COMMERCE RESOURCES CORP.

REPORT AND FINANCIAL STATEMENTS

October 31, 2006 and 2005

A PARTNERSHIP OF INCORPORATED PROFESSIONALS

AMISANO HANSON
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Commerce Resources Corp.

We have audited the balance sheets of Commerce Resources Corp. as at October 31, 2006 and 2005 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 October 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
February 19, 2007

"AMISANO HANSON"
Chartered Accountants

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COMMERCE RESOURCES CORP.
BALANCE SHEETS
October 31, 2006 and 2005

ASSETS	2006	2005
Current		
Cash and cash equivalents	$ 3,182,794	$ 35,496
Marketable securities (market value – $53,390; 2005: $58,177)	53,352	53,352
Amounts receivable	7,500	9,046
Goods and services tax receivable	60,505	11,879
Share subscriptions receivable – Note 5	166,100	-
Prepaid expenses	89,710	-
	3,559,961	109,773
Reclamation bonds	17,000	12,000
Due from related parties – Note 7	-	40,208
Equipment – Note 3	-	3,783
Resource properties – Notes 4, 7, 11 and Schedule I	2,137,422	1,115,628
	$ 5,714,383	$ 1,281,392
LIABILITIES		
Current		
Accounts payable – Note 7	$ 106,484	$ 108,742
SHAREHOLDERS' EQUITY		
Share capital – Notes 5, 6, 9 and 11	9,156,025	3,744,715
Common shares subscribed – Notes 5 and 9	-	193,552
Contributed surplus	722,895	147,750
Deficit	(4,271,021)	(2,913,367)
	5,607,899	1,172,650
	$ 5,714,383	$ 1,281,392

Commitments – Notes 4 and 5
Contingency – Note 10
Subsequent Events – Notes 4, 5 and 11

APPROVED BY THE DIRECTORS:

"Shaun Ledding" Director
Shaun Ledding

"David Hodge" Director
David Hodge

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended October 31, 2006 and 2005

	2006	2005
Administrative costs		
Administration fees – Note 7	$ 24,300	$ 25,200
Advertising and website	196,083	40,959
Amortization	633	1,101
Bank charges and interest	1,455	833
Consulting fees – Note 7	83,296	13,689
Filing fees and transfer agent fees	55,926	11,557
Interest on convertible debenture	-	6,630
Investor relations	131,361	16,817
Office, telephone and miscellaneous – Note 7	36,252	32,140
Professional fees	37,700	33,200
Rent – Note 7	28,500	14,000
Stock-based compensation – Note 5	622,929	10,000
Travel and promotion	77,527	25,263
Wages and benefits – Note 7	123,939	95,744
Loss before other items and income taxes	(1,419,901)	(334,133)
Other items:		
Miscellaneous income	11,425	1,608
Loss on disposition of marketable securities	-	(13,691)
Gain on disposal of resource properties	-	35,784
Loss before income taxes	(1,408,476)	(310,432)
Recovery of future income tax asset – Note 8	50,822	-
Net loss for the year	(1,357,654)	(310,432)
Deficit, beginning of the year	(2,913,367)	(2,602,935)
Deficit, end of the year	$ (4,271,021)	$ (2,913,367)
Basic and diluted loss per share	$ (0.03)	$ (0.01)
Weighted average number of shares outstanding	38,824,723	25,851,178

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF CASH FLOWS
for the years ended October 31, 2006 and 2005

	2006	2005
Operating Activities		
Net loss for the year	$ (1,357,654)	$ (310,432)
Add (deduct) items not affecting cash:		
Amortization	633	1,101
Loss on disposition of marketable securities	-	13,691
Gain on disposal of resource properties	-	(35,784)
Consulting fees	-	4,000
Stock-based compensation	622,929	10,000
Miscellaneous income	-	(169)
Recovery of future income tax asset	(50,822)	-
	(784,914)	(317,593)
Changes in non-cash working capital items related to operations:		
Amounts receivable	1,546	(7,384)
Goods and services tax receivable	(48,626)	(5,934)
Prepaid expenses	(89,710)	5,758
Accounts payable	(2,258)	31,722
Accrued interest payable	-	(20,000)
Cash used in operating activities	(923,962)	(313,431)
Financing Activities		
Issue of share capital for cash, net	5,220,796	278,925
Share subscriptions receivable	(166,100)	-
Common shares subscribed	-	193,552
Advances from (to) related parties	40,208	(59,776)
Cash provided by financing activities	5,094,904	412,701
Investing Activities		
Acquisition of resource properties	(15,000)	(19,767)
Proceeds from property option agreements	10,000	10,000
Mining tax credit received	-	9,351
Proceeds from sale of marketable securities	-	31,474
Proceeds from disposition of equipment	3,150	-
Reclamation bond	(5,000)	-
Deferred exploration and development costs	(1,016,794)	(157,404)
Cash used in investing activities	(1,023,644)	(126,346)
Increase (decrease) in cash during the year	3,147,298	(27,076)
Cash and cash equivalents, beginning of year	35,496	62,572
Cash and cash equivalents, end of year	$ 3,182,794	$ 35,496

