

**INLET RESOURCES LTD.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**  
**(Expressed in Canadian Dollars)**



## AUDITORS' REPORT

To the Shareholders of  
Inlet Resources Ltd.

We have audited the balance sheet of Inlet Resources Ltd. as at December 31, 2006, and the statements of loss and deficit, and cash flows for the year 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 audit.

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

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

The financial statements as at December 31, 2005, and for the year then ended, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 16, 2006.

Vancouver, Canada

April 20, 2007

"Morgan & Company"

Chartered Accountants

# INLET RESOURCES LTD.

## BALANCE SHEETS (Expressed in Canadian Dollars)

	DECEMBER 31	
	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 855,084	\$ 205,759
Due from broker	-	13,259
GST receivable	7,577	4,742
Amounts receivable (Note 3)	1,404	143,738
Prepaid expenses	16,826	-
Marketable securities (Note 4)	184,839	51,800
	<u>1,065,730</u>	<u>419,298</u>
Equipment (Note 5)	7,681	2,879
Mineral Property (Note 6)	49,938	-
Long Term Investments (Note 7)	-	141,839
	<u>\$ 1,123,349</u>	<u>\$ 564,016</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 19,738	\$ 17,493
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (Note 8)	14,387,126	13,586,210
Contributed Surplus (Note 9)	460,904	339,088
Deficit	(13,744,419)	(13,378,775)
	<u>1,103,611</u>	<u>546,523</u>
	<u>\$ 1,123,349</u>	<u>\$ 564,016</u>

Approved on Behalf of the Board of Directors:

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

\_\_\_\_\_  
"Earl Terris"  
Director

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

# INLET RESOURCES LTD.

## STATEMENTS OF LOSS AND DEFICIT

(Expressed in Canadian Dollars)

	YEARS ENDED DECEMBER 31	
	2006	2005
<b>Expenses</b>		
Accounting fees	\$ 13,070	\$ 27,850
Audit fees	17,420	12,478
Amortization	4,799	1,440
Consulting and administration fees	87,061	57,691
Interest and bank charges	950	1,104
Legal fees	17,980	2,480
Management fees	48,250	35,700
Property investigation	2,437	34,061
Rent, telephone, office expenses	35,492	82,438
Shareholders' communication	30,373	89,613
Stock based compensation	121,816	-
Transfer agent and filing fees	27,262	41,859
Travel and promotion	6,930	65,123
Office expenses recoverable	-	(141,360)
	<b>413,840</b>	<b>310,477</b>
<b>Loss Before Other Items</b>		
<b>Other Items</b>		
Write off mineral properties	-	306,123
Unrealized holding loss in marketable securities	8,800	37,200
Interest income	(20,106)	(5,912)
	<b>(11,306)</b>	<b>337,411</b>
<b>Loss Before Income Tax</b>	<b>402,534</b>	<b>647,888</b>
<b>Future Income Tax Recovery</b>	<b>(36,890)</b>	<b>-</b>
<b>Net Loss For The Year</b>	<b>365,644</b>	<b>647,888</b>
<b>Deficit, Beginning Of Year</b>	<b>13,378,775</b>	<b>12,730,887</b>
<b>Deficit, End Of Year</b>	<b>\$ 13,744,419</b>	<b>\$ 13,378,775</b>
<b>Loss Per Share, Basic and diluted</b>	<b>\$ 0.08</b>	<b>\$ 0.31</b>
<b>Weighted Average Common Shares Outstanding</b>	<b>4,750,036</b>	<b>2,059,376</b>

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	
	2006	2005
<b>Cash Flows Provided By (Used In):</b>		
<b>Operating Activities</b>		
Net loss for the year	\$ (365,644)	\$ (647,888)
Items not involving cash:		
Amortization	4,799	1,440
Write off mineral properties	-	306,123
Stock based compensation	121,816	-
Loss in value of marketable securities	8,800	37,200
Future income tax recovery	(36,890)	-
	(267,119)	(303,125)
Net changes in non-cash working capital items:		
Accounts receivable	139,499	(143,613)
Prepaid expenses	(16,826)	-
Due from brokers	13,259	(13,259)
Accounts payable and accrued liabilities	2,245	(2,639)
	(128,942)	(462,636)
<b>Investing Activities</b>		
Deferred property expenditures	(49,938)	(85,433)
Equipment	(9,601)	-
	(59,539)	(85,433)
<b>Financing Activity</b>		
Issue of share capital	837,806	279,250
<b>Increase (Decrease) In Cash And Cash Equivalents</b>	<b>649,325</b>	<b>(268,819)</b>
<b>Cash And Cash Equivalents, Beginning Of Year</b>	<b>205,759</b>	<b>474,578</b>
<b>Cash And Cash Equivalents, End Of Year</b>	<b>\$ 855,084</b>	<b>\$ 205,759</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.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**

(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, exploration, development and subsequent production relating to 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 \$13,744,419, 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) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and short term deposits with maturities of 90 days or less when acquired.

