

Auditors' Report

To the Shareholders of
Jasper Mining Corporation.

We have audited the consolidated balance sheets of Jasper Mining Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "BDO Dunwoody LLP"
CHARTERED ACCOUNTANTS

Calgary, Alberta
April 20, 2007

Jasper Mining Corporation
(an exploration stage company)
Consolidated Balance Sheets
As at December 31

	<u>2006</u>	<u>2005</u>
Assets		
Current		
Cash	\$ 234,847	\$ 508,227
Term deposit (note 3)	1,341,900	3,507,312
Accounts receivable	43,304	42,971
	<u>1,620,051</u>	<u>4,058,510</u>
Mineral property deposits (note 4)	41,104	27,500
Investment (note 5)	100	—
Mineral properties (note 6)	5,804,075	3,097,541
Capital assets (note 7)	164,774	138,639
	<u>\$ 7,630,104</u>	<u>\$ 7,322,190</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 398,242	\$ 286,130
Current portion of long-term debt (note 8)	15,221	15,221
	<u>413,463</u>	<u>301,351</u>
Long-term debt (note 8)	10,282	25,504
Future income taxes (note 12)	1,309,090	378,000
	<u>1,732,835</u>	<u>704,855</u>
Shareholders' Equity		
Share capital (note 9)	4,643,699	5,004,297
Warrants (note 10)	2,178,057	2,250,562
Contributed surplus (note 11)	1,306,512	472,125
Deficit	(2,230,999)	(1,109,649)
	<u>5,897,269</u>	<u>6,617,335</u>
	<u>\$ 7,630,104</u>	<u>\$ 7,322,190</u>
Nature of operations and basis of presentation (note 1)		
Commitments (note 9(b)(ii) and (viii))		
Subsequent events (note 16)		

On behalf of the Board

"Signed" Gordon F. Dixon, Director

"Signed" Ronald W. Shepherd, Director

Jasper Mining Corporation
(an exploration stage company)
Consolidated Statements of Operations and Deficit
Years Ended December 31

	<u>2006</u>	<u>2005</u>
Revenue		
Interest	\$ <u>90,788</u>	\$ <u>7,312</u>
Expenses		
General and administrative <i>(note 13)</i>	427,916	164,995
Part XII.6 interest <i>(note 9(b)(ii))</i>	120,674	12,000
Interest on long-term debt	1,981	233
Interest on related party debt	–	1,822
Financing fee <i>(note 9(b)(iii))</i>	–	93,393
Stock-based compensation <i>(note 9(c))</i>	757,144	322,623
Amortization	17,788	6,520
	<u>1,325,503</u>	<u>601,586</u>
Loss before taxes	<u>(1,234,715)</u>	<u>(594,274)</u>
Income taxes <i>(note 12)</i>		
Current income tax	9,159	–
Future income tax recovery	<u>(122,524)</u>	<u>(71,267)</u>
	<u>(113,365)</u>	<u>(71,267)</u>
Net loss for the year	<u>(1,121,350)</u>	<u>(523,007)</u>
Deficit, beginning of year	<u>(1,109,649)</u>	<u>(586,642)</u>
Deficit, end of year	<u>\$ (2,230,999)</u>	<u>\$ (1,109,649)</u>
Net loss per share – basic <i>(note 9(d))</i>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

Jasper Mining Corporation
(an exploration stage company)
Consolidated Statements of Cash Flows
Years Ended December 31

