

**INLET RESOURCES LTD.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 and 2006**  
**(Expressed in Canadian Dollars)**



## AUDITORS' REPORT

To the Shareholders of  
Inlet Resources Ltd.

We have audited the balance sheets of Inlet Resources Ltd. as at December 31, 2007 and 2006, and the statements of operations and comprehensive loss, cash flows, and shareholders' equity 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.

Vancouver, Canada

April 21, 2008

"Morgan & Company"

Chartered Accountants

# INLET RESOURCES LTD.

## BALANCE SHEETS (Expressed in Canadian Dollars)

	DECEMBER 31	
	2007	2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 879,591	\$ 855,084
Amounts receivable	12,796	8,981
Prepaid expenses	24,774	16,826
Marketable securities (Note 4)	788,600	184,839
	<u>1,705,761</u>	<u>1,065,730</u>
<b>Equipment (Note 5)</b>	<b>8,005</b>	<b>7,681</b>
<b>Mineral Property (Note 6)</b>	<b>67,652</b>	<b>49,938</b>
	<u>\$ 1,781,418</u>	<u>\$ 1,123,349</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 8,238	\$ 19,738
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 7)	14,691,855	14,387,126
Contributed Surplus	458,575	460,904
Accumulated Other Comprehensive Income	603,761	-
Deficit	(13,981,011)	(13,744,419)
	<u>1,773,180</u>	<u>1,103,611</u>
	<u>\$ 1,781,418</u>	<u>\$ 1,123,349</u>

Approved on Behalf of the Board of Directors:

\_\_\_\_\_  
"David Baker"  
Director

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"Earl Terris"  
Director

The accompanying notes are an integral part of these financial statements.

# INLET RESOURCES LTD.

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

	YEARS ENDED DECEMBER 31	
	2007	2006
<b>Expenses</b>		
Amortization	\$ 2,481	\$ 4,799
Consulting and administration fees	85,013	87,061
Management fees	49,250	48,250
Professional fees	20,257	48,470
Property investigation	-	2,437
Rent, telephone and office expenses	60,717	36,442
Shareholders' communication	24,896	30,373
Stock based compensation	-	121,816
Transfer agent and filing fees	14,592	27,262
Travel and promotion	-	6,930
	<b>(257,206)</b>	(413,840)
<b>Loss Before Other Items And Income Taxes</b>		
<b>Other Items</b>		
Unrealized holding loss in marketable securities	-	(8,800)
Interest income	20,614	20,160
	<b>20,614</b>	11,306
<b>Loss Before Income Taxes</b>	<b>(236,592)</b>	(402,534)
<b>Future Income Tax Recovery</b>	-	36,890
<b>Net Loss For The Year</b>	<b>(236,592)</b>	(365,644)
<b>Other Comprehensive Income</b> (Note 4)		
Net unrealized gains arising on available for sale investments during the year	214,000	-
	<b>\$ (22,592)</b>	\$ (365,644)
<b>Comprehensive Loss For The Year</b>		
<b>Loss Per Share, Basic and diluted</b>	<b>\$ (0.04)</b>	\$ (0.08)
<b>Weighted Average Common Shares Outstanding</b>	<b>6,636,228</b>	4,750,036

The accompanying notes are an integral part of these financial statements.

# INLET RESOURCES LTD.

## STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

	YEARS ENDED DECEMBER 31	
	2007	2006
<b>Cash Flows Provided By (Used In):</b>		
<b>Operating Activities</b>		
Net loss for the year	\$ (236,592)	\$ (365,644)
Items not involving cash:		
Amortization	2,481	4,799
Future income tax recovery	-	(36,890)
Stock based compensation	-	121,816
Gain in value of marketable securities	-	8,800
	(234,111)	(267,119)
Net changes in non-cash working capital items:		
Accounts receivable	(3,815)	139,499
Prepaid expenses	(7,948)	(16,826)
Due from brokers	-	13,259
Accounts payable and accrued liabilities	(11,500)	2,245
	(257,374)	(128,942)
<b>Investing Activities</b>		
Deferred expenses	(17,714)	(49,938)
Equipment purchases	(2,805)	(9,601)
	(20,519)	(59,539)
<b>Financing Activity</b>		
Issue of share capital	302,400	837,806
	24,507	649,325
<b>Increase In Cash And Cash Equivalents</b>		
	855,084	205,759
<b>Cash And Cash Equivalents, Beginning Of Year</b>		
	\$ 879,591	\$ 855,084
<b>Cash And Cash Equivalents, End Of Year</b>		
<b>Supplemental Cash Flow Information</b>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

