Valterra Resource Corporation

(An Exploration Stage Company)

Financial Statements
December 31, 2007 and 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Valterra Resource Corporation were prepared by, and are the responsibility of, the Company's management. These financial statements were prepared in accordance with accounting principles generally accepted in Canada, and they reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains an appropriate system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, that transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

Smythe Ratcliffe LLP has audited the financial statements, and their report outlines the scope of their examination and gives an opinion on the financial statements.

"Lawrence Page" (signed)

Lawrence Page
President

February 27, 2008

AUDITORS' REPORT

TO THE SHAREHOLDERS OF VALTERRA RESOURCE CORPORATION
(An Exploration Stage Company)

We have audited the balance sheets of Valterra Resource Corporation (an exploration stage company) as at December 31, 2007 and 2006 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
February 27, 2008

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VALTERRA RESOURCE CORPORATION
(An Exploration Stage Company)
Balance Sheets
December 31
Expressed in Canadian Dollars

		2007	2006
Assets			
Current			
Cash and cash equivalents		$ 800,455	$ 175,846
Receivables		42,725	7,111
Prepaid expenses		9,903	299
		853,083	183,256
Reclamation Bonds	note 6(a)	35,000	0
Equipment	note 4	4,237	0
Investments	note 5	4	4
Mineral Properties	note 6	688,201	49,593
		$ 1,580,525	$ 232,853
Liabilities			
Current			
Bank indebtedness	note 7	$ 199,246	$ 196,533
Accounts payable and accrued liabilities		357,106	253,094
Due to related parties	notes 10(a) and (b)	40,678	100,735
		597,030	550,362
Shareholders' Equity			
Share Capital	note 9	6,779,211	5,091,426
Subscription Receivable	note 9(d)	0	(17,500)
Contributed Surplus	note 9(g)	282,280	0
Deficit		(6,077,996)	(5,391,435)
		983,495	(317,509)
		$ 1,580,525	$ 232,853

Nature of Operations and Going-Concern (note 1)
Contingencies (notes 8 and 9(c))
Commitment (note 13)
Subsequent Event (note 14)

Approved on behalf of the Board:

"Lawrence Page"
.... Director
Lawrence Page

"Edward Odishaw"
.... Director
Edward Odishaw

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

VALTERRA RESOURCE CORPORATION
(An Exploration Stage Company)
Statements of Operations and Deficit
Years Ended December 31
Expressed in Canadian Dollars

		2007	2006
Expenses			
Amortization		$ 471	$ 0
Consulting		72,748	0
Directors' fees		14,922	0
General exploration		19,423	2,700
Insurance		7,424	0
Interest and exchange		23,606	53,302
Interest on long-term debt		0	125,170
Investor relations		60,319	703
Office and administration		131,818	86,261
Professional fees		170,700	93,283
Regulatory fees		20,850	10,840
Shareholders' communications		1,673	1,070
Stock-based compensation	note 9(e)	234,334	0
Transfer agent fees		15,117	1,000
Travel and promotion		9,521	349
Loss Before Other Items		(782,926)	(374,678)
Recovery on write-off of accounts payable	note 8	96,365	0
Gain on settlement of debt	note 9(c)	0	1,429,506
Net Income (Loss) and Comprehensive Income (Loss) for the Year		(686,561)	1,054,828
Deficit, Beginning of the Year		(5,391,435)	(6,446,263)
Deficit, End of the Year		$ (6,077,996)	$ (5,391,435)
Earnings (Loss) Per Share		$ (0.05)	$ 0.52
Weighted Average Number of Common Shares Outstanding		12,835,072	2,043,817

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

VALTERRA RESOURCE CORPORATION
(An Exploration Stage Company)
Statements of Cash Flows
Years Ended December 31
Expressed in Canadian Dollars

	2007	2006
Operating Activities		
Net income (loss)	$ (686,561)	$ 1,054,828
Items not involving cash		
Amortization	471	0
Recovery on write-off of accounts payable	(96,365)	0
Gain on settlement of debt	0	(1,429,506)
Stock-based compensation	234,334	0
Shares issued as consideration for loan guarantee	0	40,000
Accrued interest on long-term debt	0	125,170
	(548,121)	(209,508)
Changes in non-cash working capital		
Receivables	(35,614)	(7,111)
Prepaid expenses	(9,604)	(299)
Accounts payable and accrued liabilities	(111,424)	60,976
Due to related parties	(60,057)	92,203
	(216,699)	145,769
Cash Used in Operating Activities	(764,820)	(63,739)
Investing Activities		
Expenditures on mineral properties	(278,332)	(38,593)
Purchase of equipment	(4,708)	0
Reclamation bonds	(35,000)	0
Cash Used in Investing Activities	(318,040)	(38,593)
Financing Activities		
Subscription received	17,500	0
Shares issued for cash, net of share issue costs	1,687,256	281,877
Cash Provided by Financing Activities	1,704,756	281,877
Inflow of Cash	621,896	179,545
Bank Indebtedness, Beginning of Year	(20,687)	(200,232)
Cash and Cash Equivalents (Bank Indebtedness), End of Year	$ 601,209	$ (20,687)
Consisting of the following:		
Cash and cash equivalents	$ 800,455	$ 175,846
Bank indebtedness	(199,246)	(196,533)
	$ 601,209	$ (20,687)

Supplemental Cash Flow Information (note 12)

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

1. NATURE OF OPERATIONS AND GOING-CONCERN

Valterra Resource Corporation (the "Company") is an exploration stage company incorporated under the laws of Alberta. The Company's shares were subject to a cease trade order ("CTO") made by the British Columbia Securities Commission on June 3, 2003 and a CTO by the Alberta Securities Commission on July 18, 2003. The CTOs were fully revoked on August 3, 2007.

The Company is engaged in the acquisition, exploration and development of precious metal properties and does not have any mineral properties in production. The Company has not determined whether its mineral properties contain ore reserves that are economically recoverable. The ability of the Company to meet its commitments as they become due, including completion of the acquisition, exploration and development of its mineral properties, is dependent on the Company's ability to obtain the necessary financing. There can be no assurance it will be successful in raising the required financing. The Company's shares trade on the Canadian Trading and Quotation Systems Inc. ("CNQ") under the symbol VALT.

These financial statements were prepared on a “going-concern” basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business and not through a process of forced liquidation. As at December 31, 2007, the Company had working capital of $256,053, compared to a working capital deficiency of $367,106 as at December 31, 2006. As at December 31, 2007, the Company is obligated to expend $700,442 for expenditures on Canadian mining properties which qualify as flow-through expenditures for Canadian income tax purposes. As at December 31, 2007, the Company had equity of $983,495 compared to a capital deficiency of $317,509 as at December 31, 2006. The Company does not currently hold any revenue generating properties. The Company continues to incur losses and has an accumulated deficit of $6,077,996 as at December 31, 2007 (2006 - $5,391,435). The financial statements do not give effect to any adjustments or account classifications that might be necessary if the Company were unable to meet its obligations or continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (continued)

(a) Accounting changes

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, “financial instruments – recognition and measurement”, which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Financial instruments include cash and cash equivalents, bank indebtedness, accounts payable and accrued liabilities, and amounts due to related parties, which are designated as held-for-trading. Changes in fair value for these instruments have been recorded in net income. Investments are classified as available-for-sale and because they do not have a quoted market price in an active market, they are recorded at their carrying value on the balance sheet.

The adoption of this section does not impact the opening equity and losses of the Company as the fair values of the financial instruments approximate their carrying values due to their short-term maturity.

