



# SOLTORO LTD.

**(A DEVELOPMENT STAGE ENTERPRISE)  
(FORMERLY BLUE FYRE ONE INC.)**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007**

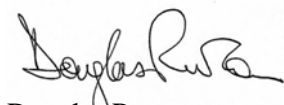
The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditors, Bolton & Bolton, have not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**SOLTORO LTD. (formerly Blue Fyre One Inc.)**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	<b>June 30</b>	<b>December 31</b>
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and short term investments	1,912,016	2,749,924
Marketable securities, at fair market value	31,000	-
Accounts receivable and prepaid expenses	239,663	78,011
	<u>2,182,679</u>	<u>2,827,935</u>
<b>Equipment (note 5)</b>	<b>66,666</b>	<b>60,553</b>
<b>Mineral properties and deferred exploration expenditures (note 6)</b>	<b>1,798,369</b>	<b>652,443</b>
	<u><b>4,047,714</b></u>	<u><b>3,540,931</b></u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 7)	<u>23,181</u>	<u>87,597</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 8)	4,358,802	3,629,527
Warrants (note 9)	134,205	59,561
Contributed surplus (note 10)	295,956	112,707
Deficit	(764,430)	(348,461)
	<u>4,024,533</u>	<u>3,453,334</u>
	<u><b>4,047,714</b></u>	<u><b>3,540,931</b></u>

**Basis of Presentation** (note 1)  
**Reverse takeover of Blue Fyre One Inc.** (note 3)

On behalf of the Board of Directors:



Douglas Reeson  
 Director



Andrew Thomson  
 Director

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

**SOLTORO LTD. (formerly Blue Fyre One Inc.)**  
**Consolidated Statements of Operations and Deficit**  
**For the three months and six months ended June 30, 2007 and 2006**  
**(Unaudited)**

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Expenses</b>				
Salaries and management fees (note 7)	37,974	40,500	73,974	51,735
Legal and audit	3,521	6,981	32,164	11,098
Investor relations	39,782	3,786	94,972	3,786
Regulatory fees	-	-	5,200	-
Transfer agent	2,355	-	5,993	-
Office expenses	4,859	2,134	7,728	3,991
Rent	3,997	1,419	7,967	1,979
Communications	1,730	1,639	3,076	1,639
Travel	(2,459)	5,738	14,529	5,738
Foreign exchange	27,320	(24)	33,277	1,759
Amortization	589	-	1,177	-
Stock-based compensation (note 10)	79,398	29,078	188,418	29,078
<b>Total administrative expenses</b>	<b>199,066</b>	<b>91,251</b>	<b>468,475</b>	<b>110,803</b>
<b>Revaluation gain on marketable securities</b>	<b>7,500</b>	<b>-</b>	<b>11,000</b>	<b>-</b>
<b>Interest income</b>	<b>22,241</b>	<b>950</b>	<b>41,506</b>	<b>950</b>
<b>Net loss</b>	<b>169,325</b>	<b>90,301</b>	<b>415,969</b>	<b>109,853</b>
<b>Deficit, beginning of period</b>	<b>595,105</b>	<b>47,510</b>	<b>348,461</b>	<b>27,958</b>
<b>Deficit, end of period</b>	<b>764,430</b>	<b>137,811</b>	<b>764,430</b>	<b>137,811</b>
<b>Loss per share - basic and diluted</b>	<b>0.009</b>	<b>0.008</b>	<b>0.022</b>	<b>0.013</b>
<b>Weighted average number of common shares</b>	<b>19,387,501</b>	<b>11,661,758</b>	<b>19,102,246</b>	<b>8,616,133</b>

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

**SOLTORO LTD. (formerly Blue Fyre One Inc.)**  
**Consolidated Statements of Cash Flows**  
**For the three months and six months ended June 30, 2007 and 2006**  
**(Unaudited)**