# INLET RESOURCES LTD.

## STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2007 AND 2006

	SHARE CAPITAL		CONTRIBUTED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME	DEFICIT	TOTAL
	SHARES	AMOUNT				
Balance, December 31, 2005	2,141,817	\$ 13,586,210	\$ 339,088	\$ -	\$ (13,378,775)	\$ 546,523
Private placement at \$0.225/share	2,000,000	450,000	-	-	-	450,000
Finder's fee/Agent fees	-	(12,194)	-	-	-	(12,194)
Private placement at \$0.20/share	2,000,000	400,000	-	-	-	400,000
Stock based compensation	-	-	121,816	-	-	121,816
Tax benefit on flow through shares	-	(36,890)	-	-	-	(36,890)
Net loss for the year	-	-	-	-	(365,644)	(365,644)
Balance, December 31, 2006	6,141,817	14,387,126	460,904	-	(13,744,419)	1,103,611
Private placement at \$0.15/share	2,000,000	300,000	-	-	-	300,000
Exercise of stock options	10,000	2,400	-	-	-	2,400
Value associated with options exercised	-	2,329	(2,329)	-	-	-
Revaluation of marketable securities to market value at January 1, 2007	-	-	-	389,761	-	389,761
Revaluation of marketable securities to market value at December 31, 2007	-	-	-	214,000	-	214,000
Net loss for the year	-	-	-	-	(236,592)	(236,592)
<b>Balance, December 31, 2007</b>	<b>8,151,817</b>	<b>\$ 14,691,855</b>	<b>\$ 458,575</b>	<b>\$ 603,761</b>	<b>\$ (13,981,011)</b>	<b>\$ 1,773,180</b>

# **INLET RESOURCES LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 and 2006**

(Expressed in Canadian Dollars)

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Inlet Resources Ltd. ("the Company") carries out its business activities exclusively in Canada, and is engaged in the acquisition and exploration of mineral properties. The Company is incorporated in British Columbia, Canada.

During the year ended December 31, 2006, the Company consolidated its share capital on a 30 old for 1 new basis. The name of the Company was unchanged. The number of shares and issue and exercise prices per share in these financial statements have been restated to reflect the share consolidation.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since inception of \$13,981,011 (2006 - \$13,744,419), and the Company will need additional funds to continue to explore and, if exploration is successful, to develop its property. These factors create substantial doubt as to the ability of the Company to continue as a going concern unless sufficient funds are raised for ongoing operations. The Company intends to raise funds by private placements. Realization values may be substantially different from the carrying values as shown in these financial statements should the Company be unable to continue as a going concern.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Financial Instruments – Change in Accounting Policies**

Effective January 1, 2007, the Company has adopted three new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA") in 2005. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

#### **Financial Instruments – Recognition and Measurement (CICA Handbook Section 3855)**

In accordance with this new standard the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 and 2006**  
(Expressed in Canadian Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### a) Financial Instruments – Change in Accounting Policies (Continued)

Comprehensive Income (CICA Handbook Section 1530)

The standard introduces the concept of comprehensive loss, which consists of net loss and other comprehensive income. The Company's financial statements now include a Statement of Comprehensive Loss integrated with the statement of operations, which includes the components of comprehensive income. For the Company, other comprehensive income ("OCI") is comprised of the unrealized gains on available-for-sale financial assets arising during the year.

Cumulated changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category within shareholders' equity on the balance sheet.

Hedges (CICA Handbook Section 3865)

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Company has not designated any hedging relationships.

#### b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short term deposits with maturities of 90 days or less when acquired. The Company did not have cash equivalents as of December 31, 2007 and 2006.

