

**OLIVUT RESOURCES LTD.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED JULY 31, 2007**

**THESE INTERIM CONSOLIDATED FINANCIAL STATEMENTS ARE UNAUDITED  
AND HAVE NOT BEEN REVIEWED BY THE COMPANY'S AUDITORS.**

	July 31, 2007 \$ (Unaudited)	October 31, 2006 \$ (Audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and short-term investments	9,929,286	1,847,059
Cash held in escrow	-	3,008,340
Amounts receivable	<u>303,959</u>	<u>20,610</u>
	10,233,245	4,876,009
<b>DEFERRED PUBLIC OFFERING COSTS</b> (Note 4)	-	592,388
<b>INTERESTS IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES</b> (Note 5)	6,359,028	4,223,745
<b>EQUIPMENT</b> (Note 6)	8,568	10,450
<b>ADVANCE RECEIVABLE</b> (Note 7)	<u>248,542</u>	<u>-</u>
	<u>16,849,383</u>	<u>9,702,592</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 8)	505,801	560,548
<b>FUTURE INCOME TAX LIABILITY</b>	<u>1,079,700</u>	<u>833,500</u>
	<u>1,585,501</u>	<u>1,394,048</u>
<b>COMMITMENT AND CONTINGENCIES</b> (Notes 5 and 10)		
<b>CAPITAL STOCK AND RETAINED EARNINGS (DEFICIT)</b>		
<b>CAPITAL STOCK</b> (Note 9(b))	12,073,789	2,642,993
<b>SPECIAL WARRANTS</b> (Note 9(c))	-	5,483,800
<b>WARRANTS</b> (Note 9(d))	2,597,840	132,000
<b>CONTRIBUTED SURPLUS</b> (Note 9(f))	812,551	-
<b>(DEFICIT) RETAINED EARNINGS</b>	<u>(220,298)</u>	<u>49,751</u>
	<u>15,263,882</u>	<u>8,308,544</u>
	<u>16,849,383</u>	<u>9,702,592</u>

APPROVED ON BEHALF OF THE BOARD:

"Leni Keough" Director

"Craig Reith" Director

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)**  
(Note 2)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007 \$ (Unaudited)	2006 \$ (Unaudited)	2007 \$ (Unaudited)	2006 \$ (Unaudited)
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>				
Stock based compensation	374,980	-	812,551	-
Office and general	57,419	12,680	155,839	19,346
Management services	49,345	6,300	90,783	18,073
Investor relations	3,835	-	6,629	-
Amortization	<u>627</u>	<u>840</u>	<u>1,882</u>	<u>2,520</u>
Loss before the under-noted	(486,206)	(19,820)	(1,067,684)	(39,939)
Interest income	<u>98,110</u>	<u>4,890</u>	<u>185,870</u>	<u>10,946</u>
Loss before income taxes	(388,096)	(14,930)	(881,814)	(28,993)
Income tax recovery	<u>326,900</u>	-	<u>611,765</u>	-
<b>NET LOSS FOR THE PERIOD</b>	(61,196)	(14,930)	(270,049)	(28,993)
<b>RETAINED EARNINGS (DEFICIT),</b>				
beginning of period	<u>(159,102)</u>	<u>(40,504)</u>	<u>49,751</u>	<u>(26,441)</u>
<b>DEFICIT,</b>				
end of period	<u>(220,298)</u>	<u>(55,434)</u>	<u>(220,298)</u>	<u>(55,434)</u>
<b>NET LOSS PER SHARE</b>				
Basic and diluted	<u>(\$0.002)</u>	<u>(\$0.001)</u>	<u>(\$0.011)</u>	<u>(\$0.001)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>				
	<u>30,875,018</u>	<u>10,310,000</u>	<u>25,378,830</u>	<u>10,310,000</u>

See accompanying notes to the unaudited financial statements.

