

Financial Statements
(Expressed in Canadian Dollars)

**INTERNATIONAL WAYSIDE
GOLD MINES LTD.**

(An Exploration Stage Company)

For the three months ended May 31, 2007

The accompanying Financial Statement for the three months ended May 31, 2007 and 2006 have not been reviewed or audited by the Company's Auditors.

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Balance Sheets
(Unaudited – Prepared by Management)

	ASSETS	
	May 31, 2007	February 28, 2007
	\$	\$
Current assets		
Amounts receivable	37,414	19,333
Prepaid expenses	2,000	2,000
	<u>39,414</u>	<u>21,333</u>
Deferred financing costs (Note 8)	27,135	112,282
Reclamation deposits	299,500	299,500
Investments (Note 3)	19,320	19,320
Due from related parties (Note 6)	89,859	136,292
Property and equipment (Note 4)	346,854	359,094
Mineral properties (Note 5)	8,584,089	8,359,089
	<u>9,406,171</u>	<u>9,306,910</u>
	LIABILITIES	
Current liabilities		
Bank indebtedness	35,381	6,972
Accounts payable and accrued liabilities	1,093,254	1,035,449
Due to related parties (Note 6)	1,986,819	1,598,760
Convertible notes (Note 8)	4,479,098	3,385,969
	<u>7,594,552</u>	<u>6,027,150</u>
Asset retirement obligation (Note 7)	96,044	93,810
	<u>7,690,596</u>	<u>6,120,960</u>
	SHAREHOLDERS' EQUITY	
Capital stock (Note 9)	39,220,104	38,995,104
Equity portion of convertible note (Note 8)	1,342,682	1,342,682
Contributed surplus (Note 10)	4,094,424	4,094,424
Deficit	(42,941,635)	(41,246,260)
	<u>1,715,575</u>	<u>3,185,950</u>
	<u>9,406,171</u>	<u>9,306,910</u>

Continuing Operations (Note 1)
 Commitments (Note 5)
 Subsequent Events (Note 12)

Approved by the Directors:

 "J. Frank Callaghan" Director _____
 "Andrew Rees" Director

See Accompanying Notes to Financial Statements

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Statements of Operations and Deficit
(Unaudited – Prepared by Management)

	Three Months Ended May 31	
	2007	2006
	\$	\$
Expenses:		
Auto expense	-	1,188
Accounting, audit and legal fees	3,567	5,000
Amortization	12,240	12,008
Bank charges and interest	2,156	870
Consulting fees	9,000	42,140
Exploration (see schedule of exploration expenses)	144,492	512,716
Insurance	-	6,851
Interest on convertible loan	116,834	-
Amortisation of deferred financing fee	85,147	-
Accretion of convertible note discount	976,295	-
Management fees (Note 6)	30,000	30,000
Office and administration	40,861	42,279
Office rent	4,326	5,153
Shareholder communications and advertising	9,788	66,211
Legal fees	-	11,245
Telephone	8,259	-
Transfer agent and filing fees	7,274	3,174
Listing and filing fees	31,382	10,095
Trade shows	-	19,304
Travel and accommodation	58,955	2,950
Stock-based compensation	-	301,570
Wages and benefits	157,685	174,174
	1,698,261	1,246,928
Less: Exchange gain/loss	(903)	-
Less: Interest income	(1,983)	(502)
Loss for the period	(1,695,375)	(1,246,426)
Deficit, beginning of period	(41,246,260)	(36,785,848)
Deficit, end of period	(42,941,635)	(38,032,274)
Basic and diluted loss per share	\$0.04	\$0.04
Weighted average number of share outstanding	43,591,796	31,160,650

See Accompanying Notes to Financial Statements

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Statement of Cash Flows
(Unaudited – Prepared by Management)
May 31, 2007