#### c) Marketable Securities

The marketable securities were quoted and recorded at lower of market and cost on and before December 31, 2006. From January 1, 2007, the Company adopted the new financial instrument standards (CICA Section 3855 and Section 1530) and classifies its marketable securities as "available for sale" and records the marketable securities at their fair values.

#### d) Equipment

Furniture is carried at cost and amortized over their estimated useful lives of five years on a straight-line basis.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006  
(Expressed in Canadian Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Mineral Property Interests and Deferred Exploration Costs

##### *Costs and Amortization*

Mineral properties, including options to mineral claims, are stated at cost. The recorded cost of mineral properties and exploration and development interests is based on cash paid and the value, if any, of share considerations given for mineral properties and exploration and development costs incurred.

All direct and indirect costs relating to the acquisition of mineral properties are capitalized until the properties to which they relate are placed into production, sold or when management has determined that there is an impairment in the carrying values of those mineral properties.

The Company defers expenditures directly attributable to the exploration of mineral properties, pending a decision as to the commercial viability of a property. When the Company loses or abandons title on its interest in the property, the accumulated expenditures on such property are charged to operations. If any property reaches commercial production, the applicable costs of the mineral property and the deferred exploration and development expenditures will be amortized against related production revenues on the unit of production method, based on the property's estimated reserves.

##### *Values*

Based on the information available to date, the Company has not yet determined whether the mineral property it is exploring contains economically recoverable reserves. The recoverability of the amounts capitalized as mineral property and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete its exploration and development program and upon future profitable production.

The amounts shown for mineral properties and deferred exploration expenses represent costs incurred to date, and do not necessarily represent present or future values as they are entirely dependent upon various factors as noted above.

##### *Cost of Maintaining Mineral Properties*

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006  
(Expressed in Canadian Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### f) Property Option Agreements

The Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded; option payments are recorded as resource property costs or recoveries when the payments are made or received.

#### g) Environmental Issues

The Company is not aware of any environmental studies made and of any present or past obligations.

The operations of the company may in the future be affected from time to time to varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the company vary greatly and are not predictable. The company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

#### h) Long-Lived Assets Impairment

Long-lived assets are reviewed whenever events or changes in circumstances indicate that carrying value of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flow expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis.

#### i) Asset Retirement Obligations

The Company follows CICA Handbook Section 3110 – "Asset Retirement Obligations". Under this standard, future obligations to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are initially recognized and recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate and an inflation factor. The liability is adjusted for changes in the expected amounts and timing of cash flows required to discharge the liability and accreted to full value over time through periodic charges to earnings. The amount of the asset retirement liability initially recognized is capitalized as part of the asset's carrying value and amortized over the asset's estimated useful life.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006

(Expressed in Canadian Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Asset Retirement Obligations (Continued)

Under the standard, future asset retirement obligations are only recorded when the timing or amount of remediation costs can be reasonably estimated.

j) Stock Option Plan

The Company grants stock options under a fixed stock option plan in accordance with the TSX Venture Exchange policies. Canadian generally accepted accounting principles require the fair value of all share purchase options to be 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. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of the 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, do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

k) 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 amount of revenues and expenses during the reporting period. Significant areas where management's judgment is applied include asset and investment valuations, equipment lives, contingent liabilities, tax provisions and future income tax balances, asset retirement obligations and other accrued liabilities. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006  
(Expressed in Canadian Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### l) Income Taxes

Income taxes are recorded using the liability method of tax allocation. Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The recognition of future income tax assets is limited to the amount that is more likely than not to be realized.

#### m) Loss Per Common Share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the stock options and warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2007 and 2006, all of the outstanding stock options and warrants were anti-dilutive.

#### n) Foreign Currency

Transactions denominated in foreign currencies are translated into Canadian dollars, using the temporal method. A summary of this method is as follows:

- Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date;
- Non-monetary assets and liabilities are translated at the rate prevailing when the transaction occurred;
- Revenue, general and administration expenses, and gains and losses are translated at the average exchange rate in effect during the period;
- Exchange gains or losses from conversion are included in the current statement of loss;
- Depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006  
(Expressed in Canadian Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Flow-Through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to mineral property deferred exploration costs. When transferring the tax deductibility of exploration expenditures to the investor (renunciation), future income tax recovery income has been recognized and share capital has been reduced accordingly.

p) Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

### 3. NEW ACCOUNTING POLICIES NOT YET ADOPTED

The CICA issued a new accounting standard, Section 1535, Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This new section will be effective for the Company beginning January 1, 2008. The Company does not expect the impact of the adoption of this new section on the financial statements to be significant.