Effective January 1, 2007, the Company also adopted the CICA Handbook Section 1530, “comprehensive income”, which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period. The Company has no items of other comprehensive income in any period presented. Therefore, net income as presented in the Company’s Statements of Operations and Deficit equals comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (continued)

(b) Cash and cash equivalents

Cash equivalents consist of highly liquid, short-term investments that are readily convertible to known amounts of cash with original maturities of three months or less.

(c) 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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to accounts payable and accrued liabilities, the recoverability of the mineral property expenditures, the assumptions regarding the variables used in determining the fair value of stock-based compensation and warrant compensation, and the determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(d) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets using the declining balance method at an annual rate of 20% for equipment. One-half of the annual rate is used in the year of acquisition.

(e) Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost, less option payments and other recoveries received. Exploration and development costs and royalties relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, allowed to lapse or become impaired.

Quarterly or when events or changes in circumstances indicate that the carrying amount may not be recoverable, senior management reviews the carrying value of deferred mineral property acquisition and exploration expenditures to assess whether there has been any impairment in value. In the event that mineral deposits are determined to be insufficient to recover the carrying value of any property, the carrying value will be written down to fair value or written off, as appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (continued)

(e) Mineral properties (continued)

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount is excess of costs is credit to operations.

(f) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset.

At December 31, 2007 and 2006, the Company had no material AROs with respect to the Company's mineral properties.

(g) Share capital

Common shares issued for non-monetary consideration are recorded at an amount based on estimated market value.

(h) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES
(continued)

(i) Income taxes

The Company uses the asset and liability method to account for income taxes. Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(j) Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares, whereby, the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than by the Company. The renouncement of these expenditures for accounting purposes is recorded on the date the Company renounces the tax deductions through a decrease in share capital and the recognition of a future income tax liability.

(k) Stock-based compensation

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

(l) Future accounting changes

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING CHANGES (continued)

(l) Future accounting changes (continued)

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

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

3. FINANCIAL INSTRUMENTS

(a) Fair value

The Company's financial instruments comprise cash and cash equivalents, investments, bank indebtedness, accounts payable and accrued liabilities, and amounts due to related parties.

The carrying values of cash and cash equivalents, bank indebtedness, accounts payable and accrued liabilities, and amounts due to related parties are a reasonable estimate of the fair values due to the relatively short time period to maturity.

The fair value of investments is based on its carrying value as there is no quoted market price in an active market for the investments.

(b) Cash equivalents

The Company has a banker's acceptance with a term of 30 days that is set to mature on January 22, 2008. The $398,436 instrument will have a yield to maturity of 4.48% and has a par value of $400,000.

(c) Interest risk

The Company is exposed to interest rate cash flow risk on its bank indebtedness, as the payments fluctuate with changes in interest rates.

Expressed in Canadian Dollars

3. FINANCIAL INSTRUMENTS (continued)

(d) Credit risk

The Company is not exposed to significant credit risk on its cash and cash equivalents as they are placed with major financial institutions.

(e) Derivatives - mineral properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter return royalties (“NSR”), the value of which is derived from future events and commodity prices. These rights are derivative instruments; however, the mineral properties to which they relate are not sufficiently developed to reasonably determine value.

4. EQUIPMENT

			Net Book Value as at December 31,	
	Cost	Accumulated Amortization	2007	2006
Equipment	$ 4,707	$ 470	$ 4,237	$ 0

5. INVESTMENTS

(a) Hester Creek Estate Winery ("HCEW")

The Company holds 1,200 shares (0.12%) of HCEW's issued and outstanding 1,001,200 shares, the remainder of which is owned by a third party. The Company carries its investment at $1, being the exercise price of the third party’s option to purchase the Company's 1,200 shares of HCEW.

(b) Abridean Inc. ("Abridean")

The Company acquired for $400,000 554,046 Class B preferred shares of Abridean, with each Class B preferred share convertible into one common share of Abridean. At December 31, 2002, the Company wrote down its investment in Abridean to $1.

(c) BioVan Inc. ("BioVan")

The Company acquired for $750,000 a minority interest in BioVan. At December 31, 2001, the Company recognized another-than-temporary decline in the recoverable amount of this investment and, accordingly, wrote down the investment to $1.

Expressed in Canadian Dollars

5. INVESTMENTS (continued)

(d) Cardiovascular Solutions Inc. ("CSI")

The Company acquired for $1,200,000 preferred shares of CSI, which are redeemable and retractable, are not entitled to a vote at shareholders' meetings, and are not convertible to common shares. At December 31, 2002, the Company wrote down its CSI shares to $1.

6. MINERAL PROPERTIES

A summary of capitalized acquisition and exploration expenditures on the Company's properties for the year ended December 31, 2007 is as follows:

	Swift Katie	Gus	Total
Acquisition costs			
Balance as at December 31, 2006	$ 36,000	$ 0	$ 36,000
Additions during the year	57,295	3,642	60,937
Balance as at December 31, 2007	93,295	3,642	96,937
Exploration costs			
Balance as at December 31, 2006	13,593	0	13,593
Additions during the year:			
Assays and surveys	9,397	200	9,597
Camp supplies	3,893	0	3,893
Communications	1,006	0	1,006
Drilling	271,336	0	271,336
Equipment rental	6,815	0	6,815
General exploration	71,873	0	71,873
Geological services	164,361	0	164,361
Project support	14,950	0	14,950
Stock-based compensation	22,075	0	22,075
Travel and other	11,765	0	11,765
Total additions during the year	577,471	200	577,671
Balance as at December 31, 2007	591,064	200	591,264
Total mineral properties costs as at December 31, 2007	$ 684,359	$ 3,842	$ 688,201

Expressed in Canadian Dollars

6. MINERAL PROPERTIES (continued)

A summary of capitalized acquisition and exploration expenditures on the Company's properties for the year ended December 31, 2006 is as follows:

	Swift Katie	Gus	Total
Acquisition costs:			
Balance as at December 31, 2005	$ 0	$ 0	$ 0
Additions during the year	36,000	0	36,000
Balance as at December 31, 2006	36,000	0	36,000
Exploration costs:			
Balance as at December 31, 2005	0	0	0
Additions during the year:			
Geological services	13,562	0	13,562
Travel and other	31	0	31
Total additions during the year	13,593	0	13,593
Balance as at December 31, 2006	13,593	0	13,593
Total mineral properties costs as at December 31, 2006	$ 49,593	$ 0	$ 49,593

(a) Swift Katie Property, BC

Under an agreement dated July 21, 2006 (the "Option Agreement"), Manex Resource Group Inc. ("Manex"), a private company controlled by the President of the Company, acquired an option from the Optionors to purchase the Swift Katie Property located near Salmo in the Nelson Mining District of southern British Columbia. The option was assigned (the "Amended Option") by the Assignor to the Company in consideration for $2,500.

The option agreement was amended three times during 2007 as follows:

- ♦ February 7, 2007, to extend the date for $50,000 of work expenditures from December 31, 2006 to June 30, 2007;
- ♦ June 30, 2007, to accelerate $12,500 of the December 31, 2007 cash payment to June 30, 2007 and to change the work expenditure requirements at June 30, 2007 and December 31, 2007 to be changed to $35,000 and $115,000 from $50,000 and $100,000, respectively; and
- ♦ November 30, 2007, to substitute and add additional land claims to bring the total claimed area up to 7,064 hectares from 5,414 hectares.

