

CROWFLIGHT MINERALS INC.

(A Development Stage Company)

Financial Statements

December 31, 2006 and 2005



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
CROWFLIGHT MINERALS INC.
(A Development Stage Company)

We have audited the balance sheets of Crowflight Minerals Inc. (A Development Stage Company) as at December 31, 2006 and 2005 and the statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in cursive script that reads "McGovern, Hurley, Cunningham, LLP".

**Chartered Accountants
Licensed Public Accountants**

TORONTO, Canada
March 27, 2007

BALANCE SHEETS

As at December 31
(in Canadian dollars)

	2006	2005
ASSETS		
Current		
Cash and cash equivalents	\$ 13,800,920	\$ 633,669
Amounts receivable	298,580	279,909
Prepaid expenses and deposits	143,092	49,880
Future income tax asset (Note 6)	842,000	598,000
	15,084,592	1,561,458
Deposits and advances (Note 4)	206,571	178,255
Prepaid exploration expenditures (Note 4)	327,311	-
Exploration properties, plant and equipment and deferred exploration expenditures (Note 4)	35,371,564	21,006,374
Equipment (Note 3)	64,879	36,873
	\$ 51,054,917	\$ 22,782,960
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,201,979	\$ 1,327,926
SHAREHOLDERS' EQUITY		
Common Shares (Note 5(a))	58,437,271	30,375,246
Warrants (Note 5(b))	1,773,748	3,191,425
Contributed surplus (Note 5(d))	6,328,590	3,842,714
Deficit	(17,686,671)	(15,954,351)
	48,852,938	21,455,034
	\$ 51,054,917	\$ 22,782,960

Commitments and Contingencies (Note 8)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed "THOMAS ATKINS" _____, Director

Signed "BERNARD WILSON" _____, Director

STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31,
(in Canadian dollars)

	2006	2005
Expenses		
Professional, consulting and management fees (Note 5(c))	\$ 1,768,813	\$ 848,519
Shareholder communications and promotion	337,925	271,695
Travel	103,429	142,871
General and office	102,876	122,840
Amortization	10,870	28,424
Interest expenses and bank charges	2,769	2,441
	2,326,682	1,416,790
Loss before the undernoted	(2,326,682)	(1,416,790)
Interest income	92,321	12,655
General exploration expenses	-	(16,838)
Recovery of expenses	6,068	15,912
Write-down of exploration properties and deferred exploration expenses (Note 4)	(1,089,027)	(228,349)
Loss before income taxes	(3,317,320)	(1,633,410)
Income taxes (Note 6)	1,585,000	1,762,240
Net (loss) income for the year	(1,732,320)	128,830
DEFICIT, beginning of year	(15,954,351)	(16,083,181)
DEFICIT, end of year	\$ (17,686,671)	\$ (15,954,351)
(Loss) income per share - basic and diluted	\$ (0.01)	\$ 0.00
Weighted average number of shares		
basic	138,308,978	86,477,353
diluted	138,308,978	86,858,770

STATEMENTS OF CASH FLOWS

For the years ended December 31,
(in Canadian dollars)

	2006	2005
Cash (used in) provided by:		
OPERATING ACTIVITIES:		
Net (loss) income for the year	\$ (1,732,320)	\$ 128,830
Charges not affecting cash:		
Amortization	10,870	28,424
Stock-based compensation expense (Note 5(c))	815,512	260,500
Write down of exploration properties and deferred exploration expenditure (Note 4)	1,089,027	228,349
Future income tax recovery (Note 6)	(1,585,000)	(1,762,240)
Net change in non-cash working capital	794,476	(415,707)
	(607,435)	(1,531,844)
FINANCING ACTIVITIES:		
Common shares issued through private placements	24,457,928	5,025,963
Warrants issued through private placements	1,194,072	699,787
Shares issued from exercise of warrants and options	5,318,600	512,000
Financing costs	(2,094,339)	(441,638)
	28,876,261	5,796,112
INVESTING ACTIVITIES:		
Exploration properties and deferred exploration expenditures	(14,664,780)	(9,932,799)
(Increase) decrease in deposits and prepaid exploration expenditure	(355,627)	(178,255)
(Decrease) increase in accounts payable attributable to property exploration	(32,305)	694,867
Property, plant and equipment	(48,863)	(19,867)
	(15,101,575)	(9,436,054)
CHANGE IN CASH AND CASH EQUIVALENTS	13,167,251	(5,171,786)
CASH AND CASH EQUIVALENTS, beginning of year	633,669	5,805,455
CASH AND CASH EQUIVALENTS, end of year	\$ 13,800,920	\$ 633,669
Cash and cash equivalents consists of:		
Cash	\$ 1,105,560	\$ 633,669
Cash equivalents	11,505,360	-
	\$ 13,800,920	\$ 633,669

STATEMENTS OF CASH FLOWS (continued)

For the years ended December 31,
(in Canadian dollars)