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007 \$ (Unaudited)	2006 \$ (Unaudited)	2007 \$ (Unaudited)	2006 \$ (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss for the period	(61,196)	(14,930)	(270,049)	(28,993)
Adjustments for:				
Stock based compensation	374,980	-	812,551	-
Income tax (recovery)	(326,900)	-	(611,765)	-
Amortization	<u>627</u>	<u>840</u>	<u>1,882</u>	<u>2,520</u>
	(12,849)	(14,090)	(67,381)	(26,473)
Changes in non-cash working capital balances:				
(Increase) in amounts receivable	(155,912)	(1,858)	(283,349)	(6,348)
Decrease in prepaid expenses	-	-	-	7,725
(Decrease) increase in accounts payable and accrued liabilities	<u>(168,011)</u>	<u>(5,860)</u>	<u>(54,747)</u>	<u>(1,329)</u>
Cash flows used in operating activities	<u>(336,412)</u>	<u>(21,808)</u>	<u>(405,477)</u>	<u>(26,425)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from private placement	8,050,000	-	8,050,000	-
Exercise of warrants and options	16,000	-	304,002	-
Proceeds from convertible note payable	-	-	-	500,000
Share issue costs	(688,861)	-	(688,861)	-
Public offering costs	<u>29,929</u>	<u>(133,955)</u>	<u>(127,906)</u>	<u>(161,890)</u>
Cash flows from financing activities	<u>7,407,068</u>	<u>(133,955)</u>	<u>7,537,235</u>	<u>338,110</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Decrease of cash held in escrow	-	-	3,008,340	-
Cash acquired through reverse takeover	-	-	325,954	-
Interest in exploration properties and deferred exploration expenditures	(1,108,400)	(457,735)	(2,135,283)	(677,503)
Advances receivable	<u>(248,542)</u>	<u>-</u>	<u>(248,542)</u>	<u>-</u>
Cash flows from investing activities	<u>(1,356,942)</u>	<u>(457,735)</u>	<u>950,469</u>	<u>(677,503)</u>
Increase (decrease) in cash and short-term investments	5,713,714	(613,498)	8,082,227	(365,818)
Cash and short-term investments, beginning of period	<u>4,215,572</u>	<u>866,153</u>	<u>1,847,059</u>	<u>618,473</u>
Cash and short-term investments, end of period	<u>9,929,286</u>	<u>252,655</u>	<u>9,929,286</u>	<u>252,655</u>
<b>SUPPLEMENTAL INFORMATION</b>				
Interest paid	-	-	-	-
Income tax paid	-	-	-	-
Exercise of Special Warrants	-	-	5,483,800	-
<b>CASH AND SHORT-TERM INVESTMENTS ARE COMPOSED OF THE FOLLOWING:</b>				
Cash	225,879	252,655	225,879	252,655
Short-term investments	<u>9,703,407</u>	<u>-</u>	<u>9,703,407</u>	<u>-</u>

See accompanying notes to the unaudited financial statements.

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2007**

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**1. NATURE OF OPERATIONS**

These interim consolidated financial statements are unaudited and have not been reviewed by the Company's auditors.

Olivut Resources Ltd. (the "Company") was formed through a Reverse Takeover Transaction dated January 8, 2007 (see note 3). The Company, which is in the development stage, is engaged in the acquisition, exploration and development of properties for the purpose of mining precious and base minerals.

The Company is in the process of exploring its properties for mineral resources and has not determined whether the properties contain economically recoverable reserves. 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 are dependent upon the preservation and confirmation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to obtain 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 write-downs 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 unregistered prior agreements, native land claims and non-compliance with regulatory requirements.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for the preparation of interim financial information and follow the same accounting policies and methods of application as the audited financial statements of the pre-amalgamated Olivut Investments Ltd. for the period ended October 31, 2006. They do not include all of the information and disclosures required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the three and nine months ended July 31, 2007 are not necessarily indicative of the results that may be expected for the full year ended October 31, 2007. These consolidated financial statements should be read in conjunction with the pre-amalgamated Olivut Investments Ltd. audited financial statements including the notes thereto for the year ended October 31, 2006.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are in accordance with GAAP and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

**Cash and short-term investments**

Cash and short-term investments include cash on hand and balances with banks, net of bank overdrafts, and guaranteed investment certificates issued by a Canadian chartered bank..