#### **b) Marketable Securities**

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

#### **c) Equipment**

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

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005  
(Expressed in Canadian Dollars)

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

#### d) 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 consideration 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, 2006 AND 2005

(Expressed in Canadian Dollars)

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

#### e) 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.

#### f) Environmental Issues

The Company is not aware of any environmental studies made nor 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.

#### g) 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.

#### h) 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, 2006 AND 2005

(Expressed in Canadian Dollars)

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

#### h) 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.

#### i) 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.

#### j) 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.

#### k) 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.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2006 AND 2005**

(Expressed in Canadian Dollars)

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

#### l) 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, 2006 and 2005, all of the outstanding stock options and warrants were anti-dilutive.

#### m) 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.

#### n) 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.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2006 AND 2005**

(Expressed in Canadian Dollars)

### 3. AMOUNTS RECEIVABLE

The Company recognized \$141,360 of expenses recoverable from rent, computer/office equipment and miscellaneous services provided at two different offices during the years ended 2004 and 2005. The amounts recoverable were recorded as a credit to operations in the year ended December 31, 2005. The following are included in amounts receivable:

	2006	2005
Due from companies with common directors	\$ 1,404	\$ 1,404
Accrued interest receivable	-	974
Recoverable expenses	-	141,360
	\$ 1,404	\$ 143,738

### 4. MARKETABLE SECURITIES

	2006	2005
Goldbrook Ventures Inc. (a related company) – 3,160,000 common shares (2005 - 160,000 common shares) (quoted market value \$568,800; 2005 - \$36,800)	\$ 169,839	\$ 36,800
Rampart Ventures Ltd. – 60,000 common shares (60,000 common shares) (quoted market value \$21,600; 2005 - \$15,000)	15,000	15,000
	\$ 184,839	\$ 51,800

### 5. EQUIPMENT

	2006		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Furniture	\$ 9,601	\$ 1,920	\$ 7,681
	2005		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Equipment	\$ 57,413	\$ 54,534	\$ 2,879

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, 2006 AND 2005

(Expressed in Canadian Dollars)

### 6. MINERAL PROPERTIES

#### Broken Hill-Leo Property

On September 26, 2006, the Company entered into an option agreement with Timer Explorations Inc., 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.

Exploration costs incurred to date include:

	<u>2006</u>	<u>2005</u>
Geological consulting fees	\$ 17,520	\$ -
Travel, accommodation, food and contractor services	15,050	-
Equipment rental	3,800	-
Supplies and sampling	13,568	-
	<u>\$ 49,938</u>	<u>\$ -</u>

#### Red Lake Gold Property

During 2003, the Company agreed to acquire a 100% interest in a property consisting of 53 mining claims totaling 830 claim units comprised of 32,800 acres located in the Red Lake area of Ontario. In consideration, the Company paid \$60,000 in cash and issued 66,667 shares.

On December 1, 2003, the Company granted Rampart Ventures Ltd. ("Rampart") an option to acquire an undivided 60% interest in the Red Lake Gold Property. The Company received an option payment of \$25,000 and 100,000 shares of Rampart valued at \$0.15 per share in the year ended December 31, 2004.

On March 1, 2005, Rampart Ventures Ltd. terminated the option agreement.

Based on the exploration results, there is no future value in the property and, accordingly, the Company wrote off the acquisition costs and exploration expenditures associated with the Red Lake Gold property.

During the year ended December 31, 2006, the Company incurred \$2,437 expenses relating to Red Lake property, which were charged directly to operations.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(Expressed in Canadian Dollars)

### 6. MINERAL PROPERTIES (Continued)

#### Red Lake Gold Property (Continued)

Property costs incurred to date are as follows:

	<u>2006</u>	<u>2005</u>
Acquisition costs	\$ -	\$ 220,000
Deferred exploration costs		
Assays and sampling	-	540
Claims maintenance	-	4,452
Consulting (geological)	-	40,345
Field work and supplies	-	9,250
Field and office costs	-	12,096
Report and map	-	1,237
Legal	-	412
Site visit	-	663
Wages and salaries	-	17,127
Total deferred exploration costs	-	86,122
Total costs	-	306,122
Write off Red Lake property	-	(306,122)
Total Red Lake Properties	\$ -	\$ -

#### Ungava and Wakeham Property

On February 3, 2003, the Company acquired a 100% interest in the Ungava property located in Quebec, through the delivery of 600,000 shares at \$0.13 per share and the payment of \$100,000. The property is subject to a 1% NSR of which half may be purchased for \$1,000,000.