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2007</u>	<u>2,006</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss	(169,325)	(90,301)	(415,969)	(109,853)
Amortization charged to operations	589	-	1,177	-
Stock based compensation	79,398	29,078	188,418	29,078
Gain on revaluation of marketable securities	(7,500)	-	(11,000)	-
Increase in accounts receivable and prepaid expenses	(84,116)	(17,767)	(161,652)	(29,705)
Increase (Decrease) in accounts payable and accrued liabilities	(24,688)	16,710	(64,416)	12,518
	<u>(205,642)</u>	<u>(62,280)</u>	<u>(463,442)</u>	<u>(97,962)</u>
<b>Investing activities</b>				
Purchase of short term investments	-	(305,950)		(305,950)
Exploration expenditures	(630,458)	(111,173)	(1,088,893)	(150,783)
Purchase of equipment	(12,113)	(38,309)	(14,323)	(40,508)
	<u>(642,571)</u>	<u>(455,432)</u>	<u>(1,103,216)</u>	<u>(497,241)</u>
<b>Financing activities</b>				
Issuance of share capital, net of costs	26,000	563,404	728,750	677,954
	<u>26,000</u>	<u>563,404</u>	<u>728,750</u>	<u>677,954</u>
<b>Change in cash</b>	<b>(822,213)</b>	<b>45,692</b>	<b>(837,908)</b>	<b>82,751</b>
<b>Cash, beginning of period</b>	<b>2,734,229</b>	<b>57,317</b>	<b>2,749,924</b>	<b>20,258</b>
<b>Cash, end of period</b>	<b>1,912,016</b>	<b>103,009</b>	<b>1,912,016</b>	<b>103,009</b>

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

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007**

**1. BASIS OF PRESENTATION**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

The Company has no sources of revenue and is dependent on financings to fund its operations. In addition, the Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The ability of the Company to continue as a going concern and the recoverability of amounts capitalized in respect of mineral properties and deferred exploration costs are dependent upon the continuing financial support of shareholders or other investors; obtaining new financing on commercial terms acceptable to the Company to enable it to complete exploration and development; establishing successfully the existence of economically recoverable reserves; the acquisition of required permits to mine; and upon attaining profitable production once any or all of its properties have commenced operations, all of which outcomes are uncertain and which, taken together, cast significant doubt over the ability of the Company to continue as a going concern.

The Company funded its operations in the period ended June 30, 2007 through the use of existing cash reserves, a private placement which raised proceeds of \$650,000 and \$60,000 realized upon the exercise of outstanding broker warrants. These financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related balance sheet and income statement classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

**2. NATURE OF BUSINESS**

Soltoro Ltd. ("Soltoro" or "the Company") was incorporated on September 12, 2005 under the Canada Business Corporations Act. Soltoro is a development stage company focused on the exploration for economic mineral deposits, exclusively in Mexico, through its wholly owned subsidiary, Soltoro S.A. de C.V.

**3. BUSINESS COMBINATION**

The consolidated financial statements of Soltoro Ltd. (formerly Blue Fyre One Inc., a capital pool company) reflect the reverse takeover by Soltoro Ltd. ("Private Soltoro") of Blue Fyre One Inc. ("Blue Fyre"), a capital pool company under the policies of the TSX Venture Exchange.

The reverse takeover by Private Soltoro of Blue Fyre was approved by the shareholders of each company and was completed on August 31, 2006, at which time:

- a) Private Soltoro was amalgamated with Blue Fyre by means of a three-cornered amalgamation;
- b) Shareholders of Private Soltoro exchanged their common shares for shares of Blue Fyre on a one-for-one basis;
- c) Holders of options and broker warrants exercisable into common shares of Private Soltoro exchanged these securities for identical instruments exercisable into common shares of Blue Fyre on identical terms; and

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
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- d) Upon completion of the business combination the name of Blue Fyre was changed with the name Soltoro Ltd. retained (“Public Soltoro”).