	Three Months Ended May 31	
	2007	2006
	\$	\$
CASH PROVIDED BY (USED IN)		
Operating Activities:		
Loss for the period	(1,695,375)	(1,246,426)
Items not involving cash:		
Amortization	12,240	12,008
Stock-based compensation	-	301,570
Amortization of deferred financing fee	85,147	-
Accretion of convertible debt	976,295	-
Accretion of asset retirement	2,234	-
	(619,459)	(932,848)
Changes in non-cash working capital Items:		
Amounts receivable and prepaid expenses	(18,081)	(12,994)
Accounts payable and accrued liabilities	57,805	(61,682)
	(579,735)	(1,007,524)
Financing activities:		
Long-term debt	116,834	1,475,000
Issue of capital stock for cash	-	469,794
Due to related parties	388,059	442,953
Bank indebtedness	28,409	-
	533,302	2,387,747
Investing Activities:		
Due from related parties	46,433	29,947
Mineral property expenditures	-	(1,900,000)
Purchase of property and equipment	-	(46,682)
	46,433	(1,916,735)
Increase (decrease) in cash	-	(536,512)
Cash, beginning of period	-	713,151
Cash, end of period	-	176,639
Supplemental cash flow information:		
Interest paid	-	-
Taxes paid	-	-
Non-cash operating, investing and financing activities:		
Issuance of capital stock for mineral properties	225,000	-

See Accompanying Notes to Financial Statement

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
(Unaudited – Prepared by Management)
May 31, 2007

1. Going concern:

The Company was incorporated on February 12, 1970 under the laws of the Province of British Columbia and its principal business activities are the exploration and development of mineral properties in British Columbia, with its principal property being the Cariboo Gold Project (note 5(b)). At May 31, 2007, the Company is in the exploration stage. During the year ended February 28, 2006, the Company consolidated its share capital on a 10 old for 1 new basis. Unless otherwise indicated, all references in these financial statements to the number of common shares and per share amounts have been restated to reflect the share consolidation.

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities and commitments in the ordinary course of business. At May 31, 2007, the Company has a working capital deficiency, has incurred losses during the years ended February 28, 2007 and February 28, 2006, has an accumulated deficit of \$42,941,635 as at May 31, 2007 and the Company has not generated any cash from operating activities since inception with the exception of the proceeds from a bulk sampling program. The Company's continuing operations and the ability of the Company to discharge its liabilities and fulfill its commitments as they come due is dependent upon the continued support of its related parties, the ability of the Company to continue to obtain equity financing and, ultimately, on locating economically recoverable ore reserves in its mineral properties and attaining profitable operations. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require the restatement of assets and liabilities on a liquidation basis, which would differ significantly from the going concern basis.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The underlying value and the recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable ore reserves in its mineral properties, the ability of the Company to obtain the necessary financing to complete development, confirmation of the Company's interest in the underlying mineral claims and leases and upon future profitable production from or the proceeds from the disposition of its mineral properties.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Cash equivalents and reclamation deposits:

(i) Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at acquisition, that are readily convertible to specified amounts of cash.

(ii) Reclamation deposits are term deposits placed in the name of the Government of the Province of British Columbia as security for possible reclamation activities on the Company's mineral properties in connection with permits required for exploration activities. As they are restricted from general use, they are excluded from current assets.

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
(Unaudited – Prepared by Management)
May 31, 2007

2. Significant accounting policies (continued):

(c) Investments:

Investments are carried at cost less any provision for other-than-temporary impairment in value.

(d) Property and equipment:

Property and equipment is recorded at cost. Amortization is provided, once the assets are in use, over their estimated useful lives on a declining-balance basis at rates between 5% and 20% per annum. An impairment loss is recognized when the net carrying amount of the property and equipment exceeds the net undiscounted future cash flows relating to the property and equipment. No impairment write-down of property and equipment was required during the years covered by these financial statements.

(e) Mineral properties:

The Company retroactively changed its accounting policy for mineral property exploration expenditures in its fourth quarter of 2006. Prior to November 30, 2005, the Company capitalized the acquisition cost of mineral properties and deferred exploration and development expenditures directly related to specific mineral properties, net of recoveries received. Under the new policy, exploration expenditures are expensed while acquisition expenditures continue to be capitalized.

These changes have been applied retroactively and have increased the deficit as at March 1, 2005 by \$18,926,672. In addition, the future income tax liability of \$2,347,450 as at February 28, 2005 has been reduced to nil with a corresponding increase in capital stock.

Consistent with prior periods, mineral property acquisition costs include the cash consideration paid and the fair value of common shares issued on acquisition, based on the trading price of the shares on the date of the agreement to issue the shares.

Recoveries for option payments or shares received are recorded on receipt, as the payments or shares received under the agreement are made at the sole discretion of the optionee. Proceeds from the sale of minerals recovered during the exploration stage are recorded when title to the minerals passes, the proceeds are reasonably determinable and the collectibility is assured.