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SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF CASH FLOWS
for the years ended October 31, 2006 and 2005

Cash and cash equivalents consist of:		
Cash	$ 2,378,794	$ 35,496
Guaranteed Investment Certificates	750,000	-
	$ 3,128,794	$ 35,496

Non-cash Transactions – Note 9

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP. Schedule I

SCHEDULE OF RESOURCE PROPERTIES

for the year ended October 31, 2006

	Au/WEN Property	Verity & Fir Claims	Other Claims	Totals
Acquisition costs				
Balance, beginning of the year	$ 9,000	$ -	$ 19,767	$ 28,767
Cash	10,000	-	5,000	15,000
Shares	32,000	-	-	32,000
Less: option proceeds	(42,000)	-	-	(42,000)
Balance, end of the year	9,000	-	24,767	33,767
Deferred exploration and development costs				
Balance, beginning of the year	840	1,080,569	5,452	1,086,861
Drilling – Note 7	-	409,792	-	409,792
Equipment rent – Note 7	-	44,796	3,448	48,244
Geological consulting fees – Note 7	-	308,662	44,814	353,476
Lab analysis – Note 7	-	48,256	-	48,256
Overhead – Note 7	-	46,172	6,933	53,105
Recording fees – Note 7	-	48,337	794	49,131
Supplies and miscellaneous – Note 7	-	13,727	3,061	16,788
Travel – Note 7	-	36,448	1,554	38,002
	-	956,190	60,604	1,016,794
Balance, end of the year	840	2,036,759	66,056	2,103,655
Balance, October 31, 2006	$ 9,840	$ 2,036,759	$ 90,823	$ 2,137,422

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COMMERCE RESOURCES CORP. Schedule I – (cont'd)

SCHEDULE OF RESOURCE PROPERTIES

for the year ended October 31, 2005

	Au/WEN Property	Verity & Fir Claims	Other Claims	Totals
Acquisition costs				
Balance, beginning of the year	$ 50,000	$ -	$ -	$ 50,000
Cash – Note 7	-	-	19,767	19,767
Less: option proceeds	(41,000)	-	-	(41,000)
Balance, end of the year	9,000	-	19,767	28,767
Deferred exploration and development costs				
Balance, beginning of the year	-	938,808	-	938,808
Drilling	-	129,859	-	129,859
Equipment rent	-	2,998	-	2,998
Geological consulting fees – Note 7	-	4,922	-	4,922
Lab analysis	-	8,664	-	8,664
Overhead – Note 7	-	1,054	-	1,054
Recording fees	840	-	5,452	6,292
Supplies and miscellaneous	-	475	-	475
Travel – Note 7	-	3,140	-	3,140
Less: mining tax credit received	-	(9,351)	-	(9,351)
	840	141,761	5,452	148,053
Balance, end of the year	840	1,080,569	5,452	1,086,861
Balance, October 31, 2005	$ 9,840	$ 1,080,569	$ 25,219	$ 1,115,628

Note 1 Nature of Operations

Commerce Resources Corp. (the "Company") is a public company listed on the TSX Venture Exchange in Canada and on the Frankfurt Stock Exchange in Germany. The Company was incorporated on May 19, 1999 under the Company Act of British Columbia and is in the business of acquiring, exploring, developing and evaluating mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At October 31, 2006, the Company was in the exploration stage and had interests in properties located in British Columbia.

The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, continuation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results could vary from these estimates.

