

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**

**Financial Statements**  
**December 31, 2007 and 2006**

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## **AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF KINGSMAN RESOURCES INC. (An Exploration Stage Company)**

We have audited the balance sheets of Kingsman Resources Inc. (an exploration stage company) as at December 31, 2007 and 2006 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 December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, British Columbia  
March 6, 2008

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Balance Sheets**  
**December 31**

	2007	2006
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 255,647	\$ 0
Short-term investments	918,755	936,750
Accounts receivable	27,296	4,844
	1,201,698	941,594
<b>Reclamation Bonds</b>	13,500	5,000
<b>Resource Property Interests</b> (note 5) (schedule)	280,622	362,991
	\$ 1,495,820	\$ 1,309,585
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness	\$ 0	\$ 15,732
Accounts payable and accrued liabilities	56,606	36,863
	56,606	52,595
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 6)	5,323,759	4,340,657
<b>Contributed Surplus</b> (note 6(d))	289,769	252,131
<b>Deficit</b>	(4,174,314)	(3,335,798)
	1,439,214	1,256,990
	\$ 1,495,820	\$ 1,309,585

Going-Concern (note 2)  
Subsequent Event (note 9)

Approved on behalf of the Board:

..... Director  
Robert McLaughlin

..... Director  
Edward Drummond

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Statements of Operations and Deficit**  
**Years Ended December 31**

	<b>2007</b>	<b>2006</b>
<b>Expenses</b>		
Investor communications	\$ 131,773	\$ 29,690
Accounting and legal	106,952	66,213
Management fees (note 8(c))	75,000	30,000
Stock-based compensation (note 6(e))	66,672	105,335
Travel	37,296	9,286
Transfer agent and filing fees	27,481	16,326
Office	12,698	9,470
Consulting fees	8,000	2,250
Interest, net	(27,717)	(1,811)
	438,155	266,759
<b>Other Item</b>		
Write-off of resource property deferred costs (note 5(a))	708,294	0
<b>Loss Before Future Income Tax Recovery</b>	1,146,449	266,759
<b>Future Income Tax Recovery</b> (note 6(c))	(307,933)	0
<b>Net Loss and Comprehensive Loss for Year</b>	838,516	266,759
<b>Deficit, Beginning of Year</b>	3,335,798	3,069,039
<b>Deficit, End of Year</b>	\$ 4,174,314	\$ 3,335,798
<b>Loss Per Share</b>	\$ 0.05	\$ 0.03
<b>Weighted Average Number of Common Shares Outstanding</b>	16,747,003	9,207,397

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Statements of Cash Flows**  
**Years Ended December 31**

	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Net loss	\$ (838,516)	\$ (266,759)
Items not involving cash		
Future income tax recovery	(307,933)	0
Resource property deferred costs write-off	708,294	0
Stock-based compensation	66,672	105,335
	<b>(371,483)</b>	<b>(161,424)</b>
Changes in non-cash working capital		
Account receivable	(22,452)	(2,608)
Accounts payable and accrued liabilities	19,743	(7,376)
	<b>(2,709)</b>	<b>(9,984)</b>
<b>Cash Used in Operating Activities</b>	<b>(374,192)</b>	<b>(171,408)</b>
<b>Investing Activities</b>		
Short-term investments	17,995	(889,750)
Resource properties	(577,925)	(114,797)
Reclamation bonds	(8,500)	(5,000)
<b>Cash Used in Investing Activities</b>	<b>(568,430)</b>	<b>(1,009,547)</b>
<b>Financing Activity</b>		
Issuance of common shares, net of share issue costs	1,214,001	1,125,000
<b>Inflow (Outflow) of Cash</b>	<b>271,379</b>	<b>(55,955)</b>
<b>Cash (Bank Indebtedness), Beginning of Year</b>	<b>(15,732)</b>	<b>40,223</b>
<b>Cash (Bank Indebtedness), End of Year</b>	<b>\$ 255,647</b>	<b>\$ (15,732)</b>
<b>Supplemental Cash Flow Information</b>		
Shares issued for property	\$ 48,000	\$ 15,000

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**1. OPERATIONS**

Kingsman Resources Inc. (the "Company") was incorporated under the *Company Act* of British Columbia on October 14, 1993, and is involved in the acquisition, exploration and development of resource properties. The Company is currently evaluating opportunities both in the mineral sector and otherwise. To date, the Company has not earned significant revenue and is considered to be in the exploration stage.