**Interests in Exploration Properties and Deferred Exploration Expenditures:**

Exploration properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined to be significantly impaired in value, the property and related deferred costs are written down to their net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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The Company reviews its exploration properties on a regular basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including, but not limited to, exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. In reviewing its exploration properties, the Company estimates the future cash flows expected to result from each asset and its eventual disposition. If the sum of the undiscounted, expected future cash flow is less than the carrying value of the asset, an impairment loss is recognized. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

**Asset Retirement Obligations:**

The Company follows the Canadian Institute of Chartered Accountants ("CICA") accounting standard on "Asset retirement obligations". Under the 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 "Interest in exploration properties and deferred exploration expenditures" and amortized over the useful life of the properties. Management is not aware of any asset retirement obligations.

**Equipment and Amortization:**

Equipment is stated at acquisition cost. Amortization is provided at the following rates:

Office Equipment	- 20% declining balance
Computer Equipment	- 30% declining balance

**Flow-Through Financing:**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to "Interests in exploration properties and deferred exploration expenditures".

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

**Use of Estimates:**

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported 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 impacts estimates for asset retirement obligations and reclamation costs. 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 UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 income 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.

**Earnings (Loss) Per Share:**

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding. Diluted earnings (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.

**New accounting pronouncements**

On November 1, 2006, the Company adopted the CICA Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments - Recognition and Measurement*; Section 3861, *Financial Instruments - Disclosure and Presentation*; and Section 3865, *Hedges*. These new standards have been adopted prospectively and resulted in no changes to amounts previously reported.

(i) Financial Instruments

Under the new standards, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

(ii) Comprehensive Income

Section 1530 establishes standards for reporting and presenting comprehensive income. Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the statement of operations and comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity. The Company does not currently have any OCI.

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(iii) Hedging

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and during the nine month period ended July 31, 2007, the Company had no hedges.

The application of these new standards has had no impact on the Company's financial statements as at and for the nine month period ended July 31, 2007, and as such, a statement of comprehensive income has not been included in these financial statements.

**3. AMALGAMATION**

On July 7, 2006, Arrabiata Capital Corp. ("Arrabiata") entered into a share exchange agreement (the "Reverse Takeover Transaction") with Olivut Investments Ltd. ("Olivut"). Pursuant to the terms and conditions of such agreement, on January 8, 2007 Olivut was amalgamated with Arrabiata's wholly owned subsidiary, 2111940 Ontario Ltd., to form a wholly owned subsidiary of Arrabiata.

Each former shareholder of Arrabiata received 1.558 new Arrabiata common shares immediately prior to the amalgamation. Upon completion of the amalgamation, each shareholder of Olivut received 1 common share of Arrabiata for each share currently held in Olivut. All special warrants of Olivut were automatically exercised. All outstanding warrants of Olivut were converted on substantially the same terms into warrants of Arrabiata.

On January 8, 2007 the Reverse Takeover Transaction was completed and Arrabiata changed its name to Olivut Resources Ltd. (the "Company").

After the completion of the transaction, the security holders of Olivut held more than 50% of the issued and outstanding common shares of the combined entity. In accordance with CICA EIC-10, the substance of the transaction was a capital transaction and was accounted for as a reverse take-over with Olivut being identified as the acquirer. In accordance with reverse take-over accounting, the consolidated balance sheet is a continuation of Olivut, the capital structure reflects that of Arrabiata and the stated value of the share capital is that of Olivut. Comparative figures presented in the consolidated financial statements after the reverse take-over are those of Olivut.

At the time of the transaction, the net assets at estimated fair values that were acquired by Olivut consisted of cash totaling \$325,954.

**4. DEFERRED PUBLIC OFFERING COSTS**

The Company incurred costs of \$720,294 related to its efforts in obtaining a public offering and listing. At October 31, 2006 \$592,388 of these costs had been incurred and were deferred on the balance sheet. These costs were recorded as a share issue cost when the business combination transaction was completed and the listing on the TSX venture exchange was obtained in January of 2007.

**5. INTERESTS IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

The Company has a 100% interest in 32 mineral claims and 66 prospecting permits in the Mackenzie Region, Northwest Territories. The interests in exploration properties are subject to a 1.5% Net Smelter Return royalty ("NSR"), 50% of which is held by a director of the Company. The NSR can be repurchased by the Company, at the Company's option, for \$10,000,000 until January 10, 2009.