	2006	2005
SUPPLEMENTAL INFORMATION:		
Common shares issued for interest in exploration properties (Note 4)	\$ 270,000	\$ 350,000
Warrants granted for interest in exploration properties (Note 4)	\$ -	\$ 106,500
Shares issued for purchase of exploration assets (Note 4)	\$ 500,000	\$ -
Stock based compensation for interest in property acquisition (Note 4)	\$ 9,450	\$ -
Common shares issued as cost of issue (Note 5(a))	\$ 87,400	\$ -
Warrants granted as cost of issue (Note 5(a))	\$ 374,875	\$ -
Amortization of assets deferred to exploration properties (Note 3)	\$ 9,987	\$ -
Interest received	\$ 92,322	\$ 12,655
Interest paid	\$ 331	\$ 44,070
Income taxes paid	\$ -	\$ -

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

1. NATURE OF OPERATIONS AND GOING CONCERN

Crowflight Minerals Inc. (the "Company") is a development stage company and currently has mineral exploration and development properties in Canada. The Company is currently focusing its resources on the development of the Bucko Deposit and the exploration of the Thompson Nickel Belt, both in the province of Manitoba. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material writedowns of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non compliance with regulatory requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these financial statements.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that in the previous year. Outlined below are those policies considered particularly significant.

a) Exploration properties and deferred exploration expenditures

Expenses relating to exploration properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit of production basis. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are expensed to operations in the year of abandonment or sale.

Costs include the cash consideration and the quoted market value of the shares issued for the acquisition of exploration properties or assets. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment. Any government assistance received is used to reduce the carrying value of the property for which it was received.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Exploration properties and deferred exploration expenditures (continued)

The Company reviews capitalized costs on its exploration properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property. Management's assessment of the property's estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

The Company qualifies for mineral exploration assistance programs associated with the exploration and development of its properties located in Manitoba. Recoverable amounts are offset against deferred exploration costs incurred when the Company has complied with the terms and conditions of the program and the amount of government assistance is reasonably assured.

b) Asset retirement obligations

The Company follows the Canadian Institute of Chartered Accountants ("CICA") accounting standard on "Asset retirement obligations". Under this standard the Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its exploration properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration properties and deferred exploration expenditures and amortized over the useful life of the properties. As at December 31, 2006, management does not believe that the Company has any significant legal obligations relating to the reclamation of its exploration properties.

c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and deposits that, which generally mature within 90 days from the date of acquisition. Deposits are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

d) Property, plant and equipment

Property plant and equipment are recorded at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives of 2 years to 5 years. Amortization expense related to assets used in exploration activities is deferred to exploration properties, while amortization expense related to administration assets is expensed to operations.

e) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events 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. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations or stock-based compensation, warrants and brokers' options and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

g) Flow through financing

The Company finances a portion of its exploration activities through the issue of flow through shares. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to exploration properties. Funds raised pursuant to exploration financing agreements must be expended on qualifying exploration expenditures. For income tax purposes, exploration expenses under flow through financing agreements are renounced in favour of the investors and are not deductible by the Company. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

h) Stock based Compensation

The Company has a stock based compensation plan which is described in Note 5(c). The Company applies the fair value based method of accounting for stock option awards, as prescribed by CICA 3870 "Stock-based Compensation and Other Stock-based Payments". Under this method, the estimated fair value of the stock options at the date of grant is recorded over the vesting period, with the offsetting credit to contributed surplus. If the stock options are exercised, the proceeds are credited to share capital.

i) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

j) Comparative figures

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

3. EQUIPMENT

	2006		
	Cost	Accumulated	Net
	\$	Amortization	\$
	\$	\$	\$
Computer	70,606	(57,608)	12,998
Furniture and fixtures	4,736	(3,039)	1,697
Field equipment	55,846	(16,646)	39,200
Vehicles	12,858	(1,8746)	10,984
	144,046	(79,167)	64,879

During the current year, \$10,870 in amortization was charged to the Statement of Operations and Deficit related to the assets (2005: \$28,424). As well, \$9,987 in amortization was charged to Deferred Exploration Expenditures related to assets used in exploration.

	2005		
	Cost	Accumulated	Net
	\$	Amortization	\$
	\$	\$	\$
Computer	60,286	(46,931)	13,355
Furniture and fixtures	4,736	(2,311)	2,425
Field equipment	30,161	(9,068)	21,093
	95,183	(58,310)	36,873