On August 6, 2003, the Company entered into an Option and Joint Venture Agreement with Goldbrook Ventures Inc. ("Goldbrook"), a company related by common directors. The Company granted Goldbrook the exclusive right and option to acquire an undivided 80% interest in the Ungava Property, through the delivery of an aggregate 500,000 common shares of Goldbrook and incurring an aggregate of \$3,500,000 of work expenditures on the Property by August 6, 2007.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2006 AND 2005**  
(Expressed in Canadian Dollars)

### 6. MINERAL PROPERTIES (Continued)

#### Ungava and Wakeham Property (Continued)

On July 30, 2004, the Company announced that it had reached an agreement with Goldbrook Ventures Inc. ("Goldbrook") whereby Goldbrook will acquire all of the Company's interest in the Wakeham Property (the "Property") comprised of approximately 74,280 acres in the Raglan area of northern Quebec. As consideration, Goldbrook delivered 3,000,000 common shares to the Company valued at \$141,839.

The agreement replaces the option previously granted to Goldbrook by the Company to earn up to an 80% interest in the Property. The Wakeham Property is subject to a 1-percent net smelter return royalty on any mineral production from the Property. Goldbrook has the option to purchase one-half of this royalty for \$1 million.

During the year ended December 31, 2005, the Company wrote off the \$1 nominal value of the property. The Company no longer has any interest in the claims.

### 7. LONG TERM INVESTMENTS

As at December 31, 2005, long term investments were recorded at a cost of \$141,839 and consist of 3,000,000 common shares of Goldbrook Ventures Inc. ("Goldbrook"), a public company related by virtue of a common director and common officer. The 3,000,000 common shares were received pursuant to an option agreement between the Company and Goldbrook, were placed in escrow in accordance with TSX Venture Exchange policies, and they were released to the Company on September 6, 2006 with a quoted market value as at December 31, 2006 of \$540,000 (2005 - \$690,000). During the year ended December 31, 2006, the Company reclassified the shares from long term to short term marketable securities as the shares were released from escrow.

The Company is exposed to liquidity risk which is the risk that the Company will encounter difficulty in selling all of these common shares.

### 8. SHARE CAPITAL

The number of shares and issue prices per share in these financial statements have been restated to reflect the share consolidation, which occurred during the year ended December 31, 2006, of 30 old common shares for one new common share. During the year ended December 31, 2006, the Company increased its authorized share capital to an unlimited number of common shares.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2006 AND 2005**

(Expressed in Canadian Dollars)

### 8. SHARE CAPITAL (Continued)

a) Authorized

Unlimited number of common shares without par value (2005 – 100,000,000 common shares without par value).

b) Common Shares Issued and Outstanding

	2006		2005	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance, beginning of year	2,141,817	\$ 13,586,210	1,942,817	\$ 13,306,960
Issued during the period for cash:				
Private placement at \$0.225/share	2,000,000	450,000	-	-
Finder's fees/ Agent fees	-	(12,194)	-	-
Private placement at \$0.20/share	2,000,000	400,000	-	-
Private placement at \$1.50/share	-	-	172,333	258,500
Finder's fees/ Agent fees	-	-	-	(14,500)
Private placement at \$1.50/share	-	-	26,667	40,000
Finder's fees/ Agent fees	-	-	-	(4,750)
Total issued during the year	4,000,000	837,806	199,000	279,250
Tax benefit on flow through shares	-	(36,890)	-	-
Balance, end of year	6,141,817	\$ 14,387,126	2,141,817	\$ 13,586,210

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.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(Expressed in Canadian Dollars)

### 8. SHARE CAPITAL (Continued)

#### b) Common Shares Issued and Outstanding (Continued)

In August 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.

On December 1, 2006, an aggregate of 523,000 incentive options were granted to employees and directors of the Company exercisable into common shares at a price of \$0.24 per share expiring November 30, 2011.

A summary of the Company's outstanding stock options as of December 31, 2006 and December 31, 2005 and the changes during the years are presented below:

	<u>NUMBER</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
Outstanding and exercisable at December 31, 2004	193,781	\$ 3.00
Expired	(33,333)	3.00
Cancelled	<u>(5,333)</u>	3.00
Outstanding and exercisable at December 31, 2005	155,115	3.00
Cancelled	(64,000)	3.00
Granted	<u>523,000</u>	0.24
Outstanding and exercisable at December 31, 2006	<u>614,115</u>	<u>\$ 0.65</u>

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(Expressed in Canadian Dollars)

### 8. SHARE CAPITAL (Continued)

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

Incentive stock options outstanding at December 31, 2006 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
<u>523,000</u>	November 30, 2011	\$ 0.24
<u><u>614,115</u></u>		

#### d) Stock Option Compensation

The fair value of the options granted during the year ended December 31, 2006 is estimated on the dates of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Dividend yield	Nil
Expected volatility	191%
Risk free rate of return	3.77%
Expected life of options	5 years

The fair value of the 523,000 options granted on December 1, 2006 was \$0.23 per option granted. The total stock-based compensation expense in the amount of \$121,816 has been charged to operations.