**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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A breakdown of the expenditures during the period is as follows:

Balance, October 31, 2006	<u>Acquisition Costs</u>	<u>Deferred Expenditures</u>	Balance, July 31, 2007
\$	\$	\$	\$
<u>4,223,745</u>	<u>48,300</u>	<u>2,086,983</u>	<u>6,359,028</u>

**6. EQUIPMENT**

	July 31, 2007	October 31, 2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
	\$	\$	\$	\$
Office equipment	11,951	6,628	5,323	6,263
Computer equipment	<u>17,316</u>	<u>14,071</u>	<u>3,245</u>	<u>4,187</u>
	<u>29,267</u>	<u>20,699</u>	<u>8,568</u>	<u>10,450</u>

**7. ADVANCE RECEIVABLE**

On May 25, 2007 Olivut advanced \$250,000 to an unrelated company providing services to Olivut. The advance carries interest at 7% per annum and is secured with a charge against property. Repayment terms include monthly payments of interest and principal with the balance due May 25, 2017.

**8. RELATED PARTY TRANSACTIONS**

During the nine-month period ended July 31, 2007, a total of \$175,385 (2006 - \$49,200) for exploration consulting expenditures, \$8,500 (2006 - \$30,000) for deferred public offering costs and share issuance consulting costs and \$99,086 (2006 - \$19,200) for general and administrative fees were paid to a director of the Company and a former director of the Company or persons or companies related to or controlled by them. The director and former director of the Company or persons or companies related to or controlled by them were also reimbursed at cost for expenses incurred on behalf of the Company. Included in accounts payable and accrued liabilities at July 31, 2007 is \$197,060 (October 31, 2006 - \$28,174) owing to a director of the Company or persons or companies related to or controlled by that director.

The above transactions were in the normal course of operations and the consideration paid was at normal market rates.

Directors, officers or persons or companies related or controlled by them participated in the private placement of units completed May 14, 2007 described on Note 9(b) and purchased a total of 212,715 units providing proceeds to the Company of \$372,251.

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**9. CAPITAL STOCK**

The capital stock is as follows:

- a) **Authorized**  
Unlimited number of common shares
- b) **Issued**  
31,588,317 common shares

A summary of changes in common shares is as follows:

	<b>Common Shares</b>	<b>Amount</b>
	#	\$
<b>Balance of Capital Stock of legal parent (Arrabiata)</b>		
Arrabiata shares issued and outstanding, October 31, 2006	6,617,800	713,008
Split of Arrabiata shares on a basis of 1.558:1	<u>3,692,732</u>	<u>-</u>
	10,310,532	713,008
<b>Balance of capital stock of legal subsidiary (Olivut)</b>		
Olivut shares issued and outstanding, October 31, 2006	10,310,000	2,642,993
Special warrants converted into shares	5,900,825	5,483,800
Renunciation of share capital	-	(999,900)
Public offering costs	-	(720,294)
Future tax effect of Reverse Takeover Transaction	-	141,935
Elimination of Arrabiata share capital	-	(387,054)
Exercise of stock options	186,960	24,002
Warrants exercised – cash proceeds	280,000	280,000
Warrants exercised – valuation allocation	-	66,000
Private placement May 14, 2007	4,600,000	8,050,000
Value attributed to warrants	-	(2,300,000)
Value attributed to broker warrants	-	(231,840)
Share issue costs	<u>-</u>	<u>(688,861)</u>
	<u>31,588,317</u>	<u>12,073,789</u>

On May 14, 2007 the Company completed a private placement for the sale of 4,600,000 units at \$1.75 per unit (a "Unit") for gross proceeds of \$8,050,000. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to acquire one common share of the Company at an exercise price of \$2.00 per common share until May 14, 2009.

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**c) Special Warrants**

A summary of changes in special warrants is as follows:

	Warrants #	Amount \$
Balance, October 31, 2006	5,900,825	5,483,800
Exercised	<u>(5,900,825)</u>	<u>(5,483,800)</u>
Balance, July 31, 2007	<u>-</u>	<u>-</u>

Each special warrant was automatically exercised into one common share of the Company for no additional consideration on January 8, 2007, the date of the Reverse Takeover Transaction.