### 4. MARKETABLE SECURITIES

	<u>2007</u>	<u>2006</u>
Goldbrook Ventures Inc. – 3,160,000 common shares (quoted at market value) (December 31, 2006 – quoted at lower of market and cost at \$169,839)	<b>\$ 774,200</b>	\$ 169,839
RPT Uranium Corp. – 60,000 common shares (quoted at market value) (December 31, 2006 – quoted at lower of market and cost at \$15,000)	<b>14,400</b>	15,000
	<b><u>\$ 788,600</u></b>	<b><u>\$ 184,839</u></b>

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006

(Expressed in Canadian Dollars)

### 4. MARKETABLE SECURITIES (Continued)

As at December 31, 2007, the Company had available for sale securities including 3,160,000 common shares of Goldbrook Ventures Inc. ("Goldbrook"), a public company related by virtue of a common director and common officer, and 60,000 common shares of RPT Uranium Corp. (formerly Rampart Ventures Ltd.). 3,000,000 of the Goldbrook common shares were received pursuant to an option agreement between the Company and Goldbrook and were recorded at a cost of \$141,839.

Pursuant to the new financial instrument standards (CICA Section 3855 and Section 1530), the Company classifies its marketable securities as "available for sale" and records the marketable securities at their fair values. The fair values are determined by using the close market prices of the last day of the period. At the same time, the unrealized gain or loss from change of fair value of the marketable securities are recognized as "other comprehensive income".

The marketable securities were quoted and recorded at lower of market and cost on and before December 31, 2006.

The Company is exposed to liquidity risk which is the risk that the Company will encounter difficulty in selling all of these common shares at an amount at least equivalent to its cost.

### 5. EQUIPMENT

	2007		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Furniture	\$ 12,406	\$ 4,401	\$ 8,005

  

	2006		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Furniture	\$ 9,601	\$ 1,920	\$ 7,681

During 2006, the Company removed its computer equipment from its books, as the assets were no longer in use.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006

(Expressed in Canadian Dollars)

### 6. MINERAL PROPERTIES

Costs incurred to date include:

	<u>2007</u>	<u>2006</u>
Claims and maintenance	\$ 17,664	\$ -
Geological consulting fees	17,570	17,520
Travel, accommodation, food and contractor services	15,050	15,050
Equipment rental	3,800	3,800
Supplies and sampling	13,568	13,568
	<u>\$ 67,652</u>	<u>\$ 49,938</u>

#### Broken Hill-Leo Property

On September 26, 2006, the Company entered into an option agreement with Timer Explorations Inc. ("Timer"), a company related by common directors, to acquire a 50% interest in the Broken Hill-Leo property which comprises 56 mineral claims (133 claim units), located approximately 150 kilometers north-east of Kamloops, British Columbia.

Under the terms of the Option Agreement, the Company must complete an initial \$50,000 work program prior to December 31, 2006 (incurred \$49,938 as at December 31, 2006) and a further \$150,000 work program by August 31, 2007 to earn the 50% interest in the claims.

The Company had not completed the required expenditures as at August 31, 2007 and Timer received a notice of Default of Agreement on September 6, 2007. On October 9, 2007, the Company received an Amended Notice of Default that extends the default period to December 31, 2007, and the Company made a \$15,000 deposit to the optionor pursuant to the Amended Notice of Default.