The financial statements have in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Cash and Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash and have maturities of three months or less when purchased.

b) Marketable Securities

Marketable securities are carried at the lower of cost and market value.

c) Resource Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

Note 2 Summary of Significant Accounting Policies – (cont'd)

c) Resource Properties – (cont'd)

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

d) Equipment

Equipment is recorded at cost and amortized over their useful lives using the declining balance method using the following annual rates:

Furniture and equipment	20%
Computer equipment	30%

Additions during the year are amortized at one-half the annual rates.

e) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities are exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities if the "if converted" method. Fully dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

f) Fair Market Value of Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash and cash equivalents, marketable securities, amounts receivable, share subscriptions receivable and accounts payable approximate their fair values due to the short maturity of such instruments. The fair market value of amounts due from related parties is also assumed to approximate their carrying amount. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Note 2 Summary of Significant Accounting Policies – (cont'd)

g) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely-than-not that they can be realized.

h) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At October 31, 2006, the Company cannot reasonably estimate the fair value of the resource properties' site restoration costs, if any.

i) Mining Tax Credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related deferred exploration expenditures.

j) Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Foreign currency denominated revenues and expenses are translated at exchange rates prevailing at the transaction dates. Gains or losses arising from the translations are recognized in the current year.

The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

Note 2 Summary of Significant Accounting Policies – (cont'd)

k) Stock-based Compensation

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

l) Flow-through Shares

Under the terms of flow-through share agreements, the related expenditures are renounced to the subscribers of such shares. In March 2004, the CICA issued Emerging Issue Committee Abstract No. 146, Flow-through Shares, which clarifies the recognition of previously unrecorded future income tax assets caused by renouncement of expenditures relating to flow-through shares. For flow-through shares issued after March 19, 2004, the Company records the tax effect related to the renounced deductions as a reduction of income tax expense in the statement of operations on the date that the Company renounces the deductions for investors.

Note 3 Equipment

	2006			2005
	Cost	Accumulated Amortization	Net	Net
Computer equipment	$ -	$ -	$ -	$ 869
Furniture and equipment	-	-	-	2,914
	$ -	$ -	$ -	$ 3,783

During the year ended October 31, 2006, the Company disposed of all equipment to a company with a common director for proceeds of $3,150, the estimated fair value.

Note 4 Resource Properties

Au/WEN Property

The Company had a 100% interest (subject to a 2% net smelter return royalty) in certain mineral claims located in the Nicola Mining Division of British Columbia known as the Au Property. During the year ended October 31, 2005, the Company granted an option to another non-related public company, Victory Resources Corp. ("Victory"), to earn up to a 70% interest in the Au property. Consideration for an initial 50% interest in the property is as follows:

Note 4 Resource Properties – (cont'd)

Au/WEN Property – (cont'd)

a) Cash payments of $20,000:
   - $10,000 upon execution of the agreement (received);
   - $10,000 on or before March 1, 2006 (received);

b) Issue 200,000 common shares:
   - 100,000 shares upon regulatory approval (received);
   - 100,000 shares on or before March 1, 2006 (received);

c) Incur $250,000 in exploration and development expenditures on the property on or before March 1, 2007

The additional 20% interest in the property will be earned by paying to the Company, on or before the third anniversary of the agreement, additional consideration of $10,000 cash and 50,000 common shares.

In November 2005, the Company acquired an option to earn a 100% interest in three mineral claims adjacent to the Au Property. Consideration is one-half of the amounts received from Victory, payable as follows:

a) $5,000 on the first cash payment received from Victory (paid);

b) 50,000 common shares of Victory on the first issuance of common shares of Victory received by the Company (delivered);

c) $5,000 on the second cash payment received from Victory (paid);

d) 50,000 common shares of Victory on the second issuance of common shares from Victory when received by the Company (delivered);

Should Victory exercise its option to acquire the additional 20% interest in the property and provide the additional consideration to the Company, the Company will provide the optionor with an additional $5,000 and 25,000 common shares of Victory (subsequently paid).

Subsequent to October 31, 2006, the Company received notice from Victory that the required $250,000 in exploration expenditures had been made on the property, and therefore, Victory had earned the initial 50% interest. The original agreement was then amended such that Victory acquired the remaining 50% interest by paying the Company $10,000 and issuing 100,000 common shares (subsequently received).

Note 4 Resource Properties – (cont'd)

Verity and Fir Claims

The Company has a 100% interest in its Verity and Fir claims, located in the Blue River region of the Kamloops Mining District of British Columbia, which were previously acquired by staking.