Where the Company has entered into option agreements to acquire interests in mineral properties that provide for periodic payments or periodic share issuances, amounts unpaid and unissued are not recorded as liabilities since they are payable and issuable entirely at the Company's option. Option payments are recorded as mineral property costs when the payments are made or received and the share issuances are recorded as mineral property costs using the fair market value of the Company's common shares at the date the counterparty's performance is complete or the issuance date, whichever is more determinable.

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
(Unaudited – Prepared by Management)
May 31, 2007

2. Significant accounting policies (continued):

(e) Mineral properties: (continued)

Mineral property assets are reviewed for impairment when changes in circumstances suggest their carrying value has become impaired. If impairment exists, the asset will be written down to fair value. Fair value is determined using a discounted cash flow analysis. Amounts shown for mineral properties represent costs incurred to date, less write-downs, and do not necessarily reflect present or future values.

(f) Stock-based compensation:

The Company has a stock-based compensation plan which is described in note 9(d). Effective March 1, 2004, the Company adopted the amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*". This amendment requires the use of the fair value method to calculate all stock-based compensation associated with the granting of stock options.

The value of stock options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility. The expected term of options granted is determined based on date of expiry of option. Expected volatility is based on the historical volatility of the share price of the Company. These estimates involve inherent uncertainties and the application of management judgment. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. As a result, if other assumptions had been used, the recorded stock-based compensation expense could have been different from that reported.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(g) Share capital:

The Company records proceeds from share issuances net of issue costs. Shares issued for consideration other than cash are valued at the quoted market price on the date the agreement to issue the shares was reached.

(h) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences), and loss carry forwards. Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is substantially enacted. The amount of future income tax assets recognized is limited to the amount that is, in management's estimation, more likely than not to be realized.

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
(Unaudited – Prepared by Management)
May 31, 2007

2. Significant accounting policies (continued):

(i) Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. The treasury stock method assumes that for purposes of determining the weighted average shares outstanding for the calculation of dilutive per share amounts, the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price for the period. However, in the Company's case, diluted loss per share does not differ from basic loss per share as the effect of outstanding options and warrants would be anti-dilutive.

(j) Asset retirement obligations:

The Company incurs liabilities for costs associated with the eventual retirement of tangible long-lived assets (for example, reclamation costs). The liability for such costs exists from the time the legal obligation first arises, not when the actual expenditures are made in the future. Such obligations are measured initially at their fair value using discounted present value methodology. The resulting amount is added to the cost of the related asset and to the Company's liabilities, and will be adjusted in later periods for changes in the amount and timing of the expected cash expenditures. The liability will be increased in each accounting period by the amount of the implied interest ("accretion") inherent in the use of discounted present value methodology, and the increase will be charged against earnings.

(k) Use of estimates:

The preparation of financial statements 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of recoverability of mining interests in mineral properties, useful lives for amortization, determination of asset retirement and reclamation obligations, assumptions used in presenting the debt and liability components from the convertible notes and assumptions used in determining the fair value of non-cash stock-based compensation. Actual results could differ from those estimates.

(l) Financial instruments:

In all material respects, the carrying amounts of the Company's financial instruments, other than investments and amounts due from and to related parties, approximate their fair values due to the short-term to maturity of such instruments. The fair value of investments is disclosed in note 3. It is not practicable to determine the fair values of the amounts due from and to related parties due to the nature of such amounts and the absence of a secondary market for such instruments.

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
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May 31, 2007

2. Significant accounting policies (continued):

(m) Flow-through shares:

The Company finances a portion of its exploration program with flow-through common share issuances. Income tax deductions relating to these expenditures are claimable only by the investors. Net proceeds from common shares issued pursuant to flow-through financings are credited to capital stock. Recording these expenditures for accounting purposes gives rise to taxable temporary differences if such expenditures meet the definition of a qualified expenditure pursuant to the Income Tax Act (Canada) and are renounced to the investor. On the date that the Company renounces flow-through expenditures to the holder of the flow-through common shares and where the Company has sufficient available tax losses or pools of tax deductions, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, is recorded as a recovery of income taxes in the statement of operations as long as the taxable temporary difference is expected to reverse.

3. Investments:

	May 31, 2007		
	Number of shares	Carrying value	Quoted market price
Lions Gate Energy Inc.	138,000	\$19,320	\$19,320

The Company receives shares of other companies pursuant to mineral property option agreements. Lions Gate Energy Inc. ("LG") is related by virtue of certain common directors. During the year ended February 28, 2007, the Company recognized an other-than-temporary impairment in the value of its investments of \$19,320 (2006 - \$Nil).