On August 31, 2006, a subsidiary of Blue Fyre issued 13,120,000 common shares to the shareholders of Private Soltoro to complete its acquisition of 100% of the issued and outstanding shares of Private Soltoro. The subsidiary was then combined with Blue Fyre. As a result of the business combination, the former shareholders of Private Soltoro controlled 77% of the issued and outstanding share capital of Public Soltoro immediately after the acquisition, constituting a reverse takeover with Private Soltoro being the acquiring company.

The acquisition of Private Soltoro by Blue Fyre has been accounted for as a reverse takeover in accordance with guidance provided in CICA Emerging Issues Committee Abstract No. 10. The transaction has been accounted for as an issuance of shares and assumption of Blue Fyre’s outstanding broker warrants by Private Soltoro for the net monetary assets of Blue Fyre.

The net monetary assets of Blue Fyre were as follows:

	\$
Cash	576,777
Current liabilities	(6,082)
<b>Net assets acquired</b>	<b>570,695</b>
<hr/>	
<b>Attributed to:</b>	
Share capital	537,335
Warrants (note 9)	33,360
	<b>570,695</b>
<hr/>	

The financial statements for the period ended June 30, 2007 reflect the assets, liabilities, and operations of Public Soltoro, post-amalgamation. The comparative results of operations and cash flows for the period from January 1, 2006 to June 30, 2006 reflect the assets, liabilities and results of operations of Private Soltoro, the legal subsidiary.

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable for the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by GAAP for annual financial statements. The accounting policies used in the preparation of the unaudited interim consolidated financial statements are the same as those described in note 4 of the Company’s audited consolidated financial statements for the year ended December 31, 2006. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

**5. EQUIPMENT**

**June 30, 2007**

	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Equipment	22,529	3,516	19,013
Vehicles	58,693	11,040	47,653
<b>Total</b>	<b>81,222</b>	<b>14,556</b>	<b>66,666</b>

**December 31, 2006**

	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Equipment	20,319	1,376	18,943
Vehicles	46,580	4,970	41,610
<b>Total</b>	<b>66,899</b>	<b>6,346</b>	<b>60,553</b>

During the period ended June 30, 2007, the Company charged amortization expense of \$6,500 related to equipment used in exploration activities to deferred exploration expenditures.

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT EXPENDITURES**

At June 30, 2007, cumulative acquisition and deferred exploration costs with respect to the Company's interests in mineral properties owned, leased or under option, consisted of the following:

	<b>Balance December 31 2006</b>	<b>Additions</b>	<b>Balance June 30 2007</b>
	\$	\$	\$
<b>La Tortuga Concessions</b>			
Acquisition costs	80,462	4,881	85,343
Deferred exploration costs	289,970	58,614	348,584
<b>El Rayo Concessions</b>			
Acquisition costs	15,341	3,401	18,742
Deferred exploration costs	162,908	882,677	1,045,585
<b>Bacanora Concessions</b>			
Acquisition costs	27,454	70,000	97,454
Deferred exploration costs	3,560	78,339	81,899
<b>Gavilan Concession</b>			
Acquisition costs	3,485	9,764	13,249
Deferred exploration costs	7,213	-	7,213
<b>Quila Concession</b>			
Acquisition costs	7,467	11,722	19,189
Deferred exploration costs	3,246		3,246
Proceeds upon optioning property	-	(20,000)	(20,000)
<b>El Santuario Concession</b>			
Acquisition costs	3,734	979	4,713
Deferred exploration costs	5,772	-	5,772
<b>Chinipas Application</b>			
Acquisition costs	3,647	-	3,647
Deferred exploration costs	13,114	6,646	19,760
<b>Peña Grande Application</b>			
Acquisition costs	11,690	396	12,086
Deferred exploration costs	2,032	12,024	14,056
<b>Victoria Application</b>			
Acquisition costs	-	5,858	5,858
Deferred exploration costs	-	17,408	17,408
<b>Midas Application</b>			
Acquisition costs	-	3,165	3,165
<b>Other</b>	11,348	52	11,400
	652,443	1,145,926	1,798,369

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
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**Mineral exploration concessions:**

**a) La Tortuga Concessions**

The La Tortuga Project comprises numerous contiguous titled concessions and a concession under application in the district of Atengo, Jalisco state, Mexico. Soltoro S.A. de C.V. holds a 100% interest in the titled concessions and is the sole applicant for the untitled concession. Titled concessions make up 11,523 hectares with 2,808 hectares under application.