Subsequent to the year end, the Company made a \$5,000 payment to the optionor to extend the default period and Timer entered into a letter of intent ("LOI") to amend the Option Agreement. Under the LOI, Timer will complete a \$125,000 work program by November 2, 2008 and make advance royalty payments of \$5,000 each subsequent year to the optionor until \$100,000 has been paid.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006  
(Expressed in Canadian Dollars)

### 7. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Private Placement

On October 22, 2007, the Company completed a non-brokered private placement for the issuance of 2,000,000 units (the "Units") at a price of \$0.15 per Unit for gross proceeds of \$300,000. Each Unit is comprised of one common share ("Share") of the Company and one transferable common share purchase warrant ("Warrant"). Each Warrant is exercisable into one additional common share of the Company ("Warrant Share") for a period of two years from the closing date of the private placement at an exercise price of \$0.20. The Shares and Warrant Shares are subject to a four month hold period expiring on February 5, 2008.

On January 20, 2006, the Company completed a post-consolidation non-brokered private placement involving the issuance of 2,000,000 units (the "units") at a price of \$0.225 per unit, for gross proceeds of \$450,000 less finders' fees of \$12,194 for net proceeds of \$437,806. Each unit is composed of one post-consolidated common share of the Company and one transferable common share purchase warrant. Each warrant is exercisable into one additional post-consolidated common share of the Company at an exercise price of \$0.30 expiring January 20, 2008.

On August 24, 2006, the Company completed a post-consolidation non-brokered private placement and issued 2,000,000 units of the Company (the "units") at a price of \$0.20 per unit, for gross proceeds of \$400,000. Each unit is composed of one common share of the Company and one transferable common share purchase warrant. Each warrant is exercisable into one additional post-consolidated common share of the Company at an exercise price of \$0.265 expiring August 24, 2008.

c) Incentive Stock Options

The Company has a fixed stock option plan whereby a maximum of 10% of the issued shares may be reserved for issuance.

There were no stock options granted during the year ended December 31, 2007.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 and 2006**  
(Expressed in Canadian Dollars)

### 7. SHARE CAPITAL (Continued)

#### c) Incentive Stock Options (Continued)

A summary of the Company's outstanding stock options as of December 31, 2007 and 2006 and the changes during the years are presented below:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding and exercisable at December 31, 2005	155,115	\$ 3.00
Cancelled	(64,000)	3.00
Granted	523,000	0.24
Outstanding and exercisable at December 31, 2006	614,115	\$ 0.65
Exercised	(10,000)	0.24
<b>Outstanding and exercisable at December 31, 2007</b>	<b>604,115</b>	<b>\$ 0.66</b>

Incentive stock options outstanding at December 31, 2007 to directors, officers and employees are as follows:

NUMBER OF OPTIONS OUTSTANDING AND EXERCISABLE	EXPIRY DATE	EXERCISE PRICE
91,115	July 7, 2009	\$ 3.00
513,000	November 30, 2011	\$ 0.24
604,115		

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 and 2006**

(Expressed in Canadian Dollars)

### 7. SHARE CAPITAL (Continued)

#### d) Share Purchase Warrants

A summary of the Company's outstanding share purchase warrants as at December 31, 2007 and 2006 and the changes during the years are presented below:

	<b>NUMBER</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
Outstanding and exercisable at December 31, 2005	699,000	\$ 3.00
Expired/Cancelled	(500,000)	3.00
Issued	<u>4,000,000</u>	0.28
Outstanding and exercisable at December 31, 2006	4,199,000	\$ 0.41
Expired	(199,000)	3.00
Issued	<u>2,000,000</u>	0.20
<b>Outstanding and exercisable at December 31, 2007</b>	<b><u>6,000,000</u></b>	<b>\$ 0.26</b>

At December 31, 2007, there were 6,000,000 outstanding share purchase warrants entitling the holders thereof the right to purchase one common share for each warrant held as follows:

<b>NUMBER OF SHARES</b>	<b>EXPIRY DATE</b>	<b>EXERCISE PRICE PER SHARE</b>
2,000,000	January 20, 2008	\$ 0.30
2,000,000	August 24, 2008	\$ 0.265
<u>2,000,000</u>	October 3, 2009	\$ 0.20
<u>6,000,000</u>		

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006

(Expressed in Canadian Dollars)

### 8. RELATED PARTIES

The Company retains the services of certain directors and officers. Management fees, consulting fees, accounting fees, and corporate and administration fees are as follows:

	<u>2007</u>	<u>2006</u>
Management fees	<b>\$ 49,250</b>	\$ 48,250
Consulting fees – shareholders communication	<b>30,625</b>	30,625
Corporate Services	-	1,500
Accounting fees	<b>10,625</b>	-
Total	<b><u>\$ 90,500</u></b>	<b><u>\$ 80,375</u></b>

In the year ended December 31, 2007, management fees of \$49,250 (2006 - \$48,250) were paid to the president, who is also a director, of the Company. Consulting fees related to shareholders' communication of \$30,625 (2006 - \$30,625) were paid to a company controlled by the spouse of the president. Accounting fees of \$10,625 (2006 - \$Nil) were paid to an officer.