4. Property and equipment:

May 31, 2007	Cost	Accumulated amortization	Net book value
Land	\$ 59,300	\$ -	\$ 59,300
Building	93,771	16,369	77,402
Office equipment	318,601	193,437	125,164
Mining equipment	407,077	335,379	71,698
Vehicles	28,416	15,126	13,290
	\$ 907,165	\$ 560,311	\$ 346,854

INTERNATIONAL WAYSIDE GOLD MINES LTD.
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4. Property and equipment (continued):

February 28, 2007	Cost	Accumulated amortization	Net book value
Land	\$ 59,300	\$ -	\$ 59,300
Building	93,771	15,190	78,581
Office equipment	318,601	186,848	131,753
Mining equipment	407,077	331,606	75,471
Vehicles	28,416	14,427	13,989
	\$ 907,165	\$ 548,071	\$ 359,094

5. Mineral properties:

	May 31, 2007	February 28, 2007
Wayside property (a)	\$ 1	\$ 1
Cariboo Gold Project (b)	8,584,088	8,359,088
	\$ 8,584,089	\$ 8,359,089

(a) Wayside property:

As at May 31, 2007, the Company holds a 100% interest in the Wayside property, consisting of certain mineral claims and leases located in the Lillooet Mining Division, British Columbia. If, and when, the property commences commercial production, the Company will be required to issue shares equal in value to \$480,000 to the party from whom it was initially acquired.

Based on limited financial resources and current economics, the Company has been focusing its efforts in recent years on the Cariboo Gold Quartz property (note 5(b)). Based on the limited exploration work performed on the property in recent years and the uncertainty of recovering the deferred costs, the Company is carrying this property at a nominal amount.

(b) Cariboo Gold Project:

	May 31, 2007	Feb 28, 2007
Acquisition costs:		
Payments made and shares issued	\$ 225,000	\$ 4,461,631
Asset retirement obligation	-	89,343
Option payments and shares received	-	-
Net acquisition costs	225,000	4,550,974
Balance, beginning of year	8,359,088	3,808,114
Balance, end of year	\$ 8,584,088	\$ 8,359,088

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
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5. Mineral properties (continued):

- (i) During 1994, the Company entered into an option agreement with Mosquito Consolidated Gold Mines Ltd. ("Mosquito"), to earn a 50% undivided interest in the Cariboo Gold Quartz property, consisting of certain mineral claims and leases located in the Cariboo Mining Division, British Columbia. In order to earn its 50% interest in the property, the Company was required to make option payments totaling \$50,000 (paid), issue 500,000 common shares (issued), and incur cumulative exploration and development expenditures totaling \$1,450,000 over a six year period to October 3, 2000 (incurred). For each additional year thereafter until a production decision is made, the Company agreed to spend \$500,000 on further exploration and development work on the property, although the agreement provides that the Company can apply expenditures incurred during the six year period to October 3, 2000 in excess of \$1,450,000 against this \$500,000 annual expenditure commitment.

The Company subsequently entered into a separate agreement, as amended, with Mosquito whereby the Company can acquire the remaining 50% of the Cariboo Gold Quartz property held by Mosquito as well as a 100% interest in Mosquito's Island Mountain and Mosquito Creek properties that are contiguous to the Cariboo Gold Quartz property (which collectively form the Cariboo Gold Project) (the "Properties") for cash totaling \$4,054,303 that was to be paid in stages to December 31, 2003. To February 28, 2003, the Company had paid \$554,303 to Mosquito under the terms of the amended agreement. In fiscal 2004, the agreement with Mosquito was replaced with a new agreement (the "2004 Agreement") whereby the Company paid \$50,000 on signing the 2004 Agreement and an additional \$450,000 during fiscal 2004. Pursuant to the 2004 Agreement and in order to earn a 100% interest in the Properties, the Company is required to pay \$500,000 on or before August 31 in each of the years 2004 to 2006 and \$3,500,000 on or before December 31, 2006. The Company paid \$500,000 to Mosquito on August 31, 2004, 2005 and 2006 pursuant to the 2004 Agreement and paid \$3,500,000 on December 29, 2006. Upon completion of a feasibility study, the Company will have earned a 100% interest in this property.