**b) El Rayo Concessions**

Soltoro S.A. de C.V. holds 100% title interest to the "El Rayo" and "Guachinango 1" concessions. These two concessions make up the 10,036 hectare El Rayo project located adjacent to the town of Guachinango in the state of Jalisco, Mexico. On November 24, 2006 Soltoro acquired 100% interest of the "Guachinango 1" concession from Fury Explorations Ltd. for a total consideration of US \$5,000 and a 2% net smelter return royalty. The Company has the right to purchase 1.5% of this royalty for US \$1.5 million. In addition, the Company is obligated to make advance royalty payments of US \$25,000 and US \$50,000 on the first and second anniversaries of the purchase agreement.

**c) Bacanora Concessions**

Soltoro S.A. de C.V. holds 100% title interest to the "La Dorada Fracc 1" and "La Dorada 2" concessions. These two concessions make up Soltoro's Bacanora Project and cover a total area of 4,712 hectares and are located 157 kilometers east of the city of Hermosillo in the state of Sonora, Mexico. On September 1, 2006, the Company paid US \$19,000 to effect 100% transfer of the concessions and agreed to pay an additional US \$30,000 and issue 100,000 shares of Soltoro Ltd. to the vendor within 6 months of the date of transfer. A letter agreement extending the payments for 3 months was signed on February 28, 2007. On April 20, 2007 the vendor and Soltoro entered into an amending agreement in which Soltoro agreed to issue the vendor 175,000 common shares as the full and final payment for the "La Dorada Fracc 1" and "La Dorada 2" concessions. Soltoro Ltd. issued and paid 175,000 common shares to the vendor on May 15, 2007.

**d) Gavilan Concession**

Soltoro S.A. de C.V. holds 100% title interest to the 780 hectare "Gavilan" concession located in the San Joaquin mining district on the eastern border of the state of Queretaro, Mexico.

**e) Quila Concession**

Soltoro S.A. de C.V. holds 100% title interest to the 22,428 hectare "Quila" concession located in the Quila district in the state of Jalisco, Mexico.

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
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On January 19, 2007, the Company entered into an earn-in agreement on the property with Southern Silver Exploration Corporation. Southern Silver may acquire a 70% interest in the property by issuing a total of 500,000 shares to Soltoro and spending US \$3 million on exploration over five years with US \$150,000 as a firm commitment in the first year of the agreement. Once Southern Silver has earned its option in the property, Soltoro shall retain a carried 30% interest until delivery by Southern Silver of a definitive feasibility study and thereafter shall participate as a 30% working interest partner.

In the period ended June 30, 2007, Southern Silver issued to the Company a total of 50,000 shares with a fair value of \$20,000. On July 5, 2007 Southern Silver's Mexican subsidiary acquired the "Altavista Del Ramos" 91 hectare concession, located within the Quila claim block. The property is subject to the terms of the earn-in agreement.

**f) El Santuario Concession**

Soltoro S.A. de C.V. holds 100% title interest to the 2,000 hectare "El Santuario" concession located in the Cardonal mining district in the state of Hidalgo, Mexico.

**g) Other Properties under Application**

The Company has made numerous applications for properties awaiting title: the Chinipas property, to cover 1,600 hectares in Chihuahua state, the Peña Grande property to cover 31,678 hectares in San Luis Potosi state and in Jalisco state, the Victoria property to cover 12,600 hectares, the Midas property to cover 954 hectares and the Coyote property to cover 1,235 hectares. At June 30, 2007, the Company had not received title to any of these properties.