Expressed in Canadian Dollars

6. MINERAL PROPERTIES (continued)

(a) Swift Katie Property, BC (continued)

The Company can earn a 60% interest, as amended, in the Swift Katie Property by making the following cash payments, and issue shares to the Optionors and incurring the following exploration expenditures:

Date	Cash	Work	Shares
Signing	$ 12,500 *	$ 0	0
Upon approval of agreement by a recognized stock exchange	0	0	55,000 B
December 31, 2006	12,500 *	0	55,000 B
June 30, 2007	12,500 *	35,000 A	0
December 31, 2007	12,500 *	115,000 A	110,000 B
December 31, 2008	35,000	200,000	110,000
December 31, 2009	35,000	250,000	110,000
	$ 120,000	$ 600,000	440,000

* Full payments have been made
A Expenditures made
B Full amount of shares have been issued at December 31, 2007 (note 9(b) and (h)).

To earn the remaining 40% interest in the Swift Katie claim, the Company must make cash payments, issue shares to the Optionors and incur the following additional exploration expenditures:

Date	Cash	Work	Shares
December 31, 2010	$ 60,000	$ 350,000	225,000
December 31, 2011	60,000	350,000	225,000
	$ 120,000	$ 700,000	450,000

The Optionors of the property retain a 2% NSR on the property if the Company earns a 60% interest and a 3% NSR if the Company earns a 100% interest in the property. The Company has the option to purchase one-half of the royalty for $1,000,000 per 1% any time prior to the commencement of commercial production.

The Company has posted reclamation deposits totaling $35,000 as security for any future reclamation costs. The reclamation deposits were a prerequisite for drilling.

Expressed in Canadian Dollars

6. MINERAL PROPERTIES (continued)

(b) Gus Property, BC

On December 3, 2007, the Company acquired an option to purchase the Gus mineral claims located near Salmo in the Nelson Mining District of southern British Columbia.

The Company can earn a 100% interest in the Gus Property by making the following cash payments and incurring the following exploration expenditures:

Date	Cash (US$)	Work (C$)
December 3, 2008	$ 20,000	$ 100,000
December 3, 2009	25,000	100,000
December 3, 2010	25,000	100,000
December 3, 2011	30,000	100,000
December 3, 2012	40,000	0
December 3, 2013	40,000	0
December 3, 2014	40,000	0
December 3, 2015	50,000	0
December 3, 2016	30,000	0
Total	$ 300,000	$ 400,000

The Optionors of the property retain a 3% NSR on the property if the Company earns a 100% interest in the property. The Company has the option to purchase one-half of the royalty for $2,000,000 at any time prior to and including the commencement of commercial production.

Although management has taken steps to verify title to mineral properties in which the Company has an interest, in accordance with industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and not be in compliance with regulatory requirements.

7. BANK INDEBTEDNESS

Bank indebtedness is due on demand, bears interest at prime plus 1% per annum and is secured by a letter of credit from Schroders (C.I.) supported by a guarantee by a company owned by a shareholder of the Company. During 2006, the Company issued 200,000 shares at an agreed price of $0.20 per share, as consideration for the guarantee.

Expressed in Canadian Dollars

8. CONTINGENCY

During 2007, the Company wrote off $96,365 in accounts payable, resulting in a recovery of expenses. Management believes these amounts are not liabilities of the Company; however, there is no assurance that these amounts will not be claimed in the future by the Company's creditors. The likelihood of the Company having to pay these amounts in the future is not known at this time.

9. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value
Unlimited preference shares without par value (none issued)

(b) Issued and outstanding

	Number of Shares	Value of Shares
Balance as at December 31, 2005	1,765,659	$ 3,217,354
Shares issued for cash:		
Private placement at $0.10 (note 9(d))	3,000,000	299,377
Shares issued in settlement of debt at $0.25 (note 9(c))	6,048,000	1,512,000
Shares allotted in settlement of debt at $0.25 but not issued (note 9(c))	46,780	11,695
Shares issued as consideration for a letter of credit for the bank indebtedness (note 7)	200,000	40,000
Shares issued for mineral property acquisition (note 9(h))	110,000	11,000
Balance as at December 31, 2006	11,170,439	5,091,426
Shares issued for mineral property acquisition (note 9(h))	110,000	26,400
Shares issued for cash:		
Private placement (note 9(d))	6,446,000	1,661,385
Balance as at December 31, 2007	17,746,439	$ 6,779,211

9. SHARE CAPITAL (continued)

(c) Shares issued for debt

On July 21, 2006, the Company agreed to settle debt of $2,636,269 with European & Allied Commerce Limited ("EACL") and Blankemeyer through the issuance of 3,912,000 shares with an agreed upon value of $0.25, for a total of $978,000 and the assignment of a note receivable from HCEW worth $250,000. The Company may be obligated for further amounts with respect to the debt settlement as the note receivable due from HCEW is in dispute by EACL. The outcome of the dispute cannot be determined at this time and, accordingly, will be recorded when known and may impact future results of operations and cash flows. A gain of $1,408,269 was realized on the settlement of this debt.

On July 21, 2006, the Company retired accounts payable due to a related party of $414,932 by issuing 1,528,000 shares with an agreed upon value of $0.25 each for a total of $382,000. The Company also agreed to issue an additional 46,780 shares with an agreed upon value of $0.25 each for a total of $11,695. A gain of $21,237 was realized on the settlement of these payables.

On July 21, 2006, the Company retired $152,000 of amounts due to a company controlled by the President of the Company through the issuance of 608,000 shares with an agreed upon value of $0.25 per share for a total of $152,000. No gain was realized on this transaction.

Overall, through these transactions the Company settled debt totalling $3,203,201 in consideration for the issuance of 6,048,000 shares with a total value of $1,512,000, 46,780 allotted shares with a total value of $11,695 and the assignment of a note receivable worth $250,000, thereby realizing a $1,429,506 gain on settlement of debt during 2006.

9. SHARE CAPITAL (continued)

(d) Private placements

For the fiscal year ended December 31, 2007

On September 27, 2007, the Company completed a non-brokered private placement of 3,055,000 flow-through shares at $0.30 per share and 3,320,000 non-flow-through shares at $0.25 per share for total gross proceeds of $1,746,500 (the "Private Placement"). In connection with the Private Placement, the Company incurred cash share issuance costs of $59,245, issued 91,000 finders common shares to (fair value of $27,125), and issued share purchase warrants to finders entitling the holder to purchase 392,000 common shares at $0.30 per share (fair value of $25,871) until September 28, 2008.

For the fiscal year ended December 31, 2006

During 2006, the Company completed a non-brokered private placement of 3,000,000 common shares at a price of $0.10 per share for gross proceeds of $300,000 of which $17,500 remained outstanding as at December 31, 2006 and was received in 2007.

(e) Stock options

(i) Stock-based compensation plan

The Company has a stock-based compensation plan (the "Plan") allowing for the reservation of common shares issuable under the Plan to a maximum 10% of the number of issued and outstanding common shares of the Company at any given time. The term of any stock option granted under the Plan may not exceed five years and the exercise price may not be less than the closing price of the Company's shares on the last business day immediately preceding the date of grant, less any permitted discount.

(ii) Summary of stock option transactions

All options outstanding as at December 31, 2007 (Nil as at December 31, 2006) were vested.