The 2004 Agreement further provides that the Company can extract a bulk sample of not more than 40,000 tons from the Cariboo Gold Quartz property, on which a NSR royalty of 5% is payable to Mosquito. The 2004 Agreement also provides for a NSR royalty to Mosquito of 3% of net revenues derived from production of minerals from the Properties. The Company is responsible for settling an existing 10% net profits interest on the Properties.

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
(Unaudited – Prepared by Management)
May 31, 2007

5. Mineral properties (continued):

(b) Cariboo Gold Project (continued):

- (ii) During fiscal 2000, the Company entered into an agreement with Lions Gate Energy Inc. ("LG"), a public company listed on the TSX Venture Exchange ("TSX-V") which has certain common directors with the Company, granting LG an option to earn a 50% interest in the Island Mountain and Mosquito Creek properties from the Company. In order to earn its 50% interest, the agreement provides that LG pay the Company \$150,000 upon execution of the agreement (received) and make annual option payments to the Company of \$50,000 over a five year period (\$250,000 received to February 29, 2004), issue 125,000 shares of LG in stages (125,000 shares received) and incur \$4,000,000 in exploration expenditures over a five year period. The Company is the operator on the exploration work programs, although it utilizes the services of the primary contractor used for the exploration work programs on its own properties (see notes 6(a) and 6(c)).

During the year ended February 28, 2005, the Company amended the agreement with LG as follows:

- the final annual option payment of \$50,000, which was due May 10, 2004, is to be paid on the date of execution of the amended agreement (received in fiscal 2004);
- an additional 37,500 shares of LG are to be issued to the Company upon TSX-V approval (received);
- an additional \$150,000 of option payments are to be made in three equal instalments of \$50,000 each on or before May 10, 2005 (received), May 10, 2006 and May 10, 2007; and
- the \$4,000,000 of exploration expenditures on the Island Mountain and Mosquito Creek properties is required to be incurred prior to December 31, 2008.

During the year ended February 28, 2007, the Company entered into a property transfer agreement dated January 16, 2006 with Lions Gate Energy Inc. to acquire 100% of their mineral property interests located in Wells, British Columbia for the following consideration:

- \$250,000 (issued) worth of common shares at market value of the Company;
- a total of \$1,000,000, payable in \$200,000 installments over a five year period, on May 31 of each year, commencing May 31, 2006. The May 31, 2006 payment was not paid and interest is accruing at a rate of prime plus 2% per the property transfer agreement; and
- the issuance of four annual installments of \$225,000 worth of the Company's common shares on May 31 of each year, commencing May 31, 2007 (issued) at a deemed price of the then quoted market price.

INTERNATIONAL WAYSIDE GOLD MINES LTD.
Notes to Financial Statements
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5. Mineral properties (continued):

(b) Cariboo Gold Project (continued):

- (iii) During fiscal 2001, the Company entered into agreements with several third parties to acquire interests in certain mineral properties contiguous to the Cariboo Gold Project. In aggregate, the agreements, as amended, call for the Company to pay \$242,500, issue 664,500 common shares (issued) and incur \$730,000 of exploration expenditures over a four year period.

During the year ended February 29, 2004, the Company amended the agreement on one of these mineral properties. In lieu of the previous requirement to conduct an aggregate of \$230,000 in exploration expenditures on the property, the Company will issue a total of 200,000 common shares over the next four years, with 50,000 shares to be issued on the acceptance by the TSX-V (issued) and 50,000 shares on or before September 26, 2004 (issued), September 26, 2005 (issued) and September 26, 2006 (issued). All shares are valued at market price at date of issuance.

During the year ended February 28, 2005, the Company amended the agreement on another one of these mineral properties with respect to exploration expenditures required to be incurred. The Company issued 260,000 common shares during the year ended February 28, 2005 to remove the exploration expenditure obligation on this agreement.

- (iv) During fiscal 2005, the Company entered into an agreement with a third party to act as the Company's agent to negotiate terms to acquire certain mineral properties located in the Barkerville area on the Company's behalf. The Company agreed to fund the purchase of the mineral properties through the agent. As at February 28, 2006, the Company finalized this agreement and has paid \$323,319 to acquire these properties. During fiscal 2007, the Company issued 31,440 shares at \$0.37 per share, the market price of the shares at issuance date to the third party who coordinated this transaction. This has been reflected as an additional cost of the purchase at \$11,632.