**d) Warrants**

A summary of changes in warrants and the balance outstanding is as follows:

	Shares Issuable Upon Exercise of Warrants #	Attributed Value \$	Weighted Average Exercise Price \$
Balance, October 31, 2006	560,000	132,000	1.00
Exercised	<u>(280,000)</u>	<u>(66,000)</u>	1.00
Balance – expiring January 10, 2008	280,000	66,000	
May 14, 2007 private placement:			
Warrants granted expiring May 14, 2009	2,300,000	2,300,000	2.00
Broker warrants granted expiring May 14, 2008	<u>322,000</u>	<u>231,840</u>	2.00
Total outstanding July 31, 2007	<u>2,902,000</u>	<u>2,597,840</u>	1.90

Warrants issued May 14, 2007 have been valued using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend	0%
Risk-free interest rate	4.00%
Volatility	100%
Expected life	1 year
	( 2 years in the case of the broker warrants)

**e) Stock options:**

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Stock options are granted for a term not to exceed five years at exercise prices not less than the closing sale price on the TSX Venture Exchange on the trading day immediately preceding the date the options are granted, and are not transferable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum

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number of shares of the Company that are issuable pursuant to the plan is limited to 10% of the issued shares.

On January 17, 2007, the Company granted stock options to officers and directors of the Company to purchase up to 1,950,000 common shares in the capital of the Company at an exercise price of \$1.00 per common share. Stock options were also granted the same day to a geological consultant of the Company to purchase 250,000 common shares at an exercise price of \$1.00 per common share. Stock options granted to the President of the Company shall vest over 18 months. Stock options granted to other officers, directors and consultants vest over three years. The stock options shall expire on January 17, 2012.

On April 13, 2007 the Company granted stock options to consultants of the Company to purchase up to 110,000 common shares in the capital of the Company at an exercise price of \$1.15 per common share. These stock options vest over 18 months and expire April 13, 2012.

Following the grant of such stock options, a further 786,511 options to acquire 786,511 common shares are available for issuance under the Plan.

The following is a summary of stock options outstanding at July 31, 2007:

Expiry Date	Stock options #	Exercisable stock options #	Exercise price \$
August 6, 2008	62,320	62,320	0.1284
January 17, 2012	2,200,000	-	1.00
April 13, 2012	110,000	-	1.15
	<u>2,372,320</u>	<u>62,320</u>	

The following is a summary of stock option transactions during the nine months ended July 31, 2007:

	Stock options #	Weighted average exercise price \$
Arrabiata options outstanding, October 31, 2006	160,000	0.20
Split on basis of 1.558:1 on completion of Reverse Takeover Transaction	<u>89,280</u>	-
	249,280	0.1284
Exercised	<u>(186,960)</u>	<u>0.1284</u>
Balance outstanding	62,320	0.1284
Granted January 17, 2007	2,200,000	1.00
Granted April 13, 2007	<u>110,000</u>	<u>1.15</u>
Total outstanding, July 31, 2007	<u>2,372,320</u>	<u>0.98</u>

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE NINE MONTHS ENDED JULY 31, 2007

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The weighted average grant-date fair value of options granted during the nine months ended July 31, 2007 is \$0.76.

Stock options granted January 17, 2007 and April 13, 2007 have been valued at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected dividend	0%
Risk-free interest rate	4.00%
Volatility	100%
Expected life	5 years

The fair values attributed to the options granted January 17, 2007 and April 13, 2007 totaled \$1,752,300 and will be charged to general and administrative expenses and included in contributed surplus over the period the options vest. An amount of \$812,551 was charged to expense in the nine months ended July 31, 2007.

**f) Contributed Surplus**

A summary of changes in contributed surplus is as follows:

	Amount \$
Balance, October 31, 2006	-
Employee stock based compensation	743,694
Non-employee stock based compensation	<u>68,857</u>
Balance, July 31, 2007	<u>812,551</u>

**10. COMMITMENT AND CONTINGENCIES**

**a) Environmental Contingencies**

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations, the amounts of which cannot yet be determined or estimated.

**b) Flow-through Expenditures**

Pursuant to the issuance of 2,777,500 flow-through special warrants during the year ended October 31, 2006, in February 2007 the Company renounced \$2,777,500 of qualified exploration expenditures with an effective date of December 31, 2006. The effect of this renunciation was recorded in February 2007, which is the date of the renunciation. As of July 31, 2007, the Company has expended all of the funds related to these flow-through special warrants on qualified exploration expenses.