Expressed in Canadian Dollars

9. SHARE CAPITAL (continued)

(e) Stock options (continued)

The Company applies the fair value method of accounting for stock options and, accordingly, the fair value of stock options of $234,334 has been included in the statements of operations and deficit and $22,075 in exploration and mineral property expenses. Stock-based compensation would be allocated in the statements of operations and deficit as follows: $181,900 to directors and officers, and $52,434 to consultants. The fair value was estimated at the date of grant based on the Black-Scholes option pricing model using the following weighted average assumptions:

Fair Value Assumptions	**Options 2007**	**Options 2006**
Expected share price volatility	82.04%	N/A
Expected life in years	5	N/A
Risk-free interest rate	4.35%	N/A
Expected dividend yield	0.00%	N/A

A summary of the Company's stock option transactions for fiscal 2007 follows:

			Number of Options		
Expiry Date	**Exercise Price**	**Balance December 31, 2006 and 2005**	**Granted**	**Exercised/ Cancelled**	**Balance December 31, 2007**
October 9, 2012	$ 0.25	0	1,500,000	0	1,500,000
October 19, 2012	$ 0.28	0	10,000	(10,000)	0
December 4, 2012	$ 0.28	0	10,000	0	10,000
Total		0	1,520,000	(10,000)	1,510,000
Weighted average exercise price		0	$ 0.25	$ 0.28	$ 0.25

(f) Share purchase warrants

The Company applies the fair value method of accounting for warrants and, accordingly, the fair value of warrants of $25,871 has been included in share issuance costs. The fair value of warrants issued was estimated based on the Black-Scholes option pricing model, using the following assumptions:

Fair Value Assumptions	**Warrants 2007**	**Warrants 2006**
Expected share price volatility	80.55%	N/A
Expected life in years	1	N/A
Risk-free interest rate	4.17%	N/A
Expected dividend yield	0.00%	N/A

Expressed in Canadian Dollars

9. SHARE CAPITAL (continued)

(f) Share purchase warrants (continued)

A summary of the Company's share purchase warrant transactions for the fiscal year ended December 31, 2007 follows:

			Number of Warrants		
Expiry Date	**Exercise Price**	**Balance December 31, 2006 and 2005**	**Issued**	**Exercised/ Cancelled**	**Balance December 31, 2007**
September 26, 2008	$ 0.30	0	392,000	0	392,000
Weighted average exercise price		$ 0	$ 0.30	$ 0	$ 0.30

(g) Contributed surplus

	2007	2006
Opening balance	$ 0	$ 0
Stock-based compensation	256,409	0
Fair value of warrants issued	25,871	0
Ending balance	$ 282,280	$ 0

(h) Shares issued for mineral property

In 2006, 110,000 common shares were issued, valued at $11,000, in connection with the Swift Katie Property (note 6(a)).

In connection with the option for the Swift Katie Property, the Company issued during 2007 110,000 common shares at a fair value of $0.24 per share ($26,400).

10. RELATED PARTY TRANSACTIONS

(a) Under the service agreement, as amended, between the Company and Manex, a private company controlled by the President of the Company (note 13), the Company was charged as follows:

- ♦ from January to September 2007: $5,000 basic fee per month, fees in respect of corporate, geological, and property acquisition and maintenance services, and a 10% mark-up on out-of-pocket expenses.

- ♦ from October to December 2007: $8,000 basic fee per month, fees in respect of corporate, geological, and property acquisition and maintenance services, and a 15% mark-up on out-of-pocket expenses.

During 2007, the Company incurred:

- ♦ $69,000 in respect of the basic monthly fees (2006 - $60,575);
- ♦ $138,371 in respect of corporate, geological and office expenses (2006 - $89,657); $60,629 in respect of property acquisition, maintenance and consulting services in relation to the mineral properties (2006 - $15,162); and
- ♦ $7,739 in respect of the mark-up on out-of-pocket expenses (2006 - $1,235).

Amounts payable under the agreement at December 31, 2007 were $36,918 (2006 - $56,949).

(b) Fees in the amount of $93,449 (2006 - $9,427) were charged by a company controlled by the President of the Company and included in professional fees, share issue costs and mineral property expenditures. As at December 31, 2007, there was $3,760 (2006 - $3,074) payable to this company.

(c) Consulting fees relating to corporate development of $52,500 (2006 - $Nil) were charged by a private company controlled by an individual who is a director and officer of the Company. As at December 31, 2007, there was $Nil (2006 - $16,605) payable to this company.

(d) Under a services agreement with a company controlled by an officer of the Company, the Company is charged $3,250 per month for services of a chief financial officer. During 2007, total fees incurred by the Company were $9,750 (2006 - $Nil).

Expressed in Canadian Dollars

10. RELATED PARTY TRANSACTIONS (continued)

(e) In 2006, interest of $38,281 was accrued on long-term debt from a then significant shareholder of the Company.

(f) Included in due to related parties is $Nil (2006 - $24,107) owing to the President of the Company.

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

11. INCOME TAXES

A reconciliation of the combined Canadian federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

		2007		2006
		34.12%		34.12%
Income tax expense (benefit) calculated at statutory rates	$	(234,000)	$	359,900
Stock-based compensation		80,000		0
Share issuance costs		(7,000)		0
Unrecognized (recognized) tax losses		161,000		(359,900)
	$	0	$	0

The Company has operating losses that may be carried forward to apply against future years' income for Canadian income tax purposes. These losses expire as follows:

Available to		Amount
2008	$	524,000
2009		233,000
2010		247,000
2014		396,000
2015		317,000
2026		375,000
2027		567,000
	$	2,659,000

Expressed in Canadian Dollars

11. INCOME TAXES (continued)

Future income taxes reflect the tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of future income tax assets at December 31, 2007 and 2006 are as follows:

		2007		2006
Future income tax assets				
Tax value of long-term investments in excess of book value	$	2,486,000	$	2,486,000
Share issues costs		90,000		0
Tax value of capital assets in excess of book value		25,000		25,000
Book value over tax value of mineral properties		(22,000)		0
Non-capital loss carry-forwards		2,659,000		2,186,000
		5,238,000		4,697,000
Tax rate		26.00%		34.12%
		1,363,000		1,603,000
Valuation allowance		(1,363,000)		(1,603,000)
Net future income tax assets	$	0	$	0

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

12. SUPPLEMENTAL CASH FLOW INFORMATION

		2007		2006
Non-Cash Transactions				
Total stock-based compensation capitalized to mineral properties	$	22,075	$	0
Common shares issued for share issuance costs	$	27,125	$	0
Fair value of agents warrants included in share issuance costs	$	25,871	$	0
Resource property expenditures included in accounts payable	$	311,801	$	0
Accounts payable written off during the year	$	96,365	$	0
Common shares issued for mineral properties	$	26,400	$	11,000
Allotment of shares to retire certain accounts payable	$	0	$	11,695
Issuance of shares to retire certain related party amounts	$	0	$	152,000
Issuance of shares to retire certain accounts payable	$	0	$	382,000
Issuance of shares to retire long-term debt	$	0	$	978,000
Assignment of note receivable to retire long-term debt	$	0	$	250,000
Other Cash Flow Information				
Interest paid	$	14,147	$	13,302

Expressed in Canadian Dollars

13. COMMITMENT

The Company has entered into a contract with Manex expiring June 30, 2012 for office space. The commitment related to this agreement is approximately as follows:

2008	$	96,000
2009		96,000
2010		96,000
2011		96,000
2012		48,000
	$	432,000

The Company can terminate the agreement at any time subject to paying 50% of the remaining value of the agreement from the date of termination.

14. SUBSEQUENT EVENT

In connection with the renunciation of flow-through expenditures of $916,500, the Company will record a future income tax recovery of $288,698 and recognize a charge against share capital in the same amount during the first quarter of 2008 fiscal year.