**7. RELATED PARTY TRANSACTIONS**

- a) Accounts payable and accrued liabilities includes amounts due to an officer and director of the Company in the amount of \$Nil (December 31, 2006 -\$25,579). This liability was incurred in the normal course of business and is unsecured, non-interest bearing and has no fixed terms of repayment.
- b) During the period ended June 30, 2007, the Company incurred management fees of \$115,247 (2006 - \$51,735) with respect to management services provided by officers and directors of the Company and its wholly owned subsidiary. These transactions were in the normal course of business and were measured at the exchange amount, which is the amount established and agreed to by the related parties. Of the total amount, \$45,000 was charged to operations, and \$70,247 was capitalized as a component of the Company's mineral properties and deferred exploration expenditures.

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. CAPITAL STOCK**

**a) Authorized:**

An unlimited number of common shares

**b) Issued and outstanding:**

	Number of Shares	Amount \$
Issued as compensation for pre-acquisition development costs <sup>(i)</sup>	1,500,000	45,000
Issued in exchange for property <sup>(ii)</sup>	1,000,000	1,000
Private placement <sup>(iii)</sup>	1,020,000	1,020
Private placement <sup>(iv)</sup>	250,000	1,250
Private placement <sup>(v)</sup>	1,500,000	150,000
<b>Balance – December 31, 2005</b>	<b>5,270,000</b>	<b>198,270</b>
Private placement <sup>(vi)</sup>	750,000	75,000
Private placement <sup>(vii)</sup>	1,100,000	110,000
Private placement <sup>(viii)</sup>	6,000,000	2,500,000
Share issue costs	-	(411,577)
Subtotal immediately before completion of reverse takeover – August 31, 2006	13,120,000	2,471,693
Fair value of shares deemed to be issued to the shareholders of Blue Fyre upon completion of reverse takeover (note 3)	3,850,000	537,335
Issued in connection with exploration expenditure	50,000	18,500
Issued for cash upon exercise of 3,600 warrants	3,600	1,800
Transferred from warrants upon exercise	-	199
Private placement <sup>(ix)</sup>	1,000,000	600,000
<b>Balance – December 31, 2006</b>	<b>18,023,600</b>	<b>3,629,527</b>
Issued for cash pursuant to private placement of 1,000,000 units, net of \$108,004 attributable to warrants <sup>(x)</sup>	1,000,000	541,996
Issued as consideration for a property acquisition	175,000	70,000
Issued for cash upon exercise of warrants	240,000	60,000
Transferred from warrants upon exercise	-	33,360
Issued for cash upon exercise of stock options	200,000	26,000
Transferred from contributed surplus	-	5,169
Share issue costs	-	(7,250)
<b>Balance – June 30, 2007</b>	<b>19,638,600</b>	<b>4,358,802</b>

i) On September 12, 2005, the Company issued 1,000,000 common shares to a director of the Company and 500,000 common shares to a company controlled by the director. These shares were issued at a deemed fair value of \$0.03 per share as compensation for certain development and exploration expenditures incurred by the director on behalf of the Company prior to incorporation and prior to the Company's acquisition of the title interest in the La Tortuga concession.

ii) In September 2005, the Company issued 1,000,000 common shares at a price of \$0.001 per share to an officer of Soltoro S.A. de C.V. and his spouse in exchange for a 100% title interest in the El Rayo concession.