**2. GOING-CONCERN**

The Company's ability to continue as a going-concern is dependent on the Company being able to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its resource properties, the attainment of profitable mining operations, and, or the receipt of proceeds from the disposition of its resource properties. These financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going-concern.

**3. SIGNIFICANT ACCOUNTING POLICIES**

(a) Resource properties

The Company defers all costs related to investments in resource properties on a property-by-property basis. Such costs include resource property acquisition costs and exploration expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and resource property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

All deferred costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property for an amount greater than the deferred costs, the property is written down for the impairment in value.

From time to time, the Company may acquire or dispose of a resource property interest pursuant to the terms of an option agreement. As such, options are exercisable entirely at the discretion of the optionee; the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

The amounts shown for deferred costs represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful life of the property upon commencement of commercial production or written off if the property is abandoned or the claims allowed to lapse.

**KINGSMAN RESOURCES INC.**  
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**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(c) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated using the treasury stock method, which gives effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

However, diluted loss per share is not presented when the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow are excluded from the computation of loss per share until the conditions for their release are satisfied or if their release is subject to other than the passage of time.

(d) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include accrued liabilities, the recoverability of resource properties expenditures, determination of valuation allowance for future income tax assets and the assumptions used in the calculation of stock-based compensation. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) Income taxes

The Company uses the asset and liability method to account for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(f) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

The Company has determined that it has no material AROs.

(g) Reclamation bonds

Reclamation bonds represent cash held in term deposits intended to cover any environmental or reclamation obligations arising from the Company's resource properties. Management believes funds in place are adequate to meet any future potential liability. These bonds are a prerequisite to drilling on the properties.

(h) Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes, allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. A future income tax liability arises from the renunciation of mineral exploration costs to investors of flow-through shares.

**KINGSMAN RESOURCES INC.**  
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**Years Ended December 31, 2007 and 2006**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(i) Financial instruments

Effective October 1, 2006, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments.

(i) Financial instruments - recognition and measurement

This standard sets out criteria for the recognition and measurement of financial instruments. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered and most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income.

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of the financial instruments depends on their initial classification.

The Company classifies its cash and short-term investments as held-for-trading; accounts receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

(ii) Comprehensive income

Effective October 1, 2006, the Company adopted the CICA Handbook Section 1530, "Comprehensive Income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period, but excluded from net income for that period.

The Company has no items of other comprehensive income in any period presented. Therefore, net income as presented in the Company's statement of operations equals comprehensive income.

There was no effect on the Company's financial statements due to the adoption of these standards.

**KINGSMAN RESOURCES INC.**  
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**Years Ended December 31, 2007 and 2006**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) Future accounting changes

The CICA has issued the following new Handbook sections that will become effective on January 1, 2008 for the Company:

- Section 3862, "Financial Instruments - Disclosures"
- Section 3863, "Financial Instruments - Presentation"
- Section 1535, "Capital Disclosures".

Section 3862 modifies the disclosure requirements for Section 3861, "Financial Instruments - Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward the presentation requirements of Section 3861. The Company is currently evaluating the impact of the adoption of these new sections.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclose whether it has complied with any capital requirements to which it is subject and the consequences of non-compliance. The Company is currently evaluating the impact of the adoption of this new section.

**4. FINANCIAL INSTRUMENTS**

(a) Fair value

The carrying values of cash, short-term investments, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. Accounts receivable is not a financial instrument because it is an amount due from the government agency.

(b) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and short-term investments, which are placed with major Canadian financial institutions.

(c) Interest rate risk

The Company is not exposed to significant interest rate risk.

(d) Short-term investments

A term deposit of \$500,000, due to mature on September 29, 2008, has an effective interest rate of 4%. Money fund accounts of \$418,755 are fully repayable on demand and have average effective yields of approximately 3.4%.