	<u>2006</u>	<u>2005</u>
Operating		
Net loss for the year	\$ (1,121,350)	\$ (523,007)
Add back (deduct) non-cash items		
Interest revenue <i>(note 3)</i>	(22,698)	(7,312)
Part XII.6 interest	120,674	12,000
Interest on related party debt	–	13,822
Financing fee	–	93,393
Stock-based compensation	757,144	322,623
Amortization	17,788	6,520
Future income tax recovery	(122,524)	(71,267)
	<u>(370,966)</u>	<u>(153,228)</u>
Change in non-cash working capital <i>(note 14)</i>	<u>105,542</u>	<u>18,536</u>
	<u>(265,424)</u>	<u>(134,692)</u>
Financing		
Payments to affiliated companies	–	(332,980)
Payment on long-term debt	(15,222)	(4,939)
Issuance of share capital, net of issuance costs	560,181	4,614,554
Change in non-cash working capital <i>(note 14)</i>	(75,520)	73,958
	<u>469,439</u>	<u>4,350,593</u>
Investing		
(Redemption) purchase of term deposit	2,188,111	(3,500,000)
Payment of mineral deposit	(13,604)	(2,500)
Expenditures on capital assets	(43,923)	(102,211)
Expenditures on mineral properties	(2,568,962)	(897,800)
Purchase of investment	(100)	–
Change in non-cash working capital <i>(note 14)</i>	(38,917)	79,772
	<u>(477,395)</u>	<u>(4,422,739)</u>
Decrease in cash	(273,380)	(206,838)
Cash, beginning of year	<u>508,227</u>	<u>715,065</u>
Cash, end of year	\$ 234,847	\$ 508,227
Supplemental cash flow information:		
Interest paid	\$ 6,696	\$ 14,908
Taxes paid	5,906	–

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

1. Nature of operations and basis of presentation

Jasper Mining Corporation (the "Corporation") was incorporated on November 28, 1994 in the Province of Alberta. The Corporation is in the exploration stage and is engaged in the exploration for and development of base and precious metals in Canada.

Although the Corporation has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Corporation's title. Property title may be subject to unregistered prior agreements, transfers or Native land claims and as a result the property titles may be affected by undetected defects.

Mineral properties, including exploration properties, are recognized in these financial statements in accordance with the accounting policies outlined in note 2. Accordingly, their carrying amounts represent costs incurred to date, net of abandonment's and write-downs, and do not necessarily reflect present or future values. The ability of the Corporation to continue as a going concern and the recoverability of amounts shown for mineral properties is dependent upon the existence of economically recoverable mineral reserves, the ability of the Corporation to obtain necessary financing to complete their development and upon future profitable operations. These consolidated financial statements have been prepared on a going concern basis, which assumes the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. These consolidated financial statements do not include any adjustments that would be necessary should the Corporation be unable to raise sufficient capital and consequently be unable to continue as a going concern.

Subsequent to year end, the Corporation has raised additional equity of \$190,000 on the exercise of warrants which will assist the Corporation in meeting its outstanding flow-through expenditure commitments while undertaking further exploration and development on its mineral properties.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Mountain Star Resources Ltd. All inter-corporate balances and transactions have eliminated.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Investment

Investment is stated at cost less provisions for other than temporary impairment, if any. Investments are classified as a long-term asset in concurrence with the nature of the investment.

b) Mineral properties

Costs of acquisition and development of mineral properties are capitalized on an area-of-interest basis. Amortization of these costs will be on a unit-of-production basis, based on estimated proven reserves of minerals of the areas, should such reserves be found. Properties are abandoned either when the lease expires or when management determines that no further work will be performed on the property since it has no value to the Corporation. When significant properties in an area-of-interest are abandoned, the costs related thereto are charged to income on a pro-rata basis to the total costs to date included in the area, in the year of abandonment. The proceeds received from a partial disposition or an option payment is credited against the costs. In addition, if there has been a delay in

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

2. Significant accounting policies (continued)

b) Mineral properties (continued)

development activity for several successive years, a write-down of those project-capitalized costs will be charged to income.

Where the Corporation's exploration commitments for a mineral property are performed under option agreements with a third party, the proceeds of option payments under such agreements are applied to the mineral property to the extent of costs incurred. The excess is credited to income. Provincial government mining tax credits reduce the book value of mineral properties.

c) Capital Assets

Capital assets are recorded at cost. Depreciation is determined using the declining balance basis, over the estimated useful life of the assets at the following annual rates:

Furniture and fixtures	20%
Computer equipment	30%
Vehicles	30%

d) Asset retirement obligation

Asset retirement costs and liabilities associated with site restoration and abandonment of long-lived assets are initially measured at fair value which approximates the cost a third party would incur in performing the tasks necessary to retire such assets. Such costs are capitalized as part of the cost of mineral properties and amortized to expense through depletion over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense is recorded as accretion expense in the statement of operations. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset.

e) Future income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

f) Per share amounts

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of in-the-money stock options or warrants are assumed to be used to purchase, for cancellation, common shares of the Corporation at the average market price during the year. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares.