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
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- iii) On October 10, 2005, the Company issued 1,020,000 common shares at a price of \$0.001 per share.
- iv) On October 10, 2005, the Company issued 250,000 common shares at a price of \$0.005 per share.
- v) In November and December 2005, the Company issued 1,500,000 common shares at a price of \$0.10 per share.
- vi) On February 28, 2006, the Company issued 750,000 common shares at a price of \$0.10 per share.
- vii) On April 18, 2006, the Company issued 1,100,000 common shares at a price of \$0.10 per share.
- viii) On April 4, 2006, the Company reached an agreement with Union Securities Inc. to raise a total of \$2,500,000 in two private placements: an initial placement of 2,000,000 common shares at a price of \$0.25 per share, and a subsequent placement of 4,000,000 common shares at a price of \$0.50 per share. Soltoro agreed to pay a 8% cash commission and issue 480,000 broker warrants exercisable at a price of \$0.50 per share for 18 months from closing on completion of the financing.  
  
These financings closed on April 18, 2006, generating net proceeds after share issue costs of \$2,114,824.
- ix) On December 21, 2006, the Company issued 1,000,000 common shares at a price of \$0.60 per share.
- x) On January 29, 2007, the Company completed a private placement of 1,000,000 units at a price of \$0.65 per unit, generating gross cash proceeds of \$650,000. Each unit consists of one common share and one-half of one share purchase warrant, with each whole warrant exercisable into one common share at a price of \$0.75 per share until January 29, 2009.

In the event that the Company's common shares trade above \$1.25 per share for a period of 20 trading days commencing after May 29, 2007, the Company has the right to accelerate the expiry of the warrants by providing 30 days notice to the warrant holder.

**SOLTORO LTD. (FORMERLY BLUE FYRE ONE INC.)**  
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**9. WARRANTS**

The following table reflects the continuity of warrants for the period ending June 30, 2007.

	Number of warrants	Amount \$
<b>Balance - December 31, 2005</b>	-	-
Issued pursuant to private placement	480,000	26,400
Assumed pursuant to reverse takeover	240,000	33,360
Exercised	(3,600)	(199)
<b>Balance - December 31, 2006</b>	<b>716,400</b>	<b>59,561</b>
Issued pursuant to private placement	500,000	108,004
Exercised	(240,000)	(33,360)
<b>Balance - June 30, 2007</b>	<b>976,400</b>	<b>134,205</b>

Pursuant to the private placement which closed on April 20, 2006, the Company issued 480,000 broker compensation warrants. Each warrant has an exercise price of \$0.50 and expires on October 18, 2007. The Company attributed a fair value of \$26,400 to these broker warrants, which amount has been charged to share issue costs.

Pursuant to the reverse takeover of Blue Fyre, the Company assumed Blue Fyre's obligations with respect to 240,000 broker warrants issued in September 2005 in connection with Blue Fyre's initial public offering, with each warrant exercisable into one common share of the Company at a price of \$0.25 per share until September 2007. The Company attributed a fair value of \$33,360 to these broker warrants. These warrants were exercised on February 22, 2007.

The fair value of the 480,000 broker warrants issued to Union Securities in connection with the private placement and the 240,000 outstanding broker warrants issued previously by Blue Fyre and assumed by the Company upon completion of the reverse takeover of Blue Fyre was estimated using the Black-Scholes option pricing model and the following weighted average assumptions:

Risk free interest rate	4%
Dividend yield	-
Volatility	85%
Expected term	1.2 years

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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On January 29, 2007, pursuant to the private placement of units described in note 8(b)(x), the Company issued 500,000 share purchase warrants exercisable into 500,000 common shares at a price of \$0.75 per share and expiring on January 29, 2009. The fair value of these warrants was estimated using the Black-Scholes option pricing model and the following assumptions:

Risk free interest rate	4%
Dividend yield	-
Volatility	85%
Expected term	1.5 years

The warrants outstanding at June 30, 2007 are set out below.

Exercise price	Number of warrants	Expiry date
\$0.50	476,400	October 18, 2007
\$0.75	500,000	January 29, 2009
<b>\$0.63</b>	<b>976,400</b>	

**10. CONTRIBUTED SURPLUS AND STOCK-BASED COMPENSATION**

The following table reflects the continuity of contributed surplus during the period ended June 30, 2007.