From time to time, the Company may be exposed to disputes, claims and legal actions in the normal course of business, some of which may be initiated by the Company. As at May 31, 2007, the Company is in a dispute over a mineral property. The Company is presently in negotiations with this party and an outcome is undeterminable at this time.

6. Related party balances and transactions:

(a) Balance receivable:

The amounts receivable from related parties, which are non-interest bearing, unsecured and due on demand, are comprised of the following:

	May 31, 2007	February 28, 2007
Due from other companies with certain common directors	\$ 89,859	\$ 136,292

The balance receivable from other companies with certain common directors relates primarily to an allocation of administrative costs incurred by the Company to other public companies with certain common directors and officers.

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6. Related party balances and transactions (continued):

(b) Balances payable:

The amounts payable to related parties, which, except otherwise disclosed, are non-interest bearing, unsecured and due on demand, are comprised of the following:

	May 31, 2007	February 28, 2007
Due to a company controlled by a director	\$ 1,139,925	\$ 1,131,918
Due to other companies with certain common directors	411,098	126,884
Due to directors and officers	435,796	339,958
	\$ 1,986,819	\$ 1,598,760

(c) Related party transactions:

A summary of the amounts charged to the Company by directors, former directors, and by companies controlled by directors, is as follows:

	May 31, 2007	May 31, 2006
Property exploration costs:		
Equipment rentals	\$ 445	\$ 52,401
Administration fees on reimbursed expenditures	10,556	24,000
Administration costs:		
Management fees	30,000	30,000
	\$ 41,001	\$ 106,401

Exploration and development expenditures incurred by the Company are charged from a company controlled by a director. These charges consist of labour charges, equipment rentals and administration fees of 12% (to a maximum of \$8,000 per month) on such reimbursement of expenditures. Management believes the labour charge, equipment rental charges and project administration fees are at fair values, compared to what the Company would be required to pay to third parties.

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6. Related party balances and transactions (continued):

The Company is charged \$10,000 per month for general management services by the President of the Company. For 2006, the president of the Company charged \$5,000 per month as management fees. A former director and officer charged \$5,000 per month for six months.

These transactions are recorded at exchange value, being the value established and agreed upon by the related parties.

7. Asset retirement obligation:

The Company's environmental permit requires that it reclaim any land it disturbs during the mine construction and mine operations. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to February 28, 2007 to be \$93,810 (undiscounted value \$373,198). The present value of the future reclamation obligation assumes a discount rate of 10% (the credit-adjusted risk-free rate) and the commencement of reclamation activities after the life of the mine, which is estimated at 15 years.

The asset retirement obligations accrual required management to make significant estimates and assumptions. Actual results could materially differ from these estimates. The liability for accrued asset retirement obligations is comprised as follows:

Balance, February 28, 2007	\$	93,810
Accretion expense		<u>2,234</u>
Balance, May 31, 2007	\$	<u>96,044</u>

No asset retirement obligation was recognized in 2006

8. Convertible notes (note 12):

On December 29, 2006, the Company entered into a letter agreement with Karver Capital Canada Inc. ("KCCI") whereby KCCI will fund up to US\$10,000,000 by way of collateralized secured convertible notes payable. The loan was subject to 10% interest and matured June 29, 2007. KCCI could convert its advances plus accrued interest for units at the rate of \$0.25 per unit. Each unit consists of one share plus one half of one warrant exercisable at \$0.30 for a period of two years. The loan is collateralized by a general security agreement providing for a charge against the assets of the Company. KCCI will be entitled to bonus warrants equivalent to 33 1/3% of the amounts advanced. Each bonus warrant entitles KCCI to acquire one common share for a period of two years upon payment of \$0.30.

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May 31, 2007

8. Convertible notes (continued):

At May 31, 2007, KCCI had advanced \$4,673,340 plus an accrual for interest of \$192,050. In addition, they have received 5,425,868 bonus warrants.

Upon maturity of the loan, all advances and secured interest were converted to equity of the Company. At June 29, 2007, KCCI received 20,338,376 common shares and 4,743,153 warrants upon conversion of these amounts and funds advanced after February 28, 2007 (note 13).

The notes were classified as a liability, less the portion relating to the conversion feature (\$1,867,108) which is classified as an equity component. As a result, the recorded liability to repay the notes is lower than its face value. The assumptions used to fair value the equity components using an option pricing model were: 100% to 120% volatility, 0% dividend yield, 4.10% risk-free interest rate and expected lives of 0.42 to 2.42 years.