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

2. Significant accounting policies (continued)

g) Stock option plan

Under the Corporation's stock option plan described in note 9 (c), options to purchase common shares are granted to directors, officers, employees and consultants at current market prices or higher. Stock-based compensation expense is recorded in the statement of operations for all options granted with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values of the options at the time of the grant as determined using a Black Scholes option model. The expense is recognized on a straight-line basis over the vesting period of the option. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed.

h) Flow-through shares

A portion of the Corporation's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to the Corporation, the carrying value of the shares issued is reduced by the tax effect of the benefits renounced to subscribers. The tax effect of the renouncement is recorded when the renouncement documents are filed with the taxation authorities.

i) Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for depreciation of property and equipment and the provision for accretion are based on estimates of future costs and other relevant assumptions. The amounts recorded for stock-based compensation are estimated using the Black-Scholes model. The Black-Scholes model is based on estimates of assumptions for expected volatility and risk free interest rates. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. Term deposit

The Corporation holds a guaranteed investment certificate in the principal amount of \$1,319,203 (2005 – \$3,500,000) which bears interest of 4.05% for the term. Included in the reported balance of the term deposit is interest of \$22,697 which has been accrued as at December 31, 2006 (2005 – \$7,312). The investment matures on July 30, 2007 and is redeemable at any time before maturity.

4. Mineral property deposits

The Corporation has made no provision for site restoration costs or potential environmental liabilities on the basis any such liability would not have a material effect on these financial statements. Factors such as further exploration, inflation and changes in technology may materially change the cost estimate. Mineral property deposits totaling \$41,104 (2005 – \$27,500) have been paid to the Government of British Columbia and are refundable upon reclamation of areas impacted by mining exploration activities.

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

5. Investment

The Corporation purchased 50% of the common shares outstanding in a private company named Jasper Diamonds Inc. for \$100. The remaining 50% is held by the President of the Corporation. The Company was inactive throughout the year and held no assets or liabilities.

6. Mineral properties

		December 31 2005	Expenditures 2006	December 31 2006
Vowell Creek	Acquisition	\$ 524,072	\$ 94,507	\$ 618,579
	Exploration	1,569,742	48,545	1,618,287
Isintok	Acquisition	37,258	75,699	112,957
	Exploration	153,368	1,082,748	1,236,116
Lydy/McFarlene	Acquisition	75,841	11,720	87,561
	Exploration	160,030	358,518	518,548
Proximal	Acquisition	37,718	-	37,718
	Exploration	90,353	29,524	119,877
Erie Creek	Acquisition	36,518	6,216	42,734
	Exploration	58,737	95,640	154,377
Irony	Acquisition	36,760	9,709	46,469
	Exploration	3,626	537,437	541,063
Other (11 projects)	Acquisition	256,468	24,185	280,653
	Exploration	57,050	332,086	389,136
		<u>\$ 3,097,541</u>	<u>\$ 2,706,534</u>	<u>\$ 5,804,075</u>
Summary	Acquisition	\$ 1,004,635	\$ 222,036	\$ 1,226,671
	Exploration	2,092,906	2,484,498	4,577,404
		<u>\$ 3,097,541</u>	<u>\$ 2,706,534</u>	<u>\$ 5,804,075</u>

a) Pursuant to a mining option agreement between the Corporation and Van der Lee, Berar, Coldwell and Adamson, signed June 29, 2001 and a letter agreement signed January 11, 2002, the Corporation has an option to earn a 100% interest in the Vowell Creek area claims located in British Columbia under the following conditions:

- i) \$5,000 payment
- ii) 1,100,000 common shares of the Corporation within 90 days of closing
- iii) \$40,000 to be paid before June 2, 2006
- iv) \$50,000 to be spent annually on the properties on exploration.