#### e) Share Purchase Warrants

During the year ended December 31, 2006, 4,000,000 post-consolidated share purchase warrants were issued through non-brokered private placements.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2006 AND 2005**

(Expressed in Canadian Dollars)

### 8. SHARE CAPITAL (Continued)

#### e) Share Purchase Warrants (Continued)

A summary of the Company's outstanding share purchase warrants as at December 31, 2006 and December 31, 2005, and the changes during the years, are presented below:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding and exercisable at December 31, 2004	528,972	\$ 3.00
Expired/Cancelled	(28,972)	3.00
Issued	199,000	3.00
Outstanding and exercisable at December 31, 2005	699,000	3.00
Expired/Cancelled	(500,000)	3.00
Issued	4,000,000	0.28
Outstanding and exercisable at December 31, 2006	4,199,000	\$ 0.41

At December 31, 2006, there were 4,199,000 outstanding share purchase warrants entitling the holders thereof the right to purchase one common share for each warrant held as follows:

NUMBER OF SHARES	EXPIRY DATE	EXERCISE PRICE PER SHARE
172,333	May 31, 2007	\$ 3.00
26,667	June 8, 2007	\$ 3.00
2,000,000	January 20, 2008	\$ 0.30
2,000,000	August 24, 2008	\$ 0.265
4,199,000		

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(Expressed in Canadian Dollars)

### 9. CONTRIBUTED SURPLUS

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 339,088	\$ 339,088
Stock option compensation	<u>121,816</u>	-
Balance, end of year	<u>\$ 460,904</u>	<u>\$ 339,088</u>

### 10. CONTINGENT LIABILITIES AND COMMITMENTS

The Company is not aware of any significant contingent liabilities or guarantees as at December 31, 2006. 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. RELATED PARTIES

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

	<u>2006</u>	<u>2005</u>
Management fees	\$ 48,250	\$ 35,700
Consulting fees – shareholders communication	30,625	7,500
Corporate services	1,500	18,000
Deferred exploration costs	-	8,800
Total	<u>\$ 80,375</u>	<u>\$ 70,000</u>

In 2006, management fees of \$48,250 (2005 - \$35,700, and \$6,300 deferred exploration costs) were paid to the president, who is also a director, of the Company. Consulting fees related to shareholders' communication of \$30,625 (2005 - \$7,500) were paid to a company controlled by the spouse of the president. Corporate services fees of \$1,500 (2005 - \$18,000) were paid to a former director, and \$Nil (2005 - \$2,500) in exploration costs were also paid to a director.

At December 31, 2006, accounts payable and accrued liabilities included \$924 (2005 - \$924) due to a director of the Company and \$223 (2005 - \$2,764) was owing to a company with common directors for expenses paid on behalf of the Company.

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2006 AND 2005**

(Expressed in Canadian Dollars)

### 11. RELATED PARTIES (Continued)

At December 31, 2006, accounts receivable include the offices expenses paid on behalf of companies with common directors and management in the amount of \$1,404 (2005 – \$1,404).

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

### 12. INCOME TAXES

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

	2006	2005
Statutory rates	34%	35%
Income tax recovery at statutory rate	\$ (124,000)	\$ (220,000)
Non-deductible items for tax purposes	46,000	128,000
Unrecognized tax losses	78,000	92,000
Tax benefits recognized upon renouncement of exploration expenditures	(36,890)	-
Income tax recovery	\$ (36,890)	\$ -

The components of future income taxes are:

	2006	2005
Non-capital losses carryforwards	\$ 1,012,000	\$ 1,397,000
Resource deductions	54,000	89,000
	1,066,000	1,486,000
Valuation allowance	(1,066,000)	(1,486,000)
Net future tax asset	\$ -	\$ -

# INLET RESOURCES LTD.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(Expressed in Canadian Dollars)

### 12. INCOME TAXES (Continued)

The Company has available tax losses of approximately \$2,977,000 which may be offset against future Canadian taxable income. These losses expire as follows:

2007	\$	598,000
2008		366,000
2009		228,000
2010		292,000
2014		575,000
2015		651,000
2026		<u>267,000</u>
		<u>\$ 2,977,000</u>

In addition, the Company has resource related expenditures totalling \$208,000 (2005 - \$264,000) which can be carried forward indefinitely to offset future taxable income.

### 13. FINANCIAL INSTRUMENTS AND RISK FACTORS

The Company's financial instruments consist of cash, marketable securities, due from broker, 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.

#### *Liquidity Risk*

The Company is exposed to liquidity risk with respect to its investments in marketable securities, as the Company may encounter difficulty selling all of the shares.