Other Claims

a) Cable Creek

During the year ended October 31, 2004, the Company acquired an option to earn a 100% interest in certain mineral claims located in the Skeena Mining District of British Columbia known as the Cable Creek project. Consideration payable was $5,000 upon signing and incurring exploration expenditures of $250,000 including $5,000 annual payments beginning in February 2005. Prior to incurring any exploration expenditures, the Company assigned the option agreement to another non-related public company (the "Assignee") for $20,000 and 120,000 shares of the other public company.

During the year ended October 31, 2005, the Assignee incurred total exploration expenditures of $77,578 on the property before deciding to abandon the project. The Company decided to continue with the original option agreement and made the required annual payments of $5,000 due for 2005 and 2006.

b) Mud Lake

During the year ended October 31, 2005, the Company acquired a 100% interest in six mineral claims located in the Blue River region of the Kamloops Mining District of British Columbia for total consideration of $13,205. One of the claims has since been allowed to lapse.

c) Carbo claims

During the year ended October 31, 2005, the Company acquired three mineral claims (Carbo 1, 2 and 3) located in British Columbia by incurring staking costs of $1,062.

Note 5 Share Capital – Notes 6, 9 and 11

Authorized:

100,000,000 common shares without par value

Issued:

		Number	Amount
Balance, October 31, 2004		21,333,574	$ 3,055,540
Issued for cash:			
– Private placement	- at $0.15	1,300,000	195,000
Less: finder's fee		-	(5,250)
– Exercise of warrants	- at $0.10	1,020,851	102,085
	- at $0.12	536,000	64,320
	- at $0.14	103,000	14,420
– Exercise of options	- at $0.10	25,000	2,500
	- at $0.13	20,000	2,600
Transfer of contributed surplus on exercise of options		-	3,500
Issued on conversion of a convertible debenture			
– Principal	- at $0.12	2,083,333	250,000
– Interest	- at $0.15	400,000	60,000
Balance, October 31, 2005		26,821,758	3,744,715
Issued for cash:			
– Private placements		24,451,427	5,301,415
Less: finders' fees		-	(191,157)
– Exercise of warrants	- at $0.18	1,291,500	232,470
– Exercise of options	- at $0.10	350,000	35,000
	- at $0.13	140,000	18,200
	- at $0.18	30,000	5,400
	- at $0.21	62,000	13,020
Finders' fees on private placements		163,666	-
Transfer of contributed surplus on exercise of options		-	47,784
Less: future income tax recovery on flow-through shares		-	(50,822)
Balance, October 31, 2006		53,310,351	$ 9,156,025

Note 5 Share Capital – Notes 6, 9 and 11 – (cont'd)

Issued: – (cont'd)

During the year ended October 31, 2006, the Company issued 24,615,093 common shares pursuant to the following private placements.

a) 3,371,950 (930,950 flow-through) units at $0.12 per unit (flow-through at $0.16) for total proceeds of $441,872. Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for $0.18 per share for a period of one year. Finders' fees relating to this offering were 102,416 common shares and cash of $12,090. As at October 31, 2005, the Company had received $195,952 of the total proceeds and paid a finder's fee of $2,400.

b) 8,135,000 units at $0.12 per unit for total proceeds of $976,200. Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for $0.18 per share for a period of one year. A finder's fee relating to this offering was 50,000 common shares and cash of $5,000.

c) 12,944,477 units at $0.30 per unit for total proceeds of $3,883,343. Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for $0.45 per share for a period of one year. Finders' fees relating to this offering were 11,250 common shares and cash of $174,067. As at October 31, 2006, the Company had received $3,717,243 of the total proceeds. The remaining balance of $166,100 was received subsequent to October 31, 2006.

During the year ended October 31, 2005, the Company issued 1,300,000 units at $0.15 per unit for total proceeds of $195,000 pursuant to a private placement. Each unit consists of one common share and one-half share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for $0.25 per share for a period of one year. A finder's fee of $5,250 was paid in relation to this offering.

All proceeds receivable from the above private placements were allocated to share capital with no amounts allocated to the attached warrants.

Commitments

Stock-based Compensation Plan

The Company has a stock option plan for officers, directors, employees and consultants. Options are granted with an exercise price determined by the Board of Directors, which may not be less than 25% of the Company's stock price on the date of the grant. All stock options vest immediately, except for those granted to employees and/or consultants engaged in investor relations activities, of which no more than one-quarter of the options granted may vest in any three month period.