The difference of \$1,867,108 (“the discount”) is being charged to earnings and added to liability over the terms of the debentures using the effective rate method and the 40.84% rate implicit in the calculation.

	Three months May 31, 2007
Fair value of convertible notes, February 28, 2007	\$ 3,385,969
Accretion of debt discount for the period	976,295
Accrued interest	116,834
Liability component	<u>\$ 4,479,098</u>
Equity component of convertible notes	\$ 1,867,108
Financing costs allocated to equity component	(108,192)
Fair value of warrants on issuance	(416,234)
Equity component	<u>\$ 1,342,682</u>

Included in the equity component of convertible notes are agent options and warrants to third parties. The assumptions used to fair value the agent options in the equity component using an option pricing model were: 123% to 125% volatility, 0% dividend yield, 4.07% to 4.14% risk-free interest rate and an expected life of 2 years.

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8. Convertible notes (continued):

Of the \$225,000 finder's fee and \$53,486 of legal expenses related to the convertible notes, \$170,294 was allocated to the debt component of the convertible notes and \$108,192 was allocated to the equity component based on the proportion of gross proceeds allocated to debt and equity.

	May 31 2007	February 28 2007
Deferred financing costs allocated to debt component	\$ 112,282	\$ 170,294
Less: accumulated amortization	(86,147)	(58,012)
Deferred financing costs	\$ 27,135	\$ 112,282

9. Capital stock:

(a) Authorized capital:

Unlimited common shares without par value

During the year ended February 28, 2005, the Company increased its authorized share capital from 200,000,000 common shares without par value to an unlimited number of common shares without par value in connection with the required change from the Company Act (British Columbia) to the new British Columbia Corporations Act. On August 18, 2005 the Company consolidated its share capital on a 10 old for 1 new basis. Unless otherwise indicated, all references to the number of common shares and per share amounts have been restated to reflect the share consolidation.

(b) Issued and outstanding:

	Number of shares	Total
Balance, February 28, 2006	30,754,625	\$ 36,497,176
Issued during the year:		
For cash by way of private placements (net of issue costs)	9,889,264	2,618,482
For cash on exercise of share purchase options	127,500	42,525
For cash on exercise of share purchase warrants	73,000	21,550
Loan bonus	160,000	40,000
For acquisition of mineral properties (note 5(b))	512,209	261,632
Issuance of shares to settle accounts payable (note 6)	2,075,198	518,800
Fair value of stock options allocated to shares issued on exercise	-	24,746
Fair value of warrants from private placements and extensions	-	(1,029,806)
Balance, February 28, 2007	43,591,796	\$ 38,995,104
Shares issued for mineral properties	918,367	225,000
Balance, May 31, 2007	44,510,163	\$ 39,220,104

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9. Capital stock (continued):

(c) Flow-through shares:

During fiscal 2007, the Company raised a total of \$1,068,774 by way of issuing flow-through common shares (2006 - \$1,019,350) (note 9(b)). These expenditures were renounced at the end of calendar year 2006.

The total qualifying exploration costs incurred as of February 28, 2007 on resource property exploration was \$396,642 (2006 - \$1,019,350). The remaining unspent flow through funds are subject to Part XII.2 tax.

Expenditures related to the use of flow-through share proceeds are included in exploration costs but are not available as a tax deduction to the Company as the tax benefits of these expenditures have been renounced to the investors.

(d) Share purchase options:

Pursuant to the policies of the TSX-Venture Exchange (TSX-V), the Company may grant incentive stock options to its officers, directors, employees and consultants. TSX-V policies permit the Company's directors to grant incentive stock options for the purchase of shares of the Company to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual (maximum of 2% to any consultant). The exercise price of stock options is determined by the board of directors of the Company at the time of grant and may not be less than the closing price of the Company's shares on the trading day immediately preceding the date on which the option is granted and publicly announced, less an applicable discount, and may not otherwise be less than \$0.10 per share. Options have a maximum term of five years and terminate 90 days following the termination of the optionee's employment, except in the case of retirement, death or disability, in which case they terminate one year after the event. Vesting periods of options is determined at the time of granting of the options at the discretion of the board of directors. Once approved and vested, options are exercisable at any time.

