures to March 31, 2007, the Company has calculated that the joint venture partner has been diluted to 9.23%.

The Company records its proportionate share of costs relating to the joint venture under the NICO deferred explorations expenditures. The Company arranges the reclamation bond for NICO and provides the security required for the bond. As such, the Company has provided a reclamation bond of \$211,000 with the Wek'èezhì Land and Water Board with respect to the bulk sample programs carried out in 2006 and planned for 2007. The bond is in the form of a letter of credit in favour of the Receiver General for Canada. The Company has \$226,157, recorded at fair value, held in various investments as security for the letter of credit.

On August 31, 2006, the Company acquired certain mill, related surface facilities and processing equipment for future use at the NICO project. All costs of purchase, including previously deferred amounts and ongoing maintenance, security and other related costs, have been capitalized. No amortization has been charged against these assets as they are recorded as surface facilities under construction and are not available for use.

Pursuant to this agreement, the Company has an obligation to the vendor to dismantle and remove the assets from the site by August 31, 2009. The Company recently received a third party

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

feasibility study and will commence detailed engineering and planning related to the use of these assets at NICO but a construction decision has not been taken. As a result, the course of action with reference to using the assets is still not known.

In addition, the Company is required to post a maximum of \$1 million in financial assurance or a performance bond in favour of the vendor. The posting of this financial assurance is required upon removal of assets in amounts equal to the appraised market value of assets being removed. Assets not required at the NICO site will be sold or disposed of to fulfill the Company's obligation. Upon completion of the Company's obligation to remove the assets from the site, the financial assurance will be released to the Company.

The net cost of the deconstruction, removal, and reconstruction of the assets will be accumulated as surface facilities under constructions until such time as the physical assets are completed and available for use at which time they will be classified as appropriate

#### *ii.* Mount Klappan Project, British Columbia

At March 31, 2007, the reclamation bond was \$307,000 with respect to this property. The bond is in the form of a letter of credit in favour of the Government of British Columbia. The Company's wholly owned subsidiary, Fortune Coal Limited, has \$334,340, recorded at fair value, held in various investments as security for the letter of credit.

## 5. SHARE CAPITAL

[a] Issued and outstanding common shares:

	<u>March 31, 2007</u>		<u>December 31, 2006</u>	
	#	\$	#	\$
<b>Common shares</b>				
<b>Beginning of period</b>	<b>38,936,407</b>	<b>50,753,793</b>	34,870,907	41,932,787
Issued as a result of:				
Private placement of shares	—	—	3,481,000	11,732,250
Exercise of warrants	—	—	30,800	121,660
Exercise of options	—	—	553,700	561,376
Share issuance costs, net of tax	—	—	—	(674,280)
Future tax impact of renunciation of development costs expended	—	<b>(1,100,000)</b>	—	(2,920,000)
<b>End of period [b]</b>	<b>38,936,407</b>	<b>49,653,793</b>	38,936,407	50,753,793
<b>Warrants</b>				
<b>Beginning of period</b>	—	—	341,396	616,352
Exercised	—	—	(30,800)	(21,560)
Expired	—	—	(310,596)	(594,792)
<b>End of period</b>	—	—	—	—
		<b>49,653,793</b>		<b>50,753,793</b>

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

**[b]** At March 31, 2007, the weighted average number of common shares outstanding was 38,936,407. During the period, options to purchase 1,025,000 common shares were not included in the computation of diluted loss per share because the exercise prices of these options were greater than the average market price of the common shares. Also, options to purchase 1,253,700 common shares were not included in the computation of diluted loss per share because including them in the calculation would have been anti-dilutive.

#### 6. INCOME TAXES

Significant components of the Company's future income tax liabilities are as follows:

	<b>March 31, 2007</b>	December 31, 2006
<b>Net future tax liabilities</b>		
Book value of deferred exploration expenditures and capital assets in excess of tax value	<b>(8,330,000)</b>	(7,230,000)

#### 7. CONSOLIDATED STATEMENT OF CASH FLOWS

**[a]** Cash and cash equivalents consist of the following :

	<b>March 31, 2007</b>	December 31, 2006
	\$	\$
Cash on hand and balances with banks	<b>1,289,325</b>	4,302,904
Short-term fixed income deposits	<b>8,025,176</b>	7,639,454
	<b>9,314,501</b>	11,942,358

**[b]** Supplemental cash flow information:

	<b>March 31, 2007</b>	December 31, 2006
	\$	\$
Income taxes received	—	—
Interest and investment income received	<b>47,939</b>	403,465