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

4. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

2006	MANITOBA			SUDBURY, ONTARIO				TOTAL
	Bucko Deposit \$	Thompson Nickel Belt South \$	Thompson Nickel Belt North \$	AER Kidd \$	Airport \$	Peter's Roost \$	New Exploration \$	
<u>Acquisition costs</u>								
Balance, December 31, 2005	1,458,431	179,811	228,693	991,858	356,403	102,887	-	3,318,083
Acquisition and property costs	310,687	44,680	25,743	103,066	18,000	24,870	-	527,046
Write off of property costs	-	-	-	-	(374,403)	-	-	(374,403)
Balance, December 31, 2006	1,769,118	224,491	254,436	1,094,924	-	127,757	-	3,470,726
<u>Exploration and development expenditure</u>								
Balance, December 31, 2005	5,067,835	4,976,479	1,393,154	4,879,842	714,323	654,245	2,413	17,688,291
Drilling	1,743,585	1,537,140	667,924	-	-	-	-	3,948,649
Assaying, laboratory, metallurgy	198,183	-	-	-	-	-	-	198,183
Geology, geological consulting, labour	682,323	344,702	221,838	8,075	-	12,288	-	1,269,226
Travel and transportation	210,623	8,952	4,205	686	250	1,321	763	226,800
Geochemistry and geophysics	102,969	4,929	247,138	-	-	-	-	355,036
Reports	94,732	-	-	-	-	-	-	94,732
Mine and mill design	(27,015)	-	-	-	-	-	-	(27,015)
Site development	4,040,518	-	-	-	-	-	-	4,040,518
Off-take contract	37,791	-	-	-	-	-	-	37,791
Mine closure bond	217,288	-	-	-	-	-	-	217,288
Engineering and procurement	650,274	-	-	-	-	-	-	650,274
Environmental	145,791	4,353	2,411	48,908	-	-	-	201,463
Field and office support	161,543	10,811	8,110	2,075	51	1,750	86	184,426
Management fees	457	187,766	114,149	-	-	-	-	302,372
Incurred to date	13,326,897	7,075,132	2,658,929	4,939,586	714,624	669,604	3,262	29,388,034
Capital purchases	3,485,884	-	-	-	-	-	-	3,485,884
Write off property costs	-	-	-	-	(714,624)	-	-	(714,624)
Less: Government assistance	-	(121,342)	(137,114)	-	-	-	-	(258,456)
Balance, December 31, 2006	16,812,781	6,953,790	2,521,815	4,939,586	-	669,604	3,262	31,900,838
TOTAL DEFERRED COSTS								
December 31, 2006	18,581,899	7,178,281	2,776,251	6,034,510	-	797,361	3,262	35,371,564

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

4. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

2005	MANITOBA			SUDBURY, ONTARIO					TOTAL
	Bucko Deposit	Thompson Nickel Belt South	Thompson Nickel Belt North	AER Kidd	Airport	Mystery Offset Dyke	Peter's Roost	New Exploration	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Acquisition costs									
Balance, December 31, 2004	1,227,100	154,515	-	891,858	356,403	-	102,887	-	2,732,763
Acquisition and property costs	231,331	25,296	228,693	100,000	-	50,000	-	-	635,320
Write off of property costs	-	-	-	-	-	(50,000)	-	-	(50,000)
Balance, December 31, 2005	1,458,431	179,811	228,693	991,858	356,403	-	102,887	-	3,318,083
Exploration expenditure									
Balance, December 31, 2004	431,193	1,360,753	-	4,869,853	671,733	163,868	615,261	-	8,112,661
Drilling	1,686,492	1,819,306	729,673	-	-	-	-	-	4,235,471
Assaying, laboratory, metallurgy	284,106	5,762	-	-	-	-	-	-	289,868
Geology and geological consulting	521,216	643,122	198,064	17,651	17,584	6,243	28,884	1,890	1,434,654
Travel and transportation	162,415	16,046	6,110	1,657	1,295	20	1,136	422	189,101
Geochemistry and geophysics	96,676	796,673	406,512	(14,000)	4,000	-	3,530	-	1,293,391
Reports	361,137	-	-	-	-	-	-	-	361,137
Mine and mill design	809,147	-	-	-	-	-	-	-	809,147
Site development	463,621	-	-	-	-	-	-	-	463,621
Environmental	123,657	24,845	3,176	-	-	-	-	-	151,678
Field and office support	85,456	47,216	11,487	4,681	19,711	8,218	5,434	101	182,304
Management fees	42,719	327,566	131,796	-	-	-	-	-	502,081
Incurred to date	5,067,835	5,041,289	1,486,818	4,879,842	714,323	178,349	654,245	2,413	18,025,114
Less: Government assistance	-	(64,810)	(93,664)	-	-	-	-	-	(158,474)
Write off of property costs	-	-	-	-	-	(178,349)	-	-	(178,349)
Balance, December 31, 2005	5,067,835	4,976,479	1,393,154	4,879,842	714,323	-	654,245	2,413	17,688,291
TOTAL DEFERRED COSTS									
December 31, 2005	6,526,266	5,156,290	1,621,847	5,871,700	1,070,726	-	757,132	2,413	21,006,374

Throughout 2006, the Company purchased or paid deposits on various property, plant and equipment related to the development of the Bucko Deposit. A total of \$306,571 in such amounts is recorded as long-term deposits. As well, during 2006, the Company purchased additional property, plant and equipment for total consideration of \$2,000,000, which was satisfied through cash payments of \$1,500,000 as well as the issuance of 1,666,667 common shares of the Company valued at \$500,000 based on the market price of the Company's common shares at the date of issue.

MANITOBA

Bucko Deposit and Thompson Nickel Belt South

On June 16, 2004, the Company entered into an option and joint venture agreement with Falconbridge Limited, now referred to as Xstrata Nickel ("Xstrata"), a business unit of Falconbridge Limited. This agreement was amended on March 1, 2006.