VALTERRA RESOURCE CORPORATION

(An Exploration Stage Company)

Management Discussion and Analysis

Year Ended December 31, 2007

Dated: March 11, 2008

1. Introduction

This management discussion and analysis ("MD&A") of the financial condition and results of the operations of Valterra Resource Corporation (the "Company"), analyses the year ended December 31, 2007 and is dated March 11, 2008. The MD&A was prepared to conform to National Instrument 51-102 F1, and approved by the Board of Directors prior to release.

This MD&A should be read in combination with the Company's most recent audited annual financial statements and notes for the year ended December 31, 2007. The Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles. All notes referenced herein may be found in the notes to the financial statements for the years ended December 31, 2007 and 2006.

All dollar amounts are in Canadian dollars. Certain forward-looking statements are discussed in the MD&A with respect to the Company's activities and anticipated future financial results. These are subject to significant risks and uncertainties that may cause projected results or events to differ materially from actual results or events.

The Company was incorporated on September 1, 1996 as Boltons Capital Corp. under the Business Corporations Act (Alberta). Boltons Capital Corp. was continued under the Business Corporations Act (Yukon) on May 8, 1997 and, on February 5, 2002, affected a one new for ten old shares consolidation and renamed Valterra Wines Ltd. On April 20, 2005, Valterra Wines Ltd. was renamed Valterra Resource Corporation.

The BC Securities Commission ("BCSC") issued a cease trade order ("CTO") on June 3, 2003 and the Alberta Securities Commission ("ASC") issued a CTO on July 18, 2003. Both CTO’s were issued for failure to file the Annual Financial Statements for the Year Ended December 31, 2002 and Interim Financial Statements for first quarter ended March 31, 2003. The CTOs were partially revoked by the BCSC on November 7, 2006 and by the ASC on December 13, 2006, and fully revoked by both the ASC and the BCSC on August 3, 2007.

On September 28, 2007 the Company's shares began trading on the Canadian Trading and Quotation System Inc. (“CNQ”) under the trading symbol VALT.

2. Overall Performance

The Company's principal business activity is the acquisition and exploration of mineral properties. The Company is focused on exploring for gold and copper and has two prospective exploration projects located near Salmo in the Nelson Mining district of southern British Columbia.

2. Overall Performance (continued)

(a) Financial Condition

	Year Ended December 31, 2007	2006	2005
Current assets	$ 853,083	$ 183,256	$ 0
Investments	4	4	4
Mineral properties	688,201	49,593	0
Note receivable	0	0	250,000
Reclamation Bonds	35,000	0	0
Equipment	4,237	0	0
Total assets	**$ 1,580,525**	**$ 232,853**	**$ 250,004**

The Company's current assets consist of cash of $800,455, prepaid expenses in the amount of $9,903 and receivables in the amount of $42,725 of which $42,204 relates to GST. For the year ended December 31, 2007, the Company invested a total of $688,201 on the mineral properties.

Investments are comprised of 1,200 shares of Hester Creek Estate Winery representing 0.12% of the winery, 554,046 Class B preferred shares of Abridean Inc., and minority interest in Biovan Inc. and Cardiovascular Solutions Inc. These investments are valued at $1 each.

Compared to the same period ended December 31, 2006, the Company's asset structure changed due to a private placement (see Note 9(d) of the accompanying Financial Statements) which closed in September 2007 and the acquisition and continuing exploration of mineral properties.

	Year Ended December 31, 2007	2006	2005
Bank indebtedness	$ 199,246	$ 196,533	$ 200,232
Accounts payable and accrued liabilities	357,106	253,094	589,693
Due to related party	40,678	100,735	160,532
Current portion of long-term debt	0	0	2,528,456
Total liabilities	**$ 597,030**	**$ 550,362**	**$ 3,478,913**

2. Overall Performance (continued)

(a) Financial Condition (continued)

Established in December 2003, the Company's bank indebtedness is guaranteed by a third party and is secured by a letter of credit from a third party lender acceptable to the Company's bank. The Company's bank indebtedness bears interest at prime plus 1% per annum and is due on demand.

(b) Private Placements

In September 2007, the Company closed an equity financing by way of a non-brokered private placement of 3,055,000 flow-through shares at $0.30 per share and 3,320,000 non flow-through shares at $0.25 per share for total gross proceeds of $1,746,500.

On December 21, 2006 the Company completed a non brokered private placement of 3,000,000 common shares at $0.10 per share for gross proceeds of $300,000.

(c) Stock Options

During the year ended December 31, 2007, the Company granted incentive stock options allowing for the purchase of up to 1,520,000 shares at $0.250 per share to directors, officers, employees and consultants, exercisable for a period of five years. As at the date of this MD&A no stock options have been exercised and 10,000 stock options have been cancelled.

(d) Share Purchase Warrants

During the year ended December 31, 2007, the Company issued finder's fees share purchase warrants allowing for the purchase of up to 392,000 at a price of $0.30 per share. As at the date of this MD&A no share purchase warrants have been exercised.

(e) Trading on Frankfurt Stock Exchange

On October 1, 2007 the Company's shares were accepted for trading on the Frankfurt Stock Exchange, open market (Freiverkehr) under the trading symbol "3VA". N.M. Fleischhacker AG has been appointed as the market maker for the trading.

3. Description of Mineral Properties

The Company has interests in two mineral properties: the Swift Katie Property and the Gus Property, both located near the town of Salmo in the Nelson Mining Division of southeastern British Columbia. The properties occur within a highly metallogenic area of British Columbia that historically has hosted several important mining districts. The properties are underlain by rocks considered very favourable for the discovery of significant mineral deposits.

Details of option agreements by property are disclosed in the notes to the audited financial statements. A summary of capitalized acquisition costs, exploration expenditures and costs recovery in the Company's properties for the years ended December 31, 2007 and 2006 follows:

All Properties	Balance as at December 31, 2005	Additions 2006	Balance as at December 31, 2006	Additions 2007	Balance as at December 31, 2007
Acquisition costs:					
Acquisition	$ 0	$ 36,000	$ 36,000	$ 60,937	$ 96,937
Shares returned to treasury	0	0	0	0	0
	0	36,000	36,000	60,937	96,937
Exploration costs:					
Assays and surveys	0	0	0	9,597	9,597
Camp supplies	0	0	0	3,893	3,893
Communications	0	0	0	1,006	1,006
Drilling	0	0	0	271,336	271,336
Equipment rental	0	0	0	6,815	6,815
General exploration	0	0	0	71,873	71,873
Geological services	0	13,562	13,562	164,361	177,923
Project support	0	0	0	14,950	14,950
Stock-based compensation	0	0	0	22,075	22,075
Travel and other	0	31	31	11,765	11,796
	0	13,593	13,593	577,671	591,264
Total	$ 0	$ 49,593	$ 49,593	$ 638,608	$ 688,201

3. Description of Mineral Properties (continued)

(a) Swift Katie Mineral Property

Staking in the Fall of 2007 increased the Swift-Katie property to 13 claims for a total area of 7,064 hectares. The property is located 7 kilometres southwest of Salmo and near a developed transportation and communication system, a developed power and gas grid and a professional population base on which to draw.

A NI 43-101 compliant Technical Report entitled "Swift-Katie Copper Gold Property" dated June 10, 2007 was filed by Valterra to review the exploration history and document the results of several geological, geochemical and geophysical surveys, including the drilling of 65 core holes for a total of 14,866 metres, which resulted in the identification of several exploration targets, the most significant of which being the Katie, the 17 and the Swift zones. A success contingent phased exploration program was recommended to first verify earlier work and then focus on expanding and further delineating the known zones of mineralization.