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**Years Ended December 31, 2007 and 2006**

**5. RESOURCE PROPERTY INTERESTS**

(a) Snowshoe Property

On February 24, 2003, the Company entered into an option agreement, whereby the Company was granted an option to acquire a 100% interest in and to the Snowshoe mineral claims located in the Greenwood Mining Division of British Columbia.

To maintain the agreement and the option in good standing, the Company is required to make payments to the vendors and to perform exploration work on the Snowshoe Property according to the following schedule:

Date	Payment	Shares	Exploration Work
2003	<sup>(1)</sup> \$ 5,000	<sup>(2)</sup> 60,000	\$ 0
2004	<sup>(1)</sup> 10,000	<sup>(2)</sup> 75,000	<sup>(3)</sup> 50,000
2005	<sup>(1)</sup> 10,000	<sup>(2)</sup> 75,000	<sup>(3)</sup> 50,000
2006	<sup>(1)</sup> 10,000	<sup>(2)</sup> 75,000	<sup>(3)</sup> 50,000
2007	50,000	75,000	<sup>(3)</sup> 50,000
2008	0	0	<sup>(3)</sup> 50,000
2009	0	0	<sup>(3)</sup> 50,000
2010	0	0	
	<b>\$ 85,000</b>	<b>360,000</b>	<b>\$ 350,000</b>
	<sup>(1)</sup> Paid	<sup>(2)</sup> Issued	<sup>(3)</sup> Completed

The vendors retained a 2.5% net smelter return royalty ("NSR") to a maximum of \$2,500,000.

Should the property achieve commercial production, defined as the point after which 10,000 tonnes of material have been processed and for which NSR payments have been made, the Company will be obligated to pay a further \$150,000 and issue a further 150,000 shares.

The Company decided not to continue with this property in the current fiscal year and wrote off deferred costs of \$708,294.

(b) Luxor Moly Property

In 2007, the Company was granted an option to acquire a 100% interest in the Luxor Moly Property. The property consists of seven mineral tenures totaling 2,260 hectares.

**KINGSMAN RESOURCES INC.**  
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**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

**5. RESOURCE PROPERTY INTERESTS (Continued)**

(b) Luxor Moly Property (Continued)

To maintain the option in good standing, the Company is required to make payments to the vendors and to perform exploration work on the Luxor Moly Property according to the following schedule:

Date	Payment	Shares	Exploration Work
2007 - on approval	<sup>(1)</sup> \$ 10,000	<sup>(2)</sup> 50,000	\$ 0
2007 - by December 31	<sup>(1)</sup> 10,000	<sup>(2)</sup> 50,000	<sup>(3)</sup> 100,000
2008 - by December 31	20,000	75,000	100,000
2009 - by December 31	30,000	100,000	100,000
2010 - by December 31	30,000	125,000	100,000
2011 - by December 31	0	0	100,000
	\$ 100,000	400,000	\$ 500,000
	<sup>(1)</sup> Paid	<sup>(2)</sup> Issued	<sup>(3)</sup> Completed

Upon completion of a bankable feasibility study, the Company is obligated to issue an additional 200,000 common shares to the vendors of the property.

The vendors of the property retain a 2% NSR. The Company has the option to purchase 1% of the royalty for \$1,500,000.

(c) Pathfinder Property

In 2007, the Company was granted an option to acquire a 100% interest in the Pathfinder Property. The property consists of four mineral tenures totalling 1,056 hectares.

To maintain the option in good standing, the Company is required to make payments to the vendors and to perform exploration work on the Pathfinder Property according to the following schedule:

Date	Payment	Shares	Exploration Work
2007 - on approval	<sup>(1)</sup> \$ 5,000	<sup>(2)</sup> 40,000	\$ 0
2008 - by July 1	5,000	40,000	50,000
2009 - by July 1	5,000	40,000	50,000
2010 - by July 1	10,000	40,000	50,000
2011 - by July 1	10,000	40,000	50,000
	\$ 35,000	200,000	\$ 200,000
	<sup>(1)</sup> Paid	<sup>(2)</sup> Issued	

**KINGSMAN RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

**5. RESOURCE PROPERTY INTERESTS (Continued)**

(c) Pathfinder Property (Continued)

Upon completion of a bankable feasibility study, the Company is obligated to issue an additional 200,000 common shares to the vendors of the property.