To earn an initial 33% conditional interest and an additional 17% conditional interest in the Bucko Deposit, and an initial 25% interest in certain other claims in the Thompson Nickel Belt region of Manitoba ("TNB South"), the Company was required to incur expenditures, issue shares and warrants, and meet other requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

4. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

The Company was required to issue and grant the following common shares and warrants:

- issue 2,000,000 common shares of the Company upon execution of the agreement (issued in 2004). The fair value of the shares was determined to be \$600,000 based upon the quoted market value of the Company's shares at the date of issue;
- issue 1,000,000 common shares of the Company by June 1, 2005 (issued in 2005). The fair value of the shares was determined to be \$230,000 based upon the quoted market value of the Company's shares at the date of issue;
- issue 1,000,000 common shares of the Company by June 1, 2006 (issued in 2006). The fair value of the shares was determined to be \$270,000 based upon the quoted market value of the Company's shares at the date of issue; and
- grant 5,000,000 warrants (issued in 2004) to purchase common shares of the Company for a period of two years, with half of the warrants exercisable at an exercise price of \$0.35 per share and the remaining half exercisable at a price of \$0.75 per share. The fair value of the warrants, estimated to be \$620,000, was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free interest rate of 4%, and an expected life of two years.

The Company earned an initial 33% interest in the Bucko Deposit during 2005 by incurring \$4,650,000 towards exploration and a bankable feasibility study. Upon earning the 33% conditional interest, the Company had the option to earn an additional 17% conditional interest in the Bucko deposit (for a total 50% conditional interest) by incurring an additional \$2,850,000 (total expenditure of \$7,500,000) and completing a bankable feasibility study on the Bucko Deposit. The Company met its total expenditure commitment during 2006, and completed the bankable feasibility study subsequent to December 31, 2006.

The Company is also required to incur an additional \$10,500,000 of expenditures as follows:

- \$1,376,000 by December 31, 2004 (completed);
- an additional \$3,276,000 by December 31, 2005 (completed);
- an additional \$1,500,000 by April 30, 2006 (completed);
- an additional \$1,500,000 by April 30, 2007;
- an additional \$1,500,000 by April 30, 2008;
- an additional \$1,348,000 by April 30, 2009;

If these requirements are not met, the conditional interests will revert back to Xstrata.

The Company may increase its interest in the Bucko Deposit to 100% by making a decision within six-months of the completion of the bankable feasibility study to put the Bucko Deposit into commercial production and to complete a financing for and commence construction of the production facilities.

The Company may elect to increase its interest in the TNB South other claims to 50% by providing funding to Xstrata, as operator, of \$7,000,000 plus administrative charges of 10% of expenditures for exploration by April 13, 2013. In order to increase either or both interests, the Company must issue 1,000,000 common shares of the Company to Xstrata within 30 days of exercising the election and an additional 1,000,000 common shares of the Company within one-year exercising the election.

Certain areas of the property are subject to underlying agreements whereby those portions are subject to i) a 2% NSR; ii) a 10% net proceeds of production royalty; or iii) a \$500,000 payment due on commencement of commercial production.

The agreement also provides Xstrata a back in right, property buy back right, Joint Venture bump up option, Net Smelter Returns royalty and an off take right.

At December 31, 2006, the Company has funded a total of approximately \$7,300,000 towards expenditure on the TNB South properties, of which approximately \$7,200,000 has been expended. A balance of \$112,894 in funding to Xstrata remains and is included in prepaid exploration expenditures.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

4. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

Thompson Nickel Belt North

In January 2005, the Company entered into an option agreement with Xstrata to acquire a 50% interest in the Thompson Nickel Belt North Project ("TNB North"). This agreement was amended on March 1, 2006.

The Company is required to spend \$5,000,000 on or before April 30, 2009 in the following tranches:

- \$1,300,000 by December 31, 2005 (completed);
- \$1,000,000 by April 30, 2006 (completed);
- \$1,000,000 by April 30, 2007;
- \$1,000,000 by April 30, 2008; and
- \$700,000 by April 30, 2009.

In addition to the expenditures, in 2005, the Company issued Xstrata 400,000 common shares and warrants to purchase 1,000,000 common shares for a two-year period from the date of issue. The 1,000,000 warrants consisted of 500,000 warrants exercisable at \$0.35 and 500,000 warrants exercisable at \$0.75. The fair value of the common shares was determined to be \$120,000 using the quoted market value of the Company's stock at the date of issuance. The fair value of the warrants was estimated to be \$106,500. The fair value of the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk-free interest rate of 2.9%; and an expected life of two years.

The agreement also provides Xstrata a back in right, property buy back right, Joint Venture bump up option, Net Smelter Returns royalty and an off take right.

At December 31, 2006, the Company has funded a total of approximately \$2,800,000 towards expenditure on the TNB North properties, of which approximately \$2,600,000 million has been expended. A balance of \$214,417 in funding to Xstrata remains and is included in prepaid exploration expenditures.

Subsequent to the December 31, 2006, the Company amended their agreements with Xstrata by entering into the Bucko Lake Lease Transfer Agreement which includes the Exploration Option Agreement and the Off-Take agreement. See Note 10(a).

Government Assistance

During 2006, the Company applied for and was approved for financial assistance under the Manitoba Mineral Exploration Assistance Program ("MEAP") and received \$258,456 (2005: \$158,474) in government assistance.

SUDBURY, ONTARIO

AER Kidd Property

The Company acquired the AER Kidd Property in 2003 for \$150,000 cash, 1,000,000 common shares, and 1,000,000 common share purchase warrants, and a 3% net smelter royalty. The Company may purchase up to 50% of this royalty for \$1,250,000 up to the commencement of commercial production. A \$50,000 advance royalty payment, payable semi annually, commenced January 31, 2001. All required advance royalty payments to date have been made.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

4. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

Airport Property

In 2003, the Company signed a Participation and Joint Venture Agreement with Millstream Mines Ltd. to earn an undivided 50% interest in certain Airport Property claim blocks in Sudbury, Ontario. In December 2005, the Company elected to no longer fund the exploration program. Consequently, the Company's interest in the property has been diluted to 30%. During 2006, the carrying value of this property was written off.

