

Waseco Resources Inc.

**Audited
Financial Statements**

**Years Ended
February 28, 2007 and 2006**

Auditors' Report

To the Shareholders of
Waseco Resources Inc.

We have audited the balance sheets of Waseco Resources Inc. as at February 28, 2007 and 2006 and the statements of operations and deficit and cash flow 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 February 28, 2007 and 2006 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in blue ink that reads "parker simone LLP".

Licensed Public Accountants

June 14, 2007

Waseco Resources Inc.

Balance Sheet

<i>As at February 28,</i>	2007	2006
Assets		
Current Assets		
Cash and cash equivalents (<i>Note 2</i>)	\$ 226,259	\$ 7,255
Refundable provincial exploration tax credit	285,831	98,464
GST recoverable	40,787	9,128
Accounts receivable	37,579	-
Prepaid exploration expenses	-	5,000
	590,456	119,847
Mineral Properties and Deferred Costs (<i>Note 3</i>)	171,243	325,914
	\$ 761,699	\$ 445,761
Liabilities		
Current Liabilities		
Accounts payable and accruals (<i>Note 8</i>)	\$ 235,810	\$ 184,968
	235,810	184,968
Exploration Deposits Received	36,119	-
	271,929	184,968
Shareholders' Equity		
Capital Stock (<i>Note 6</i>)	5,660,662	5,536,164
Contributed Surplus (<i>Note 4</i>)	66,902	102,000
Deficit	(5,237,794)	(5,377,371)
	489,770	260,793
	\$ 761,699	\$ 445,761

Approved by the Board:

(“Signed”) James Richardson _____, Director

(“Signed”) Richard Williams _____, Director

Waseco Resources Inc.
Statement of Operations and Deficit

Years Ended February 28,	2007	2006
Revenues		
Management fees	\$ 37,634	\$ -
Option payments	182,438	-
	220,072	-
Expenses		
Professional fees	39,148	23,754
Shareholder relations and regulatory fees	28,869	55,137
Miscellaneous	12,478	(3,536)
Stock-based compensation (Note 6)	-	90,000
Interest	-	3,000
	80,495	168,355
Net Income (Loss)	139,577	(168,355)
Deficit at beginning of year	(5,377,371)	(5,209,016)
Deficit at End of Year	\$ (5,237,794)	\$ (5,377,371)
<hr/>		
Net income (loss) per share - basic	\$ 0.005	\$ (0.006)
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Weighted average number of shares outstanding - basic	29,180,763	27,632,469
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Net income (loss) per share - fully diluted	\$ 0.005	\$ (0.006)
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Weighted average number of shares outstanding - fully diluted	29,864,237	27,632,469

Waseco Resources Inc.

Statement of Cash Flow

Years Ended February 28,	2007	2006
Operations		
Net Income (loss)	\$ 139,577	\$ (168,355)
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Option payments	(182,438)	-
Stock-based compensation (Note 6)	-	90,000
Net change in non-cash operating working capital items:		
GST recoverable	(31,659)	(9,128)
Prepaid expenses	5,000	(5,000)
Accounts receivable	(37,579)	-
Exploration deposits received	36,119	-
Accounts payable and accruals	50,842	(23,314)
Cash Flow Used in Operating Activities	(20,138)	(115,797)
Financing		
Issuance of common shares, net of issuance costs	65,400	189,950
Cash Flow from Financing Activities	65,400	189,950
Investing		
Expenditures related to interest in mining properties	(737,692)	(263,135)
Provincial exploration tax credit received	101,964	-
Option payments received	809,470	-
Cash Flow from (Used in) Investing Activities	173,742	(263,135)
Net Increase (Decrease) in Cash	219,004	(188,982)
Cash and cash equivalents at beginning of year	7,255	196,237
Cash and Cash Equivalents at End of Year	\$ 226,259	\$ 7,255

Waseco Resources Inc.

Notes to Audited Financial Statements

Years Ended February 28, 2007 and 2006

General

Waseco Resources Inc. (Waseco or the Company) is incorporated under the laws of Ontario. The Company's principal business activity is mineral exploration in Canada.

1. Significant Accounting Policies

Going Concern

Waseco's financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of business. Waseco is an exploration company and has no revenue to finance its operations. It is therefore required to fund its activities through joint venture arrangements, debt financing and the issuance of equity securities. The Company's ability to continue as a going concern is therefore dependant upon its ability to raise funds in the capital markets.