At December 31, 2007, accounts payable and accrued liabilities included \$Nil (2006 - \$924) due to a director of the Company.

At December 31, 2007, accounts receivable include the offices expenses paid on behalf of companies with common directors and management in the amount of \$1,301 (2006 – \$1,404).

At December 31, 2007, prepaid expenses include \$11,110 (2006 - \$9,108) paid to companies controlled by a director for future management fees and other expenses.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2007 and 2006**

(Expressed in Canadian Dollars)

### 9. INCOME TAXES

A reconciliation of the expected income tax expense (benefit) to the actual income tax expense (benefit) is as follows:

	<b>2007</b>	2006
Statutory rates	<b>34%</b>	34%
Income tax recovery at statutory rate	<b>\$ (81,000)</b>	\$ (124,000)
Non-deductible items for tax purposes	<b>1,000</b>	46,000
Unrecognized tax losses	<b>80,000</b>	78,000
Tax benefits recognized upon renouncement of exploration expenditures	-	(36,890)
	<b>\$ -</b>	\$ (36,890)
Income tax recovery	<b>\$ -</b>	\$ (36,890)

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

	<b>2007</b>	2006
Future income tax assets:		
Non-capital losses carry-forwards	<b>\$ 889,000</b>	\$ 1,012,000
Resource deductions	<b>54,000</b>	54,000
Other assets	<b>2,000</b>	-
	<b>945,000</b>	1,066,000
Future income tax liability:		
Marketable securities	<b>(211,000)</b>	-
Valuation allowance	<b>(734,000)</b>	(1,066,000)
Net future income tax assets	<b>\$ -</b>	\$ -

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

(Expressed in Canadian Dollars)

### 9. INCOME TAXES (Continued)

The Company has available tax losses of approximately \$2,613,000 which may be offset against future Canadian taxable income. These losses expire as follows:

2008	\$	366,000
2009		228,000
2010		292,000
2014		575,000
2015		651,000
2026		267,000
2027		234,000
		<hr/>
	\$	<u>2,613,000</u>

In addition, the Company has resource related expenditures totaling \$226,000 (2006 - \$208,000) which can be carried forward indefinitely to offset future taxable income.

### 10. CONTINGENT LIABILITIES AND COMMITMENTS

The Company is not aware of any significant contingent liabilities or guarantees as at December 31, 2007. The Company has reserved shares for the commitment to issue shares in the event of the exercise of incentive stock options or share purchase warrants.

### 11. FINANCIAL INSTRUMENTS AND RISK FACTORS

The Company's financial instruments consist of cash, marketable securities, amounts receivable and accounts payable and accrued liabilities. For all except marketable securities, fair value approximates carrying value since the instruments are short term in nature and are receivable or payable on demand. The fair value of marketable securities is disclosed in Note 4.

#### *Concentration of Credit Risk*

The Company does not believe it is subject to any significant concentration of credit risk. Cash is placed with major financial institutions on a cash or short term investment basis. Accounts receivable represent amounts that are collectible.

#### *Interest Rate Risk*

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and current liabilities.

# **INLET RESOURCES LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

(Expressed in Canadian Dollars)

### **12. SUBSEQUENT EVENT**

Subsequent to December 31, 2007, 530,000 share purchase warrants, with expiry date of January 20, 2008, were exercised at \$0.30 per share and 50,000 share purchase warrants, with expiry date of October 3, 2009, were exercised at \$0.20 per share.

The remaining 1,470,000 share purchase warrants with expiry date of January 20, 2008 expired unexercised.