	\$
Balance -December 31, 2005	-
Stock-based compensation	112,707
<b>Balance - December 31, 2006</b>	<b>112,707</b>
Stock-based compensation	188,418
Transferred to share capital upon exercise	- 5,169
<b>Balance - June 30, 2007</b>	<b>295,956</b>

The Company has a stock option plan the (“Plan”) under which the Company may grant options to directors, officers and consultants. The maximum number of common shares reserved for issue under the Plan at any point in time may not exceed 10% of the number of shares issued and outstanding.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. Options granted under the Plan are non-assignable and vest over various terms up to eighteen months from the date of grant.

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The following table reflects the continuity of outstanding stock options for the period ended June 30, 2007.

	Number of stock options	Weighted average exercise price per share
Balance - September 12, 2005	-	-
Issued during the period	380,000	\$0.10
<b>Balance - December 31, 2005</b>	<b>380,000</b>	<b>\$0.10</b>
Issued during the year	930,000	\$0.31
<b>Balance - December 31, 2006</b>	<b>1,310,000</b>	<b>\$0.25</b>
Issued during the period	770,000	\$0.63
Exercised during the period	- 200,000	\$0.13
<b>Balance - June 30, 2007</b>	<b>1,880,000</b>	<b>\$0.29</b>

Options to purchase common shares carry exercise prices and terms to maturity as follows:

Exercise price \$	Number of options		Expiry date	Contractual life (years)
	Outstanding	Exercisable		
0.10	220,000	220,000	November 30, 2009	2.6
0.25	410,000	297,500	October 24, 2009	2.5
0.36	480,000	360,000	September 22, 2010	3.5
0.63	150,000	37,500	January 31, 2009	1.5
0.63	330,000	165,000	January 31, 2012	4.5
0.45	290,000	145,000	June 28, 2012	5.0
<b>0.32</b>	<b>1,880,000</b>	<b>1,225,000</b>		<b>2.7</b>

During the period ended June 30, 2007, the Company granted 150,000 options at an exercise price of \$0.63 per share expiring on January 31, 2009, 330,000 options at an exercise price of \$0.63 per share expiring on January 31, 2012, and 290,000 options at an exercise price of \$0.45 per share expiring on June 28, 2012.

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The fair value of the options issued in the period was estimated at the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>Three months ended June 30 2007</b>	<b>Six months ended June 30 2007</b>
Dividend yield	Nil	Nil
Risk free interest rate	4%	4%
Expected volatility	85%	85%
Expected life	3.3 years	3.0 years
Weighted average fair value per option	\$0.27	\$0.31

During the period ended June 30, 2007, the Company recognized a total expense of \$188,418 in stock-based compensation, which has been charged to operations. In addition, the Company will recognize an additional expense of \$90,545 subsequent to June 30, 2007 in respect of options issued but unvested at June 30, 2007.

**11. COMMITMENTS AND CONTINGENCIES**

Under the terms of the Company's mining concessions, the Company must make periodic tax payments and perform minimum levels of exploration to maintain these concessions in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to these properties.

**12. INCOME TAX INFORMATION**

The estimated taxable income for the period ended June 30, 2007 is \$Nil (2006: \$Nil). It cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities.

Consequently, the future recovery or loss arising from differences in tax values and accounting values has been reduced by an equivalent estimated taxable temporary difference valuation adjustment.

The estimated taxable temporary valuation allowance will be adjusted in the period in which it is determined that it is more likely than not that some portion or all of the future tax assets or future tax liabilities will be realized.

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The Company has available non-capital Canadian losses of \$284,188 and Mexican losses of \$29,325 which may be offset against future Canadian taxable income. To the extent the Company cannot utilize these loss carry forwards to reduce taxable income in future periods, these loss carry forwards will expire as follows:

	\$
2015	27,690
2016	285,823
	<hr/> <hr/> <u>313,513</u>