Nature of Operations

Waseco, directly and through joint ventures, is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of expenditures on mineral properties and the related deferred exploration costs is dependent upon the existence of economically recoverable mineralization, the ability of Waseco to obtain financing necessary to complete the exploration and the development of mineral properties and upon future profitable production or alternatively, on the sufficiency of proceeds from disposition.

Revenue Recognition

The Company recognizes interest revenue over the passage of time on a quarterly basis. The Company recognizes management revenue as earned on a quarterly basis. Option payments received are applied against the mineral property or deferred exploration costs until the property is carried at a \$Nil value. All subsequent option payments received above the carrying value are recognized as revenue once received.

Mineral Properties and Deferred Costs

Waseco defers the costs, net of refundable provincial exploration tax credits, of exploration on existing projects and carries them as assets until production commences. The amounts at which mineral properties and deferred exploration costs are recorded do not necessarily reflect present or future values. If a project is successful, the related mineral properties and deferred exploration costs are amortized over the estimated economic life of the project. If a project is unsuccessful, or if exploration has ceased because continuation is not economically feasible, the mineral properties and the related deferred exploration costs are written off. Option payments received are applied against the mineral property or deferred exploration costs.

Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced by the Company to the investors in accordance with tax legislation. Under the liability method of accounting for income taxes, the future income taxes related to the temporary difference arising at the later of renunciation and when the qualifying expenditures are incurred, are recorded at that time together with a corresponding reduction to the carrying value of the shares issued.

Future Income Taxes

Future income taxes are accounted for using the liability method of tax allocation. Under this method, future income taxes are based on the differences between assets and liabilities reported for financial accounting purposes and those reported for tax purposes. Future tax liabilities and assets are measured using enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in the period that the change occurs.

Waseco Resources Inc.

Notes to Audited Financial Statements

Years Ended February 28, 2007 and 2006

1. Significant Accounting Policies (Continued)

Stock Options

Waseco has a stock-based compensation plan. All stock-based payments to non-employees as well as direct awards of stock to employees and directors are accounted for in accordance with the fair value method of accounting for stock-based compensation.

Net Income (Loss) per Share

Net income (loss) per share has been calculated using the weighted-average number of common shares outstanding during the year. Net earnings per share, fully diluted, have been calculated assuming the full exercise of stock options and warrants.

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 amounts reported on the financial statements and accompanying notes.

Fair Values of Financial Instruments

The carrying values of cash, GST recoverable, accounts receivable, refundable provincial exploration tax credits, accounts payable and accruals and exploration deposits received approximate their fair values due to the relatively short periods to maturity of the instruments.

Asset Retirement Obligations

The Company has adopted CICA 3110 - Asset Retirement Obligations. The new standard did not have any impact on the current period's results and balances since there are no projects under development at this time and therefore there is no legal obligation requiring remediation.

However, as the development of any project commences, senior management will assess whether an asset retirement obligation ("ARO") liability will arise. At the point where such liability arises, the financial statement adjustment required will be to increase the project's property value and related ARO liability by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to earnings each year to accrete the discounted ARO obligation amount to the final expected liability.

Impairment of Long-lived Assets

The Company has adopted CICA 3063 - Impairment of Long-Lived Assets. Senior management periodically reviews the carrying value of mineral properties and deferred exploration costs to consider whether there are any conditions that may indicate impairment. Where estimates of future cash flows are available, a reduction in the carrying value is recorded to the extent the net book value of the investment exceeds the estimated fair value which is normally the discounted value of future cash flows. Where estimates of future cash flows are not available and where other conditions suggest impairment, senior management assesses if carrying value can be recovered and provides for impairment if so indicated, by reducing the carrying value of the property to its estimated fair value.

2. Cash and Cash Equivalents

The balance at February 28, 2007, consists of \$116,259 (2006 - \$7,255) on deposit with a bank and \$110,000 (2006 - \$Nil) in term deposits accruing interest at 3.25 to 3.30%. Expiry of the deposits varies in 2008.

Waseco Resources Inc.