Note 5 Share Capital – Notes 6, 9 and 11 – (cont'd)

Commitments – (cont'd)

Stock-based Compensation Plan – (cont'd)

A summary of the stock option plan is presented below:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year	1,765,000	$0.12	1,960,000	$0.11
Granted	3,910,000	$0.26	100,000	$0.20
Exercised	(582,000)	$0.12	(45,000)	$0.11
Cancelled/Expired	(500,000)	$0.14	(250,000)	$0.10
Options outstanding, end of the year	4,593,000	$0.24	1,765,000	$0.12
Options exercisable, end of the year	4,405,500	$0.23	1,765,000	$0.12

During the year ended October 31, 2006, a compensation charge associated with stock-based compensation in the amount of $622,929 (2005: $10,000) has been recorded in the financial statements. The fair value of the compensation charges has been determined using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Weighted average fair value of options granted	$0.16	$0.10
Expected dividend yield	0.0%	0.0%
Expected volatility	59% to 65%	90.8%
Risk-free interest rate	4.00%	3.06%
Expected term in years	2-5 years	2 years

Note 5 Share Capital – Notes 6, 9 and 11 – (cont'd)

Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

At October 31, 2006, the Company had 4,593,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share as follows:

Number	Exercise Price	Expiry Date
100,000	$0.20	January 6, 2007
300,000	$0.10	January 23, 2007
375,000	$0.10	July 24, 2007
250,000	$0.50	June 9, 2008
750,000	$0.15	February 6, 2011
720,000	$0.18	February 20, 2011
363,000	$0.21	February 20, 2011
500,000	$0.30	March 15, 2011
135,000	$0.35	September 14, 2011
500,000	$0.30	September 27, 2011
550,000	$0.35	September 27, 2011
50,000	$0.40	September 27, 2011
4,593,000		

Subsequent to October 31, 2006, 493,000 stock options were exercised at prices ranging from $0.10 - $0.21 per share for total proceeds of $68,630.

Share Purchase Warrants

	2006		2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	2,733,333	$0.15	3,631,299	$0.11
Issued	24,451,427	$0.32	2,733,333	$0.15
Exercised	(1,291,500)	$0.18	(1,659,851)	$0.11
Expired	(650,000)	$0.12	(1,971,448)	$0.12
Balance, end of year	25,243,260	$0.31	2,733,333	$0.15

Note 5 Share Capital – Notes 6, 9 and 11 – (cont'd)

Commitments – (cont'd)

Share Purchase Warrants – (cont'd)

At October 31, 2006, the following share purchase warrants were outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

Number	Exercise Price	Expiry Date
2,230,450	$0.18	November 25, 2006
385,000	$0.18	December 6, 2006
7,600,000	$0.18	December 20, 2006
2,083,333	$0.12	January 18, 2007
9,517,478	$0.45	September 25, 2007
3,426,999	$0.45	October 13, 2007
25,243,260		

Subsequent to October 31, 2006:

a) 12,278,783 share purchase warrants expiring on or before January 18, 2007 were exercised at $0.12 - $0.18 for total proceeds of $2,079,421;

b) 20,000 share purchase warrants with an exercise price of $0.18 per share expired unexercised.

Flow-through Shares

In November 2005, the Company issued 930,950 flow-through common shares at $0.16 per share for proceeds of $148,952. During the year ended October 31, 2006, the Company spent the entire proceeds on exploration and development activities and renounced the expenditures to the flow-through shareholders. This amount will not be available to the Company for future deduction from taxable income. A future income tax recovery of $50,822 was recognized as a result of this renunciation.

Note 6 Convertible Debenture – Notes 5 and 9

The convertible debenture of US$160,462 was secured by a charge over the assets of the Company. During the year ended October 31, 2004, the date due was amended to March 1, 2005 and the Company and the lender agreed to fix the amount at CDN$250,000 and to retroactively pay interest at 12% per annum Accrued interest payable of $80,000 was recorded during the year ended October 31, 2004. The debenture can be converted into units of the Company at the rate of $0.12 per unit, at the option of the lender, at any time prior to the due date provided a minimum of $50,000 is converted. Each unit is to consist of one common share and one non-transferable share purchase warrant entitling the lender the right to purchase one additional common share of the Company for a period of two years at $0.12 per share. During the year ended October 31, 2005, the debenture was converted into 2,083,333 units of the Company and $60,000 of the accrued interest payable was paid by the issuance of 400,000 common shares.