In October 2007, crews were mobilized for a planned drill program designed to offset copper-gold mineralization in both the main Katie zone and the adjacent 17 zone. A total of 1,136 metres in three core drill holes were completed as part of the first phase of drilling on the property which finished in mid-December 2007. Assays from this work are pending. In January 2008 an approximately 500 line-kilometre Airborne DIGHEM EM / Magnetic survey was completed over the property. The survey, which covered the entire property, is designed to trace out major lithological variations and structural breaks associated with the mineralization.

The Company is confident that the Swift Katie property warrants further exploration, and activities over the ensuing year will focus on this property. Drilling will continue to test the extension of deeper mineralization in the Main Zone target and the on-strike potential of high-grade mineralization in the Zone 17 target. In addition, further drilling is planned to allow for the incorporation of the existing 14,866 metres of historical drill data into a NI 43-101 compliant resource.

3. Description of Mineral Properties (continued)

(a) Swift Katie Mineral Property (continued)

To earn 60% interest in Swift-Katie claims, the Company must make the following cash payments, issue shares and incur the following exploration expenditures:

Date	Cash	Work	Shares	Vested
Signing	$ 12,500 [A]	$ 0	0	0%
Upon approval of agreement by a recognized Stock Exchange	0	0	55,000 [C]	0%
Dec. 31, 2006	12,500 [A]	0	55,000 [C]	0%
June 30, 2007	12,500 [A]	35,000 [B]	0	0%
Dec. 31, 2007	12,500 [A]	115,000 [B]	110,000 [C]	0%
Dec. 31, 2008	35,000	200,000	110,000	0%
Dec. 31, 2009	35,000	250,000	110,000	60%
Total	$ 120,000	$ 600,000	440,000	60%

[A] Full payments have been made
[B] Expenses in the amount of $577,471 have been incurred during 2007
[C] Shares issued

To earn the remaining 40% interest in the Swift-Katie Claims, Valterra must make cash payments, issue shares and incur the following exploration expenditures:

Date	Cash	Work	Shares	Vested
Dec. 31, 2010	$ 60,000	$ 350,000	225,000	60%
June 30, 2011	60,000	350,000	225,000	100%
Total	$ 120,000	$ 700,000	450,000	100%

3. Description of Mineral Properties (continued)

(b) Gus Mineral Property

The Gus property is located 17 kilometres south of Salmo and comprises two claims for a total area of 635 hectares.

The claims contain three historic mines, all of which have produced small amounts of high grade gold/silver ore from shallow workings and reflect the greater potential for significantly larger structurally and stratigraphically controlled deposits. Decalcification textures and mineralized dolomitic limestone breccias show some analogy to Carlin-type systems and the property is in close proximity to Irish-type carbonate hosted deposits at the nearby Remac and Jersey properties.
Valterra anticipates commencing surface exploration and an approximately 1,000 metre drill program in the Spring, 2008 which will focus on a series of high-grade veins and replacements associated with a 1.8 kilometre section of the Black Bluff thrust.

To earn 100% interest in Gus claims, the Company must make the following cash payments, issue shares and incur the following exploration expenditures:

Date	Cash	Work
December 3, 2008	US$ 20,000	C$ 100,000
December 3, 2009	US$ 25,000	C$ 100,000
December 3, 2010	US$ 25,000	C$ 100,000
December 3, 2011	US$ 30,000	C$ 100,000
December 3, 2012	US$ 40,000	C$ 0
December 3, 2013	US$ 40,000	C$ 0
December 3, 2014	US$ 40,000	C$ 0
December 3, 2015	US$ 50,000	C$ 0
December 3, 2016	US$ 30,000	C$ 0
Total	US$ 300,000	C$ 400,000

4. Results of Operations

The Company finalized the process of reactivation during the third quarter of 2007 resulting in the Company being listed on CNQ effective September 28, 2007. No revenue was generated as at December 31, 2007. A summary of results of operations for the three months and the year ended December 31, 2007 follows:

	Three Months Ended December 31		Year Ended December 31	
	2007	**2006**	**2007**	**2006**
Expenses				
Amortization	$ 471	$ 0	471	$ 0
Consulting	18,873	0	72,748	0
Directors' fees	14,922	0	14,922	0
General exploration	5,859	0	19,423	2,700
Insurance	3,857	0	7,424	0
Interest and exchange	3,656	44,865	23,606	53,302
Interest on long-term debt	0	0	0	125,170
Investor relations	54,781	613	60,319	703
Office and administration	65,810	31,370	131,818	86,261
Professional fees	42,440	70,154	170,700	93,283
Regulatory fees	2,095	9,790	20,850	10,840
Shareholders communications	383	1,070	1,673	1,070
Stock based compensation	234,334	0	234,334	0
Transfer agent	7,186	1,000	15,117	1,000
Travel and promotion	4,864	349	9,521	349
(Loss) income Before Other Items	(459,531)	(159,211)	(782,926)	(374,678)
Recovery on write off of Payables	0	0	96,365	0
Gain on settlement of debt	0	250,000	0	1,429,506
(Loss) income for the Period	(459,531)	90,789	(686,561)	1,054,828

4. Results of Operations (continued)

(a) Comparison of Year Ended December 31, 2007 to Year Ended December 31, 2006

For the year ended December 31, 2007, the Company had a net loss from operations of $686,561 compared to a net income of $1,054,828 for the year ended December 31, 2006, due to the gain on settlement of debt during fiscal 2006 (Note 9(c) of the audited financial statements).

Stock based compensation was $234,334 in fiscal 2007 compared to $NIL in fiscal 2006 (see Note 9(e) of the audited financial statements) due to options granted to directors, officers, consultants and employees of the management company

Professional fees increased by $77,417, office and administration increased by $45,558 and regulatory fees increased by $10,010 in relation to the finalization of a reactivation process of the Company.

Consulting fees, investor relations, and travel and promotion costs increased by $72,748, $59,616, $9,172 respectively as a result of the Company's significant efforts in expanding investor awareness about the Company, its mineral projects and new developments during the year ended December 31, 2007.

The increase in general exploration of $16,723 relates to the Company considering various prospective exploration properties. As a result of this activity the Company entered into an option purchase agreement to acquire 100% interest in Gus Mineral Claims (Note 6(b) of the audited financial statements).

b) Comparison of the three months ended December 31, 2006 and 2007

For the three months ended December 31, 2007, the Company had a net loss of $459,531 compared to a net income of $90,789 for the same period ended December 31, 2006. The change in stock based compensation relates to stock options granted to directors, officers, employees and consultants. The reduction in interest and bank charges, the gain on settlement of debt was a result of debt settlement entered into during the year 2006, for details refer to the Note 8 of the audited financial statements for the year ended December 31, 2006.

Investor relations and travel and promotion expenditures relate to the Company being more active in acquiring additional financing and increasing exposure to potential investors. The decrease in professional fees and regulatory fees resulted from process of reactivation of the Company, and having the Company's shares listed on CNQ in the third quarter of 2007.

4. Results of Operations (continued)

b) Comparison of the three months ended December 31, 2006 and 2007 (continued)

Effective October 1, 2007 directors of the Company are paid $9,000 yearly and $375 for each meeting attended. Director's fees represent these amounts.

Future income tax recovery relates to renunciation of exploration expenditures paid from flow through share subscriptions.