Notes to Audited Consolidated Financial Statements

Years Ended February 28, 2007 and 2006

3. Mineral Properties and Deferred Costs

	2007	2006
Acquisition Costs		
Balance at beginning of year	\$ 214,035	\$ 60,000
Acquisition costs	29,410	154,035
	243,445	214,035
Deferred Exploration Expenditures		
Balance at beginning of year	111,879	(43,757)
Exploration costs	732,282	254,100
Refundable provincial exploration tax credit	(289,331)	(98,464)
Option payment received	(809,470)	-
Option payments recognized as revenues	182,438	-
	(72,202)	111,879
Balance at End of Year	\$ 171,243	\$ 325,914

The following is a summary of mineral properties and deferred costs by area of interest:

Property	Acquisition	Exploration	Total
James Bay Lowlands (Northern Ontario)	\$ 50,000	\$ 121,243	\$ 171,243
Uranium properties (Labrador Trough, Quebec)	193,445	(193,445)	-
	\$ 243,445	\$ (72,202)	\$ 171,243

Uranium Properties

During fiscal 2005, the Company entered into an agreement to purchase 210 mining claims in the Labrador Trough, in the Province of Quebec. The agreement required payments by the Company of \$35,000 cash and 1.0 million shares of Waseco, of which 500,000 shares were to be issued following execution of the agreement, with the balance to be issued six months from the delivery of the initial allotment. The vendors were granted a 2% net smelter return royalty of which 1% may be purchased by Waseco for \$1.0 million within one year of attaining commercial production.

In fiscal 2007, the Company entered into an option agreement under which a third party could purchase a 70% interest on 331 of the Labrador Trough mining claims. To acquire a 50% option during stage one, the optionee paid Waseco \$150,000 on signing of the agreement and was to pay another \$800,000 within one year of the agreement. During stage two, the optionee was to pay \$150,000 to Waseco before the last day of stage one and an additional \$800,000 within two years of the agreement. To acquire an additional 20% (total of 70%) the optionee would need to notify Waseco by election within three months after completing the exploration expenditures their intention to increase its interest to 70%, complete a work program approved by the technical committee, leading to a bank feasibility study on or before 2 years from the election. As payment for a success fee the company issued 100,000 common shares to a Director of the Company with a fair value of \$24,000.

Waseco Resources Inc.

Notes to Audited Consolidated Financial Statements

Years Ended February 28, 2007 and 2006

3. Mineral Properties and Deferred Costs (continued)

James Bay Lowlands

In 2003, the Company acquired an option to earn up to a 40% interest in a 2,440 acre claim block in the Attawapiskat Region of the James Bay Lowlands in Northern Ontario, together with a right of first refusal to purchase an additional 9% interest.

The Company made a payment of \$50,000 to enter into the agreement. Pursuant to an amended agreement, the Company earned a 5% interest by completing \$100,000 in cumulative expenditures by September 30, 2004, which includes mapping, sampling, magnetic ground surveying and drilling. The Company could earn up to an additional 20% interest (thereby increasing the total interest to 25%) by spending an additional \$620,000 by July 30, 2005. The Company having elected not to proceed in this fashion, further options became available.

The property is subject to a 2% net smelter return ("NSR") with the Company having a right of first refusal to buy out 1%.

The Company has yet to succeed in obtaining financing for its Tewah project but continues to address possibilities and is currently in discussions with a party, which it believes is capable of raising the requisite financing. The Company has received a notice suggesting the termination of its rights with respect to its Tikukur project in 90 days time if certain financial obligations were not met. The 90 day period has elapsed and the Company has not heard further in regard to this matter.

4. Contributed Surplus

	2007	2006
Balance at beginning of year	\$ 102,000	\$ -
Value assigned to:		
Options related to stock-based compensation costs	-	90,000
Unexercised warrants	-	12,000
Value transferred to common shares on exercise of warrants	(35,908)	-
Balance at end of year	\$ 66,092	\$ 102,000

5. Contingent Liabilities

Debts associated with the interest in the Indonesian mining properties written off during 2003 were approximately \$576,000 as at February 28, 2003. This amount relates mainly to unpaid property taxes. Any ultimate disposition of the properties or new exploration or development could require the company to settle such debts or have the acquirer assume such debts in the case of a disposition.