Note 7 Related Party Transactions – Note 3

The Company incurred charges with directors of the Company and a company with a common director as follows:

	Year ended October 31, 2006	Year ended October 31, 2005
Administration fees	$ 24,300	$ 25,200
Consulting fees	-	4,149
Deferred exploration and development costs	427,715	5,505
Office, telephone and miscellaneous	26,700	-
Rent	28,500	14,000
Wages and benefits	94,250	91,494
	$ 601,465	$ 140,348

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

At October 31, 2006, due from related parties of $Nil (October 31, 2005: $40,208) is due from a director of the Company and a company with a director in common. The amounts are unsecured, non-interest bearing and have no specific terms of repayment.

At October 31, 2006, accounts payable includes $53,512 (October 31, 2005: $35,652) due to directors of the Company and to a company with a common director.

Note 8 Corporation Income Taxes

A reconciliation between the Company's statutory and effective tax rates is as follows:

	2006	2005
Statutory tax rate	34.12%	34.12%
Loss before income taxes	$ (1,408,476)	$ (310,432)
Expected income tax recovery	$ 480,572	$ 105,919
Increase (decrease) in income tax recovery resulting from:		
Gain on disposal of resource properties	-	12,210
Resource allowance adjustment	(48,263)	(18,854)
Stock-based compensation	(212,543)	(3,412)
Share issue costs	19,077	11,383
Other temporary differences	1,074	12,215
Renunciation of expenditures to flow-through shareholders	50,822	-
Change in the valuation allowance for future income tax assets	(239,917)	(119,461)
Income tax recovery	$ 50,822	$ -

The significant components of the Company's future income tax assets are as follows:

	2006	2005
Non-capital losses	$ 821,321	$ 581,404
Canadian development and exploration expenditures	(38,760)	12,063
Share issue costs	53,540	8,213
Other	2,567	5,426
	838,668	607,106
Less: valuation allowance	(838,668)	(607,106)
	$ -	$ -

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will not be realized during the carry-forward period to utilize all the future tax assets.

Note 8 Corporation Income Taxes – (cont'd)

The Company has accumulated $2,023,824 of Canadian development and exploration expenditures and non-capital losses totalling $2,407,153 that are available to offset future years' taxable income. The non-capital losses expire as follows:

2007	$ 29,847
2008	386,319
2009	386,658
2010	254,663
2014	296,389
2015	350,121
2026	703,156
	$ 2,407,153

Note 9 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows. The following transactions have been excluded from the statement of cash flows:

During the year ended October 31, 2006:

a) The Company received 100,000 common shares of another public company, having a market value of $32,000, pursuant to an agreement to sell certain mineral claims;

b) The Company delivered 100,000 common shares of another public company, having a market value of $32,000, pursuant to an agreement to acquire certain mineral claims;

c) The Company issued 152,416 common shares at $0.12 per share for a total of $18,290 as finders' fees on two private placements;

d) The Company issued 11,250 common shares at $0.30 per share for a total of $3,375 as finders' fees on a private placement;

During the year ended October 31, 2005:

a) The Company issued 2,083,333 units at $0.12 per unit for a total of $250,000 pursuant to the conversion of a convertible debenture.

b) The Company issued 400,000 common shares at $0.15 per share for a total of $60,000 for interest owing on a convertible debenture.

c) The Company received 100,000 common shares of another public company, having a market value of $32,000, pursuant to an agreement to sell certain mineral claims;

d) The Company received 75,000 common shares of another public company, having a market value of $3,784, pursuant to an agreement to sell certain mineral claims.

Note 10 Contingency

A claim has been filed against the Company seeking an enforcement of a trust agreement in respect of certain mineral claims. Management is of the opinion that this claim is without merit. The amount of potential loss, if any, from this claim is not determinable.

Note 11 Subsequent Events – Notes 4 and 5

Subsequent to October 31, 2006, the Company:

a) Issued 1,585,625 common shares pursuant to a private placement of units at $0.32 per unit for total proceeds of $507,400. Each unit consists of one flow-through common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for $0.42 per share for a period of two years.

b) Acquired a 100% interest in three mineral claims located in the Blue River region of British Columbia for total consideration of $25,000. The claims are adjacent to the Company's Fir claims;

c) Staked an additional 79 mineral claims located in the Blue River region of British Columbia for a total cost of $14,197. The claims are adjacent to the east of the Company's Verity and Fir claims.

Note 12 Comparative figures

Certain figures included in the comparative financial statements have been reclassified to conform with the presentation used in the current year.