5. Summary of Quarterly Results

The following summary chart for the last eight financial quarters ending December 31, 2007 details pertinent financial and corporate information which is required to be disclosed by the Company. For more detailed information, refer to the accompanying Financial Statements.

	Three Month Period Ended							
	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007	Dec 31 2006	Sep 30 2006	Jun 30 2006	Mar 31 2006
Operating expenses	$459,531	$159,514	$92,177	$71,704	$159,211	$48,557	$78,443	$88,467
Loss before the following items	459,531	159,514	92,177	71,704	159,211	48,557	78,443	88,467
Recovery of write-off of payables	0	(96,365)	0	0	0	0	0	0
Gain on settlement of debt	0	0	0	0	(250,000)	(1,178,115)	(362)	(1,029)
Net (gain) loss for the period	459,531	63,149	92,177	71,704	(90,789)	(1,129,558)	78,081	87,438
Loss per share before debt settlement and written off payable - basic and diluted	$ 0.026	$ 0.009	$ 0.008	$ 0.006	$ 0.020	$ 0.007	$ 0.044	$ 0.050
Loss (gain) per share basic and diluted after debt settlement and written off payable	$ 0.026	$ 0.003	$ 0.008	$ 0.009	$ (0.011)	$ (0.174)	$ 0.044	$ 0.050

5. Summary of Quarterly Results (continued)

During the quarter ended September 30, 2006 the Company entered into debt settlement agreements as set out in the Note 9(c) of the audited financial statements for the year ended December 31, 2006. Operating expenses decreased in this quarter due to reduction in interest expenses that related to the debt settled. Increased legal expenses and filing fees during the quarter ended December 31, 2006 are the consequences of reactivating the Company. Gain on settlement of debt during the quarter ended December 31, 2006 represents the note receivable assigned in the debt settlement agreement entered into during the quarter ended September 30, 2006. Increase in expenses incurred during the quarter ended September 30, 2007 mainly relate to legal fees paid to an unrelated party and consulting fees pertaining to a private placement closed in September 2007. Significant increase in operating expenses in the last quarter of 2007 is the result of the company being fully active and issuing stock options to directors, officer, employees and consultants.

6. Selected Annual Information

The following financial data is derived from the Company's audited consolidated financial statements for each of the three most recently completed financial years ending December 31:

	Year Ended December 31,		
	2007	**2006**	**2005**
	$	$	$
Total revenue	0	0	0
Gain (loss) before other items	(782,926)	(374,678)	(315,847)
Gain (loss) per share before other items - basic and diluted	(0.06)	(0.18)	(0.18)
Net gain (loss) for the year	(686,561)	1,054,828	(315,847)
Gain (loss) per share - basic and diluted	(0.05)	0.52	(0.18)
Total assets	1,580,525	232,853	250,004
Total long-term financial liabilities	0	0	0
Cash dividend declared per common share	0	0	0
Weighted average number of shares outstanding	12,835,072	2,043,817	1,765,659

During the years 2005 and 2006 the Company reorganized, renegotiated long-term debts and raised capital to acquire mineral property and fund initial exploration. The net gain reported in 2006 results from the negotiation of debt settlement and is effectively a one time event.

7. Liquidity and Capital Resources

The Company has limited financial resources financing its operations by raising capital in the equity markets. For the foreseeable future, the Company will need to rely on the sale of such securities to provide working capital and to finance its mineral property acquisition and exploration activities. Since the Company does not generate any revenue from operations, its long-term profitability will be directly related to the success of its mineral property acquisition and exploration activities.

As at December 31, 2007 the Company had working capital of $256,053, which includes cash of $800,455 of which $700,442 is to be used for and qualify as flow-through expenditures for Canadian Income Tax purposes compared to a working capital deficiency of $367,106 as at December 31, 2006.

a) Cash used in operating activities

Net cash flow used in operations for the year ended December 31, 2007 was net $764,820 compared to net cash flow used in operations of $63,739 for the same period ended December 31, 2006. Cash used in operations during the year 2007 mainly reflect the net cash expenditures accrued in prior years and consulting, office and administration, regulation and filing fees and professional fees incurred in the normal course of business during the fiscal year 2007.

	Year Ended December 31,		
	2007	**2006**	**2005**
Cash provided by (used for)			
Operating activities	$ (764,820)	$ (63,739)	$ (4,776)
Investing activities	(318,040)	(38,593)	
Financing activities	1,704,756	281,877	
Increase in cash for the period	$ 621,896	$ 179,545	$ (4,776)

(b) Cash – Flow Through Shares

In fiscal year ended December 31, 2007 the Company raised gross $916,500 from flow-through shares issued to Canadian investors pursuant to a private placement. These funds are required to be spent on expenditures qualifying as Canadian Exploration Expense. As at December 31, 2007 the Company had $700,442 of unspent cash from flow through shares.

7. Liquidity and Capital Resources (continued)

(c) Private Placements/Equity financings

In September 2007, the Company closed an equity financing by way of a non-brokered private placement of 3,055,000 flow-through shares at $0.30 per share and 3,320,000 non flow-through shares at $0.25 per share for total gross proceeds of $1,746,500.

The Company completed a $300,000 private placement for proceeds, net of cash share issue costs, of $299,377 during the year ended December 31, 2006, of which $17,500 was received on March 13 2007.

The details of financing activities and outstanding shares, warrants and stock options for the year ended December 31, 2007 and 2006 are disclosed in the Note 9 of the audited financial statements as at December 31, 2007.

(d) Investing activities

Mineral properties expenditures

The Company's principal requirements for cash are for exploration expenditures. For the year ended December 31, 2007, the Company spent $278,333 cash on mineral properties.

(e) Receivables

As at December 31, 2007, the Company had a $42,204 GST receivable from Revenue Canada and $521 interest from a short-term investment.

7. Liquidity and Capital Resources (continued)

(f) Commitments

The Company has contractual obligations and mineral property option agreement commitments as set out below:

In Canadian Dollars	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**
Properties payments	$ 70,000	$ 35,000	$ 35,000	$ 0
Exploration requirements	1,550,000	300,000	800,000	450,000
Office and administration	432,000	96,000	288,000	48,000
Total contractual obligations	$ 2,052,000	$ 431,000	$ 1,123,000	$ 498,000

The Company can terminate the agreement related to office and administration at any time subject to paying 50% of the remaining value of the agreement from the date of termination.

In US Dollars	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Property payments	$ 300,000	$ 20,000	$ 50,000	$ 70,000	$ 160,000
Total contractual obligations	$ 300,000	$ 20,000	$ 80,000	$ 80,000	$ 120,000

These obligations relate to Swift Katie and to Gus Mineral properties.

8. Related Party Balances and Transactions

(a) Under the service agreement, as amended, between the Company and Manex, the Company was charged as follows:

- from January to September 2007: $5,000 basic fee per month, fees in respect of corporate, geological, and property acquisition and maintenance services, and a 10% mark-up on out-of-pocket expenses.

- from October to December 2007: $8,000 basic fee per month, fees in respect of corporate, geological, and property acquisition and maintenance services, and a 15% mark-up on out-of-pocket expenses.

During 2007, the Company incurred:

8. Related Party Balances and Transactions (Continued)

- $69,000 in respect of the basic monthly fees (2006 - $60,575);

- $138,371 in respect of corporate, geological and office expenses (2006 - $89,657);

- $60,629 in respect of property acquisition, maintenance and consulting services in relation to the mineral properties (2006 - $15,162); and

- $7,739 in respect of the mark-up on out-of-pocket expenses (2006 - $1,235).