Waseco Resources Inc.
Notes to Audited Financial Statements
Years Ended February 28, 2007 and 2006

6. Capital Stock

Share Capital

Waseco is authorized to issue an unlimited number of common shares. The issued and outstanding share capital consists of common shares as follows:

	Shares	Amount
Balance at February 28, 2005	26,201,321	\$ 5,213,214
Issuance of shares for cash:		
Stock options exercised	899,500	89,950
Common share issue	833,334	100,000
Issuance of shares for non-cash consideration:		
Property Option Agreement	1,000,000	145,000
Share issuance costs	-	(1,000)
Fair value assigned to unexercised warrants	-	(12,000)
Collection of subscription receivable	-	1,000
Balance at February 28, 2006	28,934,155	5,536,164
Issuance of shares for cash:		
Stock options exercised	300,000	30,000
Warrants exercised	177,000	35,400
Issuance of shares for non-cash consideration:		
Property Option Success Fee	100,000	24,000
Transfer of Fair value on exercised warrants and options	-	35,098
Balance at February 28, 2007	29,511,155	\$ 5,660,662

On August 15, 2005, Waseco completed a private placement of 833,334 Units at a price of \$0.12 per Common Unit for gross cash proceeds of \$100,000. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole purchase warrant entitles the holder thereof to acquire one common share at a price of \$0.20 for a period of 12 months from the closing date.

The warrants were assigned a value of \$12,000, using the Black-Scholes valuation model with the following assumptions: a one year expected term; 136.20% volatility; risk-free interest rate of 3.07% p.a.; and a dividend yield of Nil%.

Waseco Resources Inc.
Notes to Audited Financial Statements
Years Ended February 28, 2007 and 2006

6. Capital Stock (Continued)

Stock Options

Waseco established a stock option plan to provide additional incentive to its directors, officers, employees, service providers, or consultants in their efforts on behalf of the Company in the conduct of its affairs. The total number of shares which may be issued thereunder shall not exceed 10% of the then issued and outstanding shares of the Company. Under the terms of the plan, the options shall vest immediately except that options granted to consultants or persons employed in investor relations activities shall vest over twelve months. All options expire on the fifth anniversary from the grant date, unless otherwise specified.

The following table summarizes the continuity of stock options issued:

	2007		2006	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at beginning of year	\$ 0.10	1,100,000	\$ 0.10	1,200,000
Transactions during the year:				
Granted	-	-	0.10	1,200,000
Exercised	0.10	(300,000)	0.10	(899,500)
Expired	-	-	0.10	(400,500)
Outstanding at end of year	\$ 0.10	800,000	\$ 0.10	1,100,000
Exercisable at end of year	\$ 0.10	800,000	\$ 0.10	1,100,000

All of the outstanding options expire on May 6, 2008.

Stock-Based Compensation Costs

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation costs for the stock options issued during the year ended February 28, 2006:

Issue date	May 6
No. of options	1,200,000
Price	\$ 0.10
Volatility	142.64%
Expected life (years)	3
Risk free interest rate	3.4%
Dividend yield	0%
Value of options granted	\$ 90,000
Stock-based compensation expense	\$ 90,000

Waseco Resources Inc.
Notes to Audited Financial Statements
Years Ended February 28, 2007 and 2006

7. Income Taxes

The Company has \$275,300 (2006 - \$412,900) in non-capital losses carried forward for which no benefit has been recognized in the accounts. If these losses are not utilized, they will expire between 2007 and 2010. The future tax benefits attributable to these loss carry-forwards have been offset by a valuation allowance. The Company also has \$1,521,000 (2006 - \$1,811,820) of unused CEE, CDE and FEDE expenses and capital losses of \$312,400 (2006 - \$312,400). The tax benefits pertaining to these expenses are available to carry forward indefinitely.

Future Income Taxes Recoverable

The income tax provision differs from that computed using the statutory tax rates for the following reasons:

	2007	%	2006	%
Income tax recoveries at statutory rates	\$ 50,400	36.1	\$ (60,800)	(36.1)
Non-deductible expenses for tax purposes:				
Stock-based compensation	-	-	32,500	19.3
Valuation adjustment	(50,400)	(36.1)	28,300	16.8
Future Income Taxes Recoverable	\$ -	-	-	-

8. Related Party Transactions

The financial statements include balances and transactions with directors and/or officers of the Company. These transactions are measured and recorded at their exchange amounts, being the amounts agreed to by the related parties. Related party transactions not disclosed elsewhere in these financial statements are as follows:

During the year, the company paid \$41,101 to a director of the Company for exploration expenditures. Included in accounts payable is \$42,043 owed to Directors of the company.

9. Contingent Gain

Subsequent to year, the company settled a lawsuit with the Quebec Ministry of Natural resources for cash proceeds of \$10,505, plus legal costs and interests.