Mystery Offset Dyke Property

Pursuant to agreements dated April 8, 2004, May 31, 2004 and January 1, 2005, the Company acquired an option to acquire 100% of the Mystery Offset Dyke Property ("MOD Property") along the Mystery Offset Dyke, located in Lorne Township of the South Range sector of the Sudbury Basin. During 2005, the Company decided not to pursue its option to acquire the Mystery Offset Dyke Property, and consequently, an amount of \$228,349 in expenditures was written off to operations in 2005.

Peter's Roost Property

The Company holds a number of claims along the North Range of the Sudbury Basin.

In June 2006, the Company reached a formal agreement with Wallbridge Mining Company Limited ("Wallbridge") to option out an initial and conditional 50% interest in the Company's interests in the Peter's Roost group of properties. Wallbridge is required to incur \$700,000 in exploration expenditures on the properties by December 31, 2007 in order to earn an initial 50% conditional interest. Wallbridge would have the option to increase its ownership to a 70% vested interest in any or all of the four separate project areas by funding a further \$1 million in exploration expenditures in each project area in which it selects to vest by December 31, 2010. Failure to vest in a specific project area will result in ownership of that area reverting back to the Company.

For any new properties Wallbridge acquires within the joint venture area, the Company will have the right to acquire a 25% participating interest at such time as an indicated resource is proven by reimbursing Wallbridge 50% of its exploration costs to that point.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

5. CAPITAL STOCK

Authorized

Unlimited common shares without par values
Unlimited class A preference shares with a par value of \$10 each,
issuable in series, cumulative dividends
Unlimited class B preference shares with a par value of \$50 each,
issuable in series, cumulative dividends

a) <u>Common shares issued</u>	<u>Number of Shares</u>	<u>Value</u>
Balance, December 31, 2004	71,758,254	\$ 25,851,956
Private placement - non flow-through (vi)	5,000,000	1,250,000
Private placement - flow-through (vi)	14,903,000	3,725,750
Private placement (vii)	3,000,000	750,000
Issue of warrants - warrant valuation (vi, viii)	-	(699,787)
Shares issued in acquisition of property (Note 4)	1,400,000	350,000
Exercise of warrants	2,560,000	512,000
Exercise of warrants - warrant valuation	-	241,205
Flow-through shares income tax effect	-	(1,164,240)
Cost of issue	-	(441,638)
Balance, December 31, 2005	98,621,254	\$ 30,375,246
Private placement - non flow-through (i)	6,000,000	1,140,000
Private placement - flow-through (ii)	10,377,776	2,335,000
Private placement - non flow-through (ii)	6,050,000	1,149,500
Private placement - flow-through (iii)	17,361,000	5,208,300
Private placement - non flow-through (iv)	20,854,859	7,299,200
Private placement - flow-through (iv)	21,300,000	8,520,000
Issue of warrants - warrant valuation (i, ii, iv)	-	(1,194,072)
Commission shares issued (ii)	460,000	87,400
Shares issued in acquisition of property (Note 4)	1,000,000	270,000
Shares issued in acquisition of assets (Note 4)	1,666,667	500,000
Exercise of warrants (v)	14,426,500	5,230,600
Exercise of warrants - warrant valuation	-	1,196,737
Exercise of options (v)	400,000	88,000
Exercise of options - option valuation	-	128,974
Flow-through shares income tax effect	-	(1,341,000)
Cost of issue	-	(2,556,614)
Balance, December 31, 2006	198,518,056	\$ 58,437,271

(i) In January 2006, the Company completed the first tranche of a private placement offering through the issuance of 6,000,000 units of the Company at a price of \$0.19 per unit for gross proceeds of \$1,140,000. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share of the Company at an exercise price of \$0.30 until July 20, 2007. The fair value of the warrants of \$174,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk-free interest rate of 3.8%; and an expected life of eighteen months.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

5. CAPITAL STOCK (continued)

(ii) In February 2006, the Company closed the final tranche of a private placement through the issuance of 1,177,776 flow through shares priced at \$0.225 per flow-through share and the issuance of 6,050,000 units priced at \$0.19 per unit for gross proceeds of \$1,414,500. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share of the Company at \$0.30 until August 28, 2007. The fair value of the warrants of \$175,450 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk-free interest rate of 3.9%; and an expected life of eighteen months.

As well, the Company completed a brokered private placement through the issuance of 9,200,000 flow-through common shares at a price of \$0.225 per flow-through share for gross proceeds of \$2,070,000. Dundee Securities Corporation acted as agent in connection with the brokered private placement and was issued 460,000 common shares ("Commission Shares") and 460,000 broker warrants as commission. Each broker warrant is exercisable into one common share of the Company at an exercise price of \$0.225 per common share until August 28, 2007. The fair value of the Commission Shares was determined to be \$87,400 based on the issue price of the Company's stock issued in this tranche of the private placement. The fair value of the broker warrants of \$33,580 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk-free interest rate of 3.9%; and an expected life of eighteen months. The values of the commission shares and broker warrants were recorded as cost of issue.