The vendors of the property retain a 2% NSR. The Company has the option to purchase 1% of the royalty for \$1,500,000.

(d) International Basin Property

In 2007, the Company was granted an option to acquire a 100% interest in the International Basin Property. The property consists of 15 mineral tenures totaling 5,979 hectares.

To maintain the option in good standing, the Company is required to make payments to the vendors and to perform exploration work on the International Basin Property according to the following schedule:

Date	Payment	Shares	Exploration Work
2007 - on approval	<sup>(1)</sup> \$ 20,000	<sup>(2)</sup> 90,000	\$ 0
2008 - by September 30	20,000	90,000	150,000
2009 - by September 30	30,000	90,000	150,000
2010 - by September 30	40,000	90,000	300,000
2011 - by September 30	40,000	90,000	400,000
	<b>\$ 150,000</b>	<b>450,000</b>	<b>\$ 1,000,000</b>
	<sup>(1)</sup> Paid	<sup>(2)</sup> Issued	

Upon completion of a bankable feasibility study, the Company is obligated to issue an additional 200,000 common shares to the vendors of the property.

The vendors of the property retain a 2% NSR. The Company has the option to purchase 1% of the royalty for \$1,500,000.

Realization of assets

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

**KINGSMAN RESOURCES INC.**  
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**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**5. RESOURCE PROPERTY INTERESTS (Continued)**

Realization of assets (Continued)

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

Title to resource property interests

Although the Company has taken steps to verify the title to resource properties 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 unregistered prior agreements or transfers and title may be affected by undetected defects.

Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

**KINGSMAN RESOURCES INC.**  
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**Years Ended December 31, 2007 and 2006**

**6. CAPITAL STOCK**

(a) Authorized

Unlimited number without par value

(b) Issued

	Shares	Amount
Balance at December 31, 2005	8,568,630	\$ 3,224,622
For cash		
Private placements, net of issue costs	4,000,000	596,035
Exercise of warrants	2,100,000	505,000
For resource property interest	75,000	15,000
Balance, December 31, 2006	14,743,630	4,340,657
For cash		
Private placements, net of issue costs	4,405,000	913,387
Exercise of options	320,000	64,000
Exercise of warrants	912,800	225,000
For resource property interests	230,000	48,000
Income tax effect on flow-through share renunciations	0	(307,933)
Reallocation from contributed surplus	0	40,648
Balance, December 31, 2007	20,611,430	\$ 5,323,759

During the year ended December 31, 2007:

- (i) 848,800 warrants were exercised at \$0.25, 64,000 warrants were exercised at \$0.20, and 320,000 options were exercised at \$0.20 per share.
- (ii) Pursuant to the three resource property option agreements entered into during the year, 130,000 shares were issued at a fair value of \$0.20 per share and 100,000 shares were issued at a fair value of \$0.22 per share.
- (iii) The Company completed a 2,000,000 unit flow-through private placement at \$0.24 per unit and a 2,405,000 unit non-flow-through private placement at \$0.20 per unit for gross proceeds of \$961,000. Each unit consisted of one share plus one warrant exercisable at \$0.25 in the first year or \$0.30 in the second year into one non-flow-through share.

Share issuance costs totalling \$36,000 in cash and 150,000 agent's options, exercisable at \$0.24 per unit, expiring September 27, 2009, to acquire units having the same terms as the non-flow-through units of the private placement were paid in relation to the private placements. The agent's options were fair valued at \$11,614 using the Black-Scholes option pricing model.

**KINGSMAN RESOURCES INC.**  
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**6. CAPITAL STOCK (Continued)**

(b) Issued (Continued)

During the year ended 2006:

- (iv) The Company completed a 1,500,000 unit non-flow-through private placement at \$0.15 per unit and a 2,500,000 unit flow-through private placement at \$0.17 per unit for gross proceeds of \$650,000. Each unit consisted of one share plus one warrant exercisable at \$0.20 in the first year or \$0.25 in the second year into one non-flow-through share.