## **Fortune Minerals Limited**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2007

#### **8. RELATED PARTY TRANSACTIONS**

In addition to any related party transactions noted elsewhere, the following related party transactions have been recorded at their exchange amount:

- [a]** During the period, the Company paid an officer and director \$54,600 for third-party geological consulting and for administrative consulting services on behalf of the Company.
- [b]** During the period, the Company paid an officer \$51,400 for financial, management and administrative consulting services on behalf of the Company.
- [c]** During the period, \$13,500 was paid to the Company's law firm for various legal services. An officer and director of the Company is a partner of that firm.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

### Three months ended March 31, 2007

*This discussion and analysis of financial condition and results of operations of Fortune Minerals Limited is prepared as at May 11, 2007, and should be read in conjunction with the unaudited consolidated financial statements of Fortune Minerals Limited and the notes thereto for the three months ended March 31, 2007 and with the audited consolidated financial statements of Fortune Minerals Limited and the notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2006. In this discussion, unless the context otherwise dictates, a reference to Fortune or the Company refers to Fortune Minerals Limited and its subsidiaries. Additional information relating to the company, including the company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). All dollar amounts are presented in Canadian dollars.*

#### SUMMARY OF QUARTERLY RESULTS

The following tables provide selected consolidated financial information that is derived from the unaudited interim consolidated financial statements and audited consolidated financial statements of the Company.

	2007	2006				2005			
	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	
<b>Revenues</b>	\$109,340	\$71,354	\$256,385	\$128,793	\$139,502	\$155,846	\$132,275	\$177,035	
<b>Net income (loss)</b>	(29,624)	18,856	189,991	(102,386)	(145,666)	(181,419)	1,103	(188,820)	
<b>Income (loss) per share</b>	—	—	—	—	—	—	—	(0.01)	

#### OVERVIEW

Fortune is a natural resource company with diversified assets, all of which are located in Canada. Fortune is involved in the exploration and development of coal, specialty metals, base metals, precious metals and industrial mineral properties, primarily in British Columbia, Northwest Territories, and Ontario. Fortune's most significant properties are the Mount Klappan anthracite coal project and the NICO gold-cobalt-bismuth project.

The Company has continued to focus on bringing both of its principal projects into production. During the first quarter of 2007, the Company released the results of its positive feasibility study for its NICO Project, continued to navigate the environmental assessment process for both of its principal projects, commenced a second phase of an underground bulk sample program at the NICO project and investigated potential technical and strategic alternatives to enhance the value of its projects and overall shareholder value.

Exploration and development expenditures incurred by Fortune on its properties during the three month period ending March 31, 2007 were \$3,458,088. This amount is comparable to the expenditures for the same period in 2006. Most of these expenditures were on the Company's Mount Klappan and NICO projects.

The Company's net loss for the quarter ended March 31, 2007 was \$29,624 or \$nil per share compared to the net loss of \$145,666 or \$nil per share in the same period in the prior year. The prior year's quarter included \$160,000 in stock compensation expense. No stock compensation expense was incurred during the first quarter of 2007.

## RESULTS OF OPERATIONS

### Revenues

Fortune's primary source of revenue is investment income. Interest and other income declined to \$109,340 for the three month period ending March 31, 2007 compared to \$139,502 for the same period in 2006. Interest and other income declined due to the reduced cash and investments balances compared to the prior year.

### Expenses

Other than stock compensation expenses noted above, the Company's expenses were comparable for the quarters ended March 31, 2007 and 2006.

### Cash Flow

Cash provided by operating activities was \$676,385 for the quarter ended March 31, 2007. Cash used in operating activities for the quarter ended March 31, 2006 was \$113,599. The change was principally the result of changes in non-cash working capital changes.

Cash used in investing activities was \$3,304,242 and \$5,205,637 for the three month periods ended March 31, 2007 and 2006, respectively. Deferred exploration expenditures were comparable. The higher expenditures related to the acquisition of the Golden Giant buildings, milling equipment, surface facilities and inventory during 2006.

The Company did not issue any shares during the first quarter of 2007. The Company does anticipate raising additional funds during 2007 to fund its ongoing activities.

## LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2007, Fortune had cash and cash equivalents of \$9,314,501 and working capital of \$8,923,670, with no debt. The Company's principal operational objectives for 2007 are to complete the environmental assessment process and obtain permits for the Lost Fox mine of the Mount Klappan project, complete a second phase of bulk sampling and metallurgical testing of the sample for the NICO project and commence the engineering and planning to deconstruct and move the Golden Giant buildings, milling equipment, surface facilities and inventory. Budgeted expenditures for 2007 at NICO and Mount Klappan total approximately \$13 million and \$1 million, respectively, of which approximately \$3.5 million has been incurred. The various planned activities at NICO include collecting a second bulk sample from additional mine levels, completing environmental assessment activities, commencing detailed engineering and carrying out pilot plant testing of the bulk samples. The various planned activities at Mount Klappan include completing the environmental assessment process and related activities. As additional funding is required to carry out these budgeted expenditures, not all of these activities have been committed to by the Company. The Company has sufficient resources to fund its 2007 commitments. Additional financing will be required by the Company in order to pursue further development of its major projects. The Company will evaluate alternatives, including seeking out suitable joint venture partners, and endeavor to execute a financing plan to fund the construction to transform the Lost Fox and NICO deposits into producing mines.

## OUTLOOK

The Company's objectives remain unchanged. Management continues to carry out the following principal activities:

- to negotiate various agreements as necessary with First Nation groups;
- to obtain environmental certificates and mine permits;
- to complete a second phase of underground mining at the NICO project;
- to complete the pilot plant testing of the NICO bulk samples;
- to tender and commence a detailed engineering, procurement, and construction management ("EPCM") contract for NICO;
- to promote and market the Company to increase its shareholder base and market liquidity;
- to arrange financing for the planned activities for 2007 and the construction of the mines; and
- to commence hiring additional management and staff to construct, manage and operate active mines

These activities will take a significant amount of time to complete. The timing of the completion of these tasks cannot always be predicted due to the reliance on and influence of forces outside of Company's control. The Company's management seeks strategies to manage and minimize the risks associated with such external factors and continuously monitors progress of each activity. Significant milestones have been achieved over the past two years, including the completion of two positive feasibility studies on both its main projects, completion of base line studies

to support the environmental applications, completion of a bulk sample, financing of its activities in a prudent manner and strengthening of the management team and board of directors. The Company's continued efforts are anticipated to transform it into a production company and realize on the underlying and unrecognized value of the Company's existing assets.

### **TRANSACTIONS WITH RELATED PARTIES**

During first quarter of 2007 the Company paid Robin Goad, the President and CEO, \$54,600 for geological consulting and administrative consulting services on behalf of the Company, Kemp Management Services, a sole proprietorship of Julian Kemp, the Vice President Finance and CFO, \$51,400 for financial, management and administrative consulting services on behalf of the Company and Macleod Dixon LLP, a partnership of which David Knight, the Secretary and a director, is a partner, \$13,500 for legal services.

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#### **[b] Section 3855 Financial Instruments**

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The Company has made the following designations:

- Cash and cash equivalents are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.
- Short-term investments are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income
- Accounts receivable is designated as “receivables” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of accounts receivable is on the basis of amortized cost using the effective interest rate method.
- Reclamation bonds are designated as “assets held for trading” and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.
- Accounts payable and accrued liabilities are designated as “other liabilities” and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of these liabilities is on the basis of amortized cost using the effective interest rate method.

### [c] Section 3865 Financial Instruments – Hedging

This Section establishes standards for when and how hedge accounting may be applied. It defines hedge accounting as being optional and requires certain criteria to be met in order to use hedge accounting. Hedging is an activity designed to modify an entity's exposure to one or more risks, by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item (or changes resulting from a particular risk exposure relating to those items).

The purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses (including the effects of counterbalancing changes in cash flows) are recognized in net income in the same period or periods. Hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in income in a different period than gains, losses, revenues and expenses on the hedged item. Where gains, losses, revenues and expenses on the hedging item and counterbalancing gains, losses, revenues and expenses on the hedged item are recognized in income in the same period, hedge accounting is both considered not necessary and not permitted by the Standards.

As at March 31, 2007, the Company was not a party to any forward foreign exchange or metal pricing contracts, but may use such instruments in the future.

### **ADDITIONAL INFORMATION**

Additional information relating to the Company, including its current and previous year's annual information forms, are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **SHARE DATA**

As at the date hereof, the Company has 38,996,407 common shares issued and outstanding, as well as options to purchase an aggregate of 2,218,700 common shares expiring at various dates between January 24, 2008 and December 22, 2011 and exercisable at various prices between \$0.75 and \$4.95 per share.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles.

There were no changes to the Company's internal controls over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

*This discussion contains certain forward-looking information. This forward-looking information includes, or may be based upon, estimates, forecasts, and statements as to management's expectations with respect to, among other things, the size and quality of the Company's mineral resources, progress in development of mineral properties, demand and market outlook for metals and future metal prices. Forward-looking information is based on the opinions and estimates of management at the date the information is given, and is subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, delays in the development of the Company's projects caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors. Readers are cautioned to not place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by the Company. These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances, except as required by law.*