(iii) In June 2006, the Company completed a brokered private placement through the issuance of 17,361,000 flow-through common shares of the Company at a price of \$0.30 per flow-through share for gross proceeds of \$5,208,300. Orion Securities Inc. ("Orion") led a syndicate of agents in connection with this financing and received a commission of 6% of total gross proceeds or \$312,498. As well, 1,041,660 broker warrants were granted to Orion and other agents within the syndicate. Each broker warrant is exercisable into one common share of the Company at a price of \$0.30 per share until December 21, 2007. Each flow-through common share and common share issued upon the exercise of the broker warrants were subject to a hold period that expired on October 22, 2006. The fair value of the broker warrants of \$99,999 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk-free interest rate of 4.3%; and an expected life of eighteen months. The value of the broker warrants were recorded as cost of issue.

(iv) In October 2006, the Company completed both brokered and non-brokered private placement financings in two tranches raising \$8,520,000 through the issuance of 21,300,000 flow-through shares priced at \$0.40 per share and \$7,299,200 through the issuance of 20,854,859 units priced at \$0.35 per unit. Each unit consists of one common share of the Company and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$0.50 per share until April 11 or April 30, 2008. If, over a period of 15 consecutive trading days between February 11 or February 28, 2007 and April 10 or 30, 2008, the daily volume weighted average trading price of the common shares on the TSX Venture Exchange (or other stock exchange where the majority of the trading volume occurs) exceeds \$0.75 on each of those consecutive trading days, the Company may, within 30 days of such an occurrence, give written notice to the holders of the warrants that the warrants will expire at 4:00 pm EST on the 45th days following the giving of such notice unless exercised by the holders prior to such date. The fair value of the warrants of \$844,622 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 69%; risk-free interest rate of 4.0%; and an expected life of eighteen months.

A director and officer of the Company subscribed for 2,142,857 of these units.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

5. CAPITAL STOCK (continued)

The brokered private placement was completed by a syndicate of agents (the "Agents") led by Orion Securities Inc. The Agents received a 6% commission on gross proceeds raised of \$737,592, as well as 1,269,000 compensation options which entitle the Agents to purchase one common share at a price of \$0.40 per share until April 30, 2008, and 657,120 compensation options which entitle the Agents to purchase one unit at a price of \$0.35 per unit until April 30, 2008. Each unit consists of one common share of the Company and one half of one common share purchase warrant with each whole warrant entitling the holder to acquire one common share of the Company at a price of \$0.50 per share. The fair value of the compensation units, compensation options and compensation warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 69%; risk-free interest rate of 4.0%; and an expected life of eighteen months. A value of \$241,296 was attributed to these compensation units, options and warrants and was recorded as cost of issue.

(v) During 2006, 14,426,500 warrants were exercised at a weighted average price of \$0.36 generating gross proceeds of \$5,230,600. As well, 400,000 options were exercised generating gross proceeds of \$88,000.

(vi) In June, 2005 the Company completed a private placement offering in two tranches. In the first tranche, 14,803,000 flow-through units and 5,000,000 non flow-through units were issued for gross proceeds of \$4,950,750. The flow-through units were priced at \$0.25 per flow-through unit and consisted of one flow-through common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share of the Company at an exercise price of \$0.40 until December 8, 2006. The non flow-through units were priced at \$0.25 per unit and consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.40 until December 8, 2006. In the second tranche of this private placement, 100,000 flow-through units were issued at a price of \$0.25 per flow-through unit, for gross proceeds of \$25,000. The flow-through units consist of one flow-through common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share of the Company at \$0.40 until December 18, 2006. The fair value of the warrants of \$578,287 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk-free interest rate of 2.9%; and an expected life of 18 months.

(vii) In September 2005, the Company completed a private placement offering through the issuance of 3,000,000 units to Golden Omega Fund LP at \$0.25 per unit for gross proceeds of \$750,000. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share of the Company at an exercise price of \$0.40 until March 8, 2007. All of the shares and warrants are subject to a hold period that will expire on January 9, 2006. The fair value of the warrants of \$121,500 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk-free interest rate of 3.4%; and an expected life of 18 months.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

5. CAPITAL STOCK (continued)

b) Warrants

The following is a summary of warrant transactions during 2006 and 2005:

	2006		2005	
	Number of warrants	Weighted Average price \$	Number of warrants	Weighted Average price \$
Balance, beginning of year	29,434,356	0.45	26,033,465	0.42
Granted, private placements	16,452,429	0.43	11,451,500	0.40
Granted, broker warrants	3,756,340	0.35	-	-
Granted property acquisition	-	-	1,000,000	0.55
Exercised	(14,426,500)	0.36	(2,560,000)	0.20
Expired or cancelled	(12,907,856)	0.54	(6,490,609)	0.36
Balance, end of year	22,308,769	0.42	29,434,356	0.45

A summary of the outstanding warrants as of December 31, 2006 is as follows:

Value (\$)	Number of Warrants	Exercise Price (\$)	Expiry Date
67,500	500,000	0.350	January 18, 2007
39,000	500,000	0.750	January 18, 2007
121,500	1,500,000	0.400	March 8, 2007
174,000	3,000,000	0.300	July 20, 2007
152,251	2,625,000	0.300	August 28, 2007
33,580	460,000	0.225	August 28, 2007
99,999	1,041,660	0.300	December 21, 2007
279,161	3,446,428	0.500	April 11, 2008
565,461	6,981,001	0.500	April 30, 2008
80,169	657,120	0.350	April 30, 2008
134,514	1,269,000	0.400	April 30, 2008
26,613	328,560	0.500	April 30, 2008
1,773,748	22,308,769		

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

5. CAPITAL STOCK (continued)

c) Stock Options

The following is a summary of stock option transactions during 2006 and 2005:

	2006		2005	
	Number of stock options	Weighted average exercise price (\$)	Number of stock options	Weighted average exercise price (\$)
Balance, beginning of year	7,405,000	0.300	5,755,000	0.36
Granted	4,070,000	0.245	1,650,000	0.31
Exercised	(400,000)	0.220	-	-
Cancelled/Expired	(2,005,000)	0.361	-	-
Balance, end of year	9,070,000	0.265	7,405,000	0.30

As of December 31, 2006, the following stock options were outstanding:

Value (\$)	Number of Options Outstanding	Number Of Options Exercisable	Exercise Price (\$)	Expiry Date
11,100	150,000	150,000	0.250	June 7, 2007
811,200	2,000,000	2,000,000	0.200	June 5, 2008
50,700	125,000	125,000	0.350	June 5, 2008
40,560	100,000	100,000	0.560	November 21, 2008
20,280	50,000	50,000	0.700	November 17, 2008
50,700	125,000	125,000	0.620	December 11, 2008
14,925	75,000	75,000	0.620	June 17, 2009
215,000	1,075,000	1,075,000	0.245	October 12, 2009
14,850	50,000	50,000	0.390	October 20, 2009
40,050	150,000	150,000	0.350	November 8, 2009
19,600	100,000	100,000	0.300	January 10, 2010
39,178	200,000	175,000	0.280	February 14, 2010
39,600	200,000	200,000	0.290	February 21, 2010
231,328	1,000,000	875,000	0.330	March 1, 2010
7,100	50,000	50,000	0.200	July 14, 2010
17,100	100,000	100,000	0.235	October 18, 2010
* 427,184	2,720,000	1,360,000	0.225	March 13, 2011
* 39,007	350,000	87,500	0.280	July 5, 2011
** 9,450	50,000	50,000	0.300	August 9, 2011
* 14,471	100,000	25,000	0.365	August 15, 2011
* 20,792	150,000	37,500	0.350	September 28, 2011
29,850	150,000	150,000	0.360	November 29, 2011
	9,070,000	7,110,000		

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

5. CAPITAL STOCK (continued)

The Company has a stock option plan designed to advance the interest of the Company by encouraging officers, directors and consultants of the Company to have equity participation in the Company through the acquisition of common shares. The Company may issue options to purchase common shares equal to 10% of the issued and outstanding common shares of the Company. Options are non-transferable, non-assignable and may be granted for a term not exceeding five years. The exercise price of the options and vesting provisions, if any, are fixed by the board of directors of the Company at the time of grant at a price not below the market price of the common shares at the time of grant, subject to all applicable regulatory requirements.

During 2006, 4,070,000 stock options (2005 - 1,650,000) were granted to directors, officers and consultants of the Company. Of these options granted, 350,000 vested immediately while 3,370,000 (*) options vest one eighth every quarter from the date of grant over a two-year term. The remaining 350,000 options had similar vesting terms however only 87,500 vested before the remaining 262,500 were cancelled. A portion of the options granted in 2005 also vested during 2006. As well, the value of options granted with respect to a land purchase agreement was charged to exploration properties (**). The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0% (2005 - 0%); expected volatility of 69% and 90% (2005 - 89.78%); risk-free interest rates ranging from 3.8% to 4.5% (2005 - 3.6%); and an expected average life of 2 to 5 years (2005 - 5 years). During 2006, an amount of \$604,345 (2005 - \$260,500) was recorded for options granted and/or vesting during 2006 and is included in professional, consulting and management fees.

On January 10, 2007, the Company granted 3,300,000 stock options to various directors and officers of the Company. An accrual of \$141,877 has been made to professional, consulting and management fees and to contributed surplus related to the portion of these options that vested on the date of grant.

d) Contributed Surplus

	2006	2005
Balance, beginning of year	\$ 3,842,714	\$ 3,049,199
Stock options granted and/or vested during the period:		
Directors and officers	653,543	214,000
Consultants	161,968	46,500
Property acquisition	9,450	-
Exercise of stock options, reallocation of valuation	(128,974)	-
Expiry of warrants, reallocation of valuation	1,789,888	533,015
Balance, end of year	\$ 6,328,589	\$ 3,842,714

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

6. INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 36% (2005 - 36%) are:

	2006	2005
Net loss for the year before income taxes	\$(3,317,320)	\$(1,633,410)
Expected recoverable income taxes at statutory rates	(1,194,000)	(588,000)
Increase (decrease) resulting from:		
Share issue costs	(754,000)	(159,000)
Stock based compensation	296,000	94,000
Expired losses	59,000	15,000
Other	8,000	536,760
Change in valuation allowance	-	(1,661,000)
Provision for income taxes	\$(1,585,000)	\$(1,762,240)

b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2006 and 2005 are as follows:

	2006	2005
Future income tax assets (liabilities)		
Non-capital losses	\$1,323,000	\$1,136,000
Resource properties	(1,540,000)	(1,125,000)
Share issue costs	842,000	377,000
Other assets	217,000	210,000
Valuation allowance	-	-
	\$ 842,000	\$ 598,000

The Company has non-capital losses in Canada which, under certain circumstances, can be used to reduce the taxable income of future years. The losses and expiry dates are as follows:

<u>Expiry Date</u>	<u>Amount (\$)</u>
2007	290,000
2008	219,000
2009	216,000
2010	1,584,000
2014	299,000
2015	602,000
2026	464,000
	3,674,000

The Company has approximately \$31,000,000 of development and exploration expenditures as at December 31, 2006 which under certain circumstances may be utilized to reduce the taxable income of future years.

The Company will record an additional future income tax liability of approximately \$5,783,000 upon renunciation of flow-through expenditures in 2007. See Note 8(a).

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

7. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company shares its premises with other companies that have common directors. The Company reimburses these companies for their proportionate share of the expenses. At December 31, 2006 an amount of \$12,135 (2005 - \$43,180) is payable in relation to these expenses. As well, the Company is owed \$1,640 (2005 - \$15,883) at December 31, 2006 for shared expenses.

8. COMMITMENTS

a) Pursuant to the issuance of 49,038,776 flow through shares during 2006, the Company renounced \$16,063,300 on qualified exploration expenditures with an effective date of December 31, 2006 in February 2007. As of December 31, 2006, the Company has expended \$6,609,193 related to these flow through funds and is committed to expend the balance of \$9,454,107 by December 31, 2007.

Pursuant to the issuance of 14,903,000 flow through shares in June 2005, the Company renounced \$3,725,750 on qualified exploration expenditures with an effective date of December 31, 2005 in February 2006. All required expenditures were made by December 31, 2006.

b) The Company is party to certain management contracts which require that additional payments of up to \$2,702,000 be made upon the occurrence of certain events such as a change of control or termination without cause. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements. Minimum commitments under the agreements are approximately \$1,628,000 payable within one year.

9. FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of amounts receivable, accounts payable and accrued liabilities reflected in the balance sheet approximate fair value because of the limited term of these instruments.

Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company are directly related to the market price of certain minerals.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2006 and December 31, 2005

10. SUBSEQUENT EVENTS

a) On January 30, 2007, the Company amended their agreements with Xstrata by entering into the Bucko Lake Lease Transfer Agreement which includes the Exploration Option Agreement and the Off-take agreement. The Bucko Lake Lease Transfer Agreement provides for the transfer of the Bucko Lake Lease to the Company free and clear of all liens on the Closing Date, which will be the 10th business day following the date on which the Company delivers the Bankable Feasibility Study ("BFS") and BFS Acceptance Letter to Xstrata. As well, on the Closing Date, the Company will issue 2,000,000 shares to Xstrata, and deliver a royalty agreement where the Company grants to Xstrata a 2.5% Net Smelter Royalty with respect to the Bucko Lake Lease. In order to retain its 100% undivided interest in the Bucko Lake Lease following the Closing Date, the Company is required to make a decision within six months of the completion of the bankable feasibility study to put the Bucko Deposit into commercial production.

The Exploration Option Agreement amalgamates both the Thompson Nickel Belt South and North agreements whereby the Company can earn a 100% interest in these properties by incurring \$13,200,000 in expenditures from January 1, 2007 up to and including December 31, 2013 (the "Option Period") according to the following schedule:

- \$2,500,000 by December 31, 2007;
- \$2,500,000 by December 31, 2008;
- \$2,200,000 by December 31, 2009;
- \$1,500,000 by December 31, 2010;
- \$1,500,000 by December 31, 2011;
- \$1,500,000 by December 31, 2012;
- and \$1,500,000 by December 31, 2013.

In addition, the Company will become the operator of the project during the Option Period.

The amended agreement also provides Xstrata a back in right, property buy-back right, Joint Venture bump-up option, Net Smelter Returns royalty, an off-take right, and an off take option on both the Peter's Roof Property and Airport Property.

b) On January 18, 2007, 500,000 warrants with a strike price of \$0.35 and 500,000 warrants with a strike price of \$0.70 expired unexercised.

c) Subsequent to December 31, 2006 to March 29, 2007, 5,129,432 options and warrants have been exercised for gross proceeds of \$1,668,187.55.

d) On March 26, 2007, the Company announced that it had entered into an agreement for a bought deal private placement of 12,500,000 units of the Company at a price of \$0.80 per unit and 10,000,000 flow-through common shares of the Company at a price of \$1.00 per share for gross proceeds of \$20,000,000. The Company has granted the underwriters an option to purchase up to an additional 3,125,000 units and 2,500,000 flow-through common shares for additional gross proceeds of up to \$5,000,000. Each unit will consist of one common share and one half of one common share purchase warrant, each whole common share purchase warrant entitling the holder to purchase one common share of the company for \$1.15 for a period of one year, subject to a shorter exercise period based on certain market price conditions.

e) On January 10, 2007, 3,300,000 options were granted. On February 20, 2007, 150,000 options were granted.