Share issuance costs totalling \$30,000 in cash and 176,470 agent's options, expiring December 1, 2008, to acquire units having the same terms as the non-flow-through units of the private placements were paid in relation to the private placement. The agent's options were fair valued at \$23,965 using the Black-Scholes option pricing model.

(c) Income tax effect on flow-through share renunciation

In 2007, the Company renounced \$902,500 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$307,933, which is deducted from capital stock. The Company subsequently reduced the future income tax liability. This results in a future income tax recovery of \$307,933 by offsetting future income tax assets previously valued at nil.

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances that have not been spent and are held by the Company for such expenditures. As at December 31, 2007, the amount of flow-through proceeds remaining to be expended is \$292,247 (2006 - \$371,035).

(d) Contributed surplus

	<b>2007</b>	<b>2006</b>
Balance, beginning of year	\$ 252,131	\$ 122,831
Fair value of agent's options	11,614	23,965
Stock-based compensation	66,672	105,335
Reallocation to capital stock on exercise of options	(40,648)	0
Balance, end of year	\$ 289,769	\$ 252,131

**KINGSMAN RESOURCES INC.**  
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**6. CAPITAL STOCK (Continued)**

(e) Stock options

The Company does not have a formal stock option plan in place but follows the TSX Venture Exchange Policy under which it is authorized to grant options of up to 10% of its outstanding shares to officers, directors, employees and consultants. Under the policy, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options are for a maximum term of five years.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	<b>2007</b>		<b>2006</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,410,000	\$ 0.22	341,429	\$ 0.20
Granted	720,000	\$ 0.21	1,090,000	\$ 0.22
Expired	0	\$ 0.00	(21,429)	\$ 1.05
Exercised	(320,000)	\$ 0.20	0	\$ 0.00
<b>Outstanding, end of year</b>	<b>1,810,000</b>	<b>\$ 0.22</b>	<b>1,410,000</b>	<b>\$ 0.22</b>

The following stock options were outstanding and exercisable:

		<b>2007</b>	<b>2006</b>
Expiry Date	Exercise Price	Number of Shares	Number of Shares
February 24, 2007	\$ 0.20	0	320,000
January 19, 2008	\$ 0.13	510,000	510,000
December 5, 2008	\$ 0.32	580,000	580,000
October 29, 2009	\$ 0.20	720,000	0
		<b>1,810,000</b>	<b>1,410,000</b>
<b>Weighted average outstanding life of options</b>		<b>1.0 years</b>	<b>1.3 years</b>

The Company applies the fair value method in accounting for its stock options. Stock options granted during the year ended December 31, 2007 resulted in stock-based compensation of \$66,672 (2006 - \$105,335).

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**Years Ended December 31, 2007 and 2006**

**6. CAPITAL STOCK (Continued)**

(e) Stock options (Continued)

The fair value of each option granted is calculated using the following weighted average assumptions:

	<b>2007</b>	<b>2006</b>
Risk-free interest rate	4.1%	3.8%
Expected life of options	2 years	2 years
Annualized volatility	82%	78%
Dividends	0.00%	0.00%

All options granted by the Company vest on the grant date. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(f) Warrants

The following warrants were outstanding and exercisable:

Expiry Date	Exercise Price	<b>2007</b>	<b>2006</b>
	Price	Number of Warrants	
January 27, 2007	\$ 0.15/\$ 0.25	0	900,000
December 1, 2008	\$ 0.20/\$ 0.25	3,936,000	4,000,000
September 27, 2009	\$ 0.25/\$ 0.30	2,000,000	0
November 16, 2009	\$ 0.25/\$ 0.30	2,405,000	0
		8,341,000	4,900,000
Weighted average outstanding life of warrants		1.4 years	1.6 years

Warrant transactions and the number of warrants outstanding are summarized as follows:

	<b>2007</b>		<b>2006</b>	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	4,900,000	\$ 0.25	3,000,000	\$ 0.25
Issued	4,405,000	\$ 0.25	4,000,000	\$ 0.25
Exercised	(912,800)	\$ 0.25	(2,100,000)	\$ 0.25
Expired	(51,200)	\$ 0.25	0	\$ 0.25
Outstanding, end of year	8,341,000	\$ 0.25	4,900,000	\$ 0.25