Amounts payable under the agreement at December 31, 2007 were $36,918 (2006 - $56,949).

(b) Fees in the amount of $93,449 (2006 - $9,427) were charged by a law firm controlled by the President of the Company and included in professional fees, share issue costs and mineral property expenditures.

As at December 31, 2007, there was $3,760 (2006 - $3,074) payable to this company.

(c) Consulting fees relating to corporate development of $52,500 (2006 - $Nil) were charged by a private company controlled by an individual who is a director and officer of the Company.

As at December 31, 2007, there was $Nil (2006 - $16,605) payable to this company.

(d) Under a services agreement with a company controlled by an officer of the Company, the Company is charged $3,250 per month for services of a chief financial officer. During 2007, total fees incurred by the Company were $9,750 (2006 - $Nil).

(e) In 2006, interest of $38,281 was accrued on long-term debt from a then significant shareholder of the Company.

(f) Included in due to related parties is $Nil (2006 - $24,107) owing to the President of the Company.

These transactions are in the normal course of operations and are consistent with industry standards. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Share Capital

The authorized capital of the Company consists of an unlimited number of common shares without par. As at the date of this MD&A there are 17,746,439 common shares issued and outstanding.

During 2007 the Company granted aggregate incentive stock options allowing for the purchase with aggregate of 1,520,000 shares at a weighted average exercise price of $0.25 to directors, officers, employees and consultants.

Upon closing of the private placement on September 27, 2007 warrants allowing for the purchase of up to 392,000 shares at $0.30 were issued for finder's fees. The warrants will expire one year from the date issued.

10. Contingency

During 2007, the Company wrote off $96,365 in accounts payable, resulting in a recovery of expenses. Management believes these amounts are not liabilities of the Company; however, there is no assurance that these amounts will not be claimed in the future by the Company's creditors. The likelihood of the Company having to pay these amounts in the future is not known at this time.

The note receivable due from HCEW is in dispute with EACL. The note receivable was used in the settlement of outstanding long-term debt during 2006 (Note 9(c) in the audited financial statements for the year ended December 31, 2007). The Company may be obligated for further amounts with respect to the debt settlement. The outcome of the dispute cannot be determined at this time.

11. Subsequent Events and Outlook

In connection with the renunciation of flow-through expenditures of $916,500, the Company will record a future income tax recovery of $288,698 and a charge against share capital in the first quarter of 2008 fiscal year.

12. Off Balance Sheet

The Company did not enter into any off balance sheet transactions or commitments as defined by National Instrument 51 - 102.

13. Risks and Uncertainties

The principal business of the Company is the exploration and development of mineral properties. Given the nature of the mining business, the limited extent of the Company's assets and the present stage of development, the following risk factors, among others, should be considered.

13. Risks and Uncertainties (continued)

The Company does not hold any known mineral reserves of any kind and therefore does not generate any revenue from production. The Company's success will depend largely upon its ability to locate commercially productive mineral reserves. Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that our exploration efforts will be successful. Success in establishing reserves is a result of a number of factors, including the quality of management, the level of geological and technical expertise, the quality of land available for exploration as well as various other factors.

Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling and bulk sampling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that our exploration programs will result in the establishment or expansion of resources or reserves.

Since the Company does not generate any revenues, it may not have sufficient financial resources to undertake by itself all of its planned mineral property acquisition and exploration activities. Operations will continue to be financed primarily through the sale of securities such as common shares. The Company will need to continue its reliance on the sale of such securities for future financing, which may result in dilution to existing shareholders. Furthermore, the amount of additional funds required may not be available under favorable terms, if at all, and will depend largely on the acquisition and exploration activities pursued.

The ability to attract capital to the Company is dependent on movements in commodity prices. Commodity prices fluctuate on a daily basis and they are affected by a number of factors beyond the control of the Company. If, because of a sustained decline in prices, financing were not available to meet cash operating costs, the feasibility of continuing operations would be evaluated and if warranted, would be discontinued.

The resource industry is intensively competitive in all of its phases, and the Company competes with many other companies possessing much greater financial and technical resources. Competition is particularly intense with respect to the acquisition of desirable undeveloped gold and silver properties. The principal competitive factors in the acquisition of prospective properties include the staff and data necessary to identify, investigate and purchase such properties, and the financial resources necessary to acquire and develop the projects. Competition could adversely affect the Company's ability to acquire suitable prospects for exploration.

Although the Company has exercised the usual due diligence with respect to title to properties in which it has a material interest, there is no guarantee that title to the properties will not be challenged or impugned. The Company’s mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

14. Licenses and Permits

The operations of the Company require licenses and permits from various government authorities. The Company believes that it holds all necessary licenses and permits under applicable laws and regulations for work in progress and believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities or to maintain continued operations that economically justify the cost.

15. Impact of adoption of new accounting standards

Effective January 1, 2007 the Company adopted the new Canadian Accounting Standards Board accounting standards dealing with the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, together with many consequential changes throughout the CICA Handbook. The adoption of these new standards had no significant affect on the Company's financial statements.

16. Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Current securities policies in Canada require that management of the Company certifies that it has assessed the effectiveness of the Company’s disclosure controls and procedures as at December 31, 2007. Management has concluded that the disclosure controls as at December 31, 2007 were effective in ensuring that all material information required to be filed had been provided to it in a timely manner, and that the information was recorded, processed and reported within the time period necessary to prepare the filings.

17. Management's Responsibility for Financial Information

Preparing financial statements requires management to make estimates and assumptions that affect the reported results. The estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. Critical accounting policies were disclosed in the annual audited financial statements.

Consistent with accepted policies of the Canadian junior mining industry, the Company capitalizes exploration expenditures. This decision, and the timing of the possible recognition of impairment in the mineral property value, can materially affect the reported earnings of the Company.

17. Management's Responsibility for Financial Information (continued)

Management has prepared the information and representations in this analysis. The financial statements have been prepared to conform to generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgment. The financial information presented throughout this report is consistent with the data presented in the audited financial statements as at December 31, 2007.

The Company maintains adequate systems of internal accounting and administrative controls, given the limited budget available. These systems were designed to provide reasonable assurance that relevant and reliable financial information is produced. The independent auditors have the responsibility of auditing the annual financial statements as at year end, December 31, and expressing an opinion thereon.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee is composed of three directors, who meet at least quarterly with management and annually with the external auditors to review accounting, auditing, internal controls and financial reporting matters.

18. Whistleblower Policy

Effective November 16, 2006, the audit committee adopted resolutions that authorized the establishment of procedures for complaints received regarding accounting, internal controls or auditing matters, and for a confidential, anonymous submission procedure for employees who have concerns regarding questionable accounting or auditing matters. The implementation of the Whistleblower policy is in accordance with Multilateral Instrument 52-110 Audit Committees, national Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices.

19. Forward-Looking Statements

Some of the statements contained in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

19. Forward-Looking Statements (continued)

Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Such forward-looking statements are made pursuant to the safe harbour provisions of the United States Private Securities Litigation Reform Act of 1995. Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual results relating to, among other things, results of exploration, reclamation, capital costs, and the Company's financial condition and prospects, could differ materially from those currently anticipated in such statements for many reasons such as; changes in general economic conditions and conditions in the financial markets; changes in demand and prices for the minerals the Company expects to produce;, litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the Company's activities; and changing foreign exchange rates and other matters discussed in this MD&A.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. Further information regarding these and other factors, which may cause results to differ materially from those projected in forward-looking statements, are included in the filings by the Company with securities regulatory authorities. The Company does not undertake to update any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities laws.