The continuity of the Company's share purchase options for the period ended May 31, 2007, all of which are exercisable, is as follows:

Exercise Price	Expiry Date	Balance February 28, 2007	Changes in the Year			Balance May 31, 2007
			Granted	Exercised	Expired/Cancelled	
\$0.40	March 2, 2009	876,000	-	-	-	876,000
\$0.36	May 15, 2007	407,415	-	-	(407,415)	-
\$0.36	November 26, 2007	94,028	-	-	-	94,028
\$0.33	September 30, 2008	426,342	-	-	-	426,342
\$0.36	October 3, 2008	124,500	-	-	-	124,500
\$0.40	February 2, 2009	396,179	-	-	-	396,179
		2,324,464	-	-	(404,415)	1,917,049
Weighted average exercise price		\$0.37	-	-	\$0.36	\$0.37

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9. Capital stock (continued):

(e) Share purchase warrants:

The continuity of the Company's share purchase warrants for the period ended May 31, 2007, are as follows:

Exercise Price	Expiry Date	Balance February 28, 2007	Changes in the Year			Balance May 31, 2007
			Granted	Exercised	Expired/ Cancelled	
\$1.20	March 7, 2007	180,000	-	-	(180,000)	-
\$0.40	October 24, 2007	632,000	-	-	-	632,000
\$0.40	November 21, 2007	790,000	-	-	-	790,000
\$0.40	January 30, 2008	921,416	-	-	-	921,416
\$0.40	February 21, 2008	5,000,000	-	-	-	5,000,000
\$0.65	May 16, 2008	458,021	-	-	-	458,021
\$0.65	June 16, 2008	56,111	-	-	-	56,111
\$0.35	July 28, 2007	1,750,000	-	-	-	1,750,000
\$0.35	August 14, 2008	1,035,000	-	-	-	1,035,000
\$0.35	October 12, 2008	323,500	-	-	-	323,500
\$0.35	October 19, 2007	722,000	-	-	-	722,000
\$0.35	December 4, 2008	600,000	-	-	-	600,000
\$0.30	December 29, 2008	4,857,951	-	-	-	4,857,951
\$0.30	January 26, 2009	199,873	-	-	-	199,873
\$0.30	February 2, 2009	84,754	-	-	-	84,754
\$0.30	February 14, 2009	83,333	-	-	-	83,333
		17,693,959	-	-	(180,000)	17,513,959

9. Capital stock (continued):

(f) Shareholder rights plan:

On July 5, 2006 the shareholders of the Company approved a shareholder rights plan (the “Plan”), to become effective on July 24, 2006. The Plan is intended to ensure that any entity seeking to acquire control of the Company makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan’s adoption was issued one Right for each common share of the Company held. Each Right entitles the registered holder thereof, except for certain “Acquiring Persons” (as defined in the Plan), to purchase from treasury one common share at \$30, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Company. The Rights expire on July 24, 2015.

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10. Contributed surplus:

Balance, February 28, 2005	\$ 1,909,248
Fiscal 2006 stock-based compensation (note 9(d))	304,479
Balance, February 28, 2006	2,213,727
Fair value of warrants on convertible notes (note 8)	416,234
Fair value of warrants and agent options on private placements and extensions (note 9(b))	1,256,545
Fiscal 2007 stock-based compensation (note 9(d))	232,664
Fair value of stock options exercised, reclassified to share capital	(24,746)
Balance, February 28, 2007 and May 31, 2007	\$ 4,094,424

11. Segment disclosures:

The Company considers its business to comprise a single operating segment, being exploration of resource properties, within the geographic area of British Columbia, Canada.

12. Subsequent events:

(i) Subsequent to May 31, 2007, the Company received an additional \$179,962 of funding from Karver Capital Canada Inc. ("KCCI"). This plus previous advances plus accrued interest total \$5,201,344. This amount was converted on June 29, 2007 into 20,338,376 common shares and 10,169,188 warrants exercisable at \$0.30 for two years. This financing is now closed.

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	May 31,	
	2007	2006
Exploration and development expenditures:		
Administration fees (note 6(c))	\$ 10,556	\$ 24,000
Assaying	3,465	29,831
Accretion of Asset retirement obligation	2,234	-
Consulting	13,094	83,006
Engineering	-	12,615
Environmental	4,919	13,521
Land fees and permitting	18,740	23,772
Exploration	48,537	197,308
Equipment rentals (note 6(c))	445	52,401
Mine and field supplies	35,757	74,794
Travel	6,746	1,468
	<u>\$ 144,492</u>	<u>\$ 512,716</u>