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**6. CAPITAL STOCK** (Continued)

(g) Agent's options

The following agent's options were outstanding and exercisable:

		<b>2007</b>	<b>2006</b>
Expiry Date	Exercise Price	Number of Options	Number of Options
December 1, 2008 (note 6(b)(iv))	\$ 0.17	176,470	176,470
September 27, 2009 (note 6(b)(iii))	\$ 0.24	150,000	0
		<b>326,470</b>	<b>176,470</b>

Agent's options, if exercised, would result in a further 176,470 warrants to acquire shares at \$0.25 to December 1, 2008, and 150,000 warrants to acquire shares at \$0.25 to September 27, 2008 or \$0.30 to September 27, 2009.

**7. INCOME TAXES**

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

		<b>2007</b>	<b>2006</b>
Income tax liability computed at Canadian statutory rates			
Loss before future income tax	\$	(391,168)	\$ (91,000)
Stock-based compensation		22,748	36,000
Write-off of resource property expenditures		241,670	0
Share issue costs expensed for tax purposes		(4,504)	(2,000)
Unrecognized tax losses		100,018	57,000
Reduction in future income tax asset from statutory rate reduction		212,638	0
Decrease in valuation allowance		(181,402)	0
Tax benefit from resource expenditure renouncements		(307,933)	0
Income tax expense	\$	(307,933)	\$ 0

The Company has non-capital losses carried forward of approximately \$1,155,000 available to reduce future years' income for income tax purposes. These losses expire as follows:

2008	\$	65,000
2009		137,000
2010		204,000
2014		90,000
2015		107,000
2026		167,000
2027		385,000
	\$	<b>1,155,000</b>

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**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

**7. INCOME TAXES** (Continued)

The components of the future income tax assets are as follows:

	<b>2007</b>	<b>2006</b>
Future income tax assets		
Non-capital loss carry-forwards for Canadian purposes	\$ 1,155,000	\$ 784,000
Share issue costs	46,800	24,000
Tax value over book value of expenditures on resource properties	1,416,896	1,202,488
	<u>2,618,696</u>	<u>2,010,488</u>
Tax rate	26.00%	34.12%
	680,861	685,979
Valuation allowance	<u>(680,861)</u>	<u>(685,979)</u>
	<u>\$ 0</u>	<u>\$ 0</u>

The valuation allowance reflects the Company's estimate that the tax assets more likely than not will not be realized.

**8. RELATED PARTY TRANSACTIONS**

Balances due to related parties:

- (a) Included in accounts receivable at December 31, 2007 is \$1,695 (2006 - \$nil) due from a director of the Company; and
- (b) Included in accounts payable at December 31, 2007 is \$123 (2006 - \$350) due to a director of the Company.

The aggregate amount of expenditures made to related parties not at arm's length to the Company include:

- (c) Management fees of \$75,000 (2006 - \$30,000) paid to directors.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

**9. SUBSEQUENT EVENT**

In January 2008, 480,000 options at \$0.13 were exercised for proceeds of \$62,400.

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**Schedule of Resource Property Interests**  
**Years Ended December 31**

	2007				2006	
	International Basin Property	Luxor Moly Property	Pathfinder Property	Snowshoe Property	Total	Total (Snowshoe)
Property acquisition costs (in cash and shares)	\$ 38,000	\$ 42,000	\$ 13,000	\$ 0	\$ 93,000	\$ 25,000
Property exploration costs						
Drilling and trenching	0	141,254	0	262,965	404,219	105,000
Mapping and compilation	22,984	13,856	4,057	5,880	46,777	15,189
Engineering	0	0	0	31,363	31,363	11,270
Site preparation	0	0	0	19,468	19,468	0
Assays	5,265	206	0	39,193	44,664	0
Provincial mining tax credits	0	0	0	(13,566)	(13,566)	(26,662)
Total costs for year	66,249	197,316	17,057	345,303	625,925	129,797
Property write-offs	0	0	0	(708,294)	(708,294)	0
Balance, beginning of year	0	0	0	362,991	362,991	233,194
Balance, end of year	\$ 66,249	\$ 197,316	\$ 17,057	\$ 0	\$ 280,622	\$ 362,991