At December 31, 2006 the Corporation has complied with all items above. Due to the amount already spent on exploration, the Corporation has no financial commitment in 2007. In June 2006, the

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

6. Mineral properties (continued)

Corporation has earned a 100% interest in these claims.

Pursuant to the mining option agreement the Corporation also has the option to purchase a 3% net smelter return royalty for \$1,750,000, at any time. The 3% return royalty only relates to Van der Lee, Berar, Coldwell and Adamson claims which is a small portion of the Corporation's Ruth Vermont Vowell Creek claims.

- b) Pursuant to a mining option agreement between the Corporation and Mellenco Investments Ltd., signed May 31, 1999, the Corporation has the option to earn a 100% interest in the Vermont Creek area claims (part of the Vowell Creek Project) located in British Columbia under the following conditions:
- i) \$10,000 payment upon closing;
 - ii) 450,000 common shares of the Corporation to be issued within 60 days of closing;
 - iii) \$100,000 to be paid before May 31, 2005;
 - iv) \$50,000 to be spent annually on the properties on exploration until closing; and
 - v) Mellenco Investments Ltd. to be guaranteed a 1.5% net smelter return royalty interest

In August 2005, the Corporation renegotiated the terms of the original agreement to earn the 100% interest in the claims in exchange for 100,000 common shares of the Corporation and a \$20,000 cash payment. The Corporation issued the common shares in August 2005 which were valued at \$5,000 based on the trading price of the Corporation's shares on the date of issuance. The acquisition was completed in February 2006 upon delivery of the \$20,000 cash payment.

- c) Pursuant to an agreement dated February 6, 1996, Centipede Resources Ltd. transferred certain mining claims held in the Ruth Vermont Claim Group, being part of the Vowell Creek project in British Columbia, to the Corporation for a 5% net profits return. The Corporation has the option to purchase the net profits return for \$1,000,000.
- d) Pursuant to an agreement dated February 17, 2005, Canadian Goldrush transferred 13 mining claim properties in British Columbia to the Corporation in exchange for 2,250,000 common shares of the Corporation issued in February 2005. \$472,500 was recorded to mineral property acquisition costs based on the trading price of the Corporation's shares on the date of issuance. The Corporation has no outstanding financial commitment to Canadian Goldrush.
- e) In June 2005, the Corporation signed an agreement to acquire six crown grants located in the Bobbie Burns/Vowell Creek area of British Columbia from an unrelated party in exchange for 100,000 common shares of the Corporation and an \$18,000 cash payment. The Corporation issued the common shares in July 2005 which were valued at \$7,000 based on the trading price of the Corporation's shares on the date of issuance. The acquisition was completed in February 2006 upon delivery of the \$18,000 cash payment.
- f) Pursuant to an agreement dated April 19, 2006, Rich River Exploration Ltd. transferred 59 mining claim properties in British Columbia to the Corporation in exchange for 50,000 common shares of the Corporation and \$31,200 cash payment made in May 2006. The Corporation issued the common shares in May 2006 which were valued at \$25,000 based on the trading price of the Corporation's shares on the date of issuance. The Corporation has no outstanding financial commitment to Rich River Exploration Ltd.

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

6. Mineral properties (continued)

- g) Pursuant to an agreement signed in September 2006, two unrelated parties transferred 2 mining claim properties in British Columbia to the Corporation in exchange for 40,000 common shares of the Corporation and \$22,500 cash payment made in November 2006. The Corporation issued the common shares in November 2006 which were valued at \$14,000 based on the trading price of the Corporation's shares on the date of issuance. The Corporation has no outstanding financial commitment to the two parties.

7. Capital Assets

	2006		
	Cost	Accumulated depreciation	Net
Land	\$ 106,735	\$ —	\$ 106,735
Furniture and fixtures	1,708	1,292	416
Vehicle	70,887	21,499	49,388
Computer equipment	13,048	4,813	8,235
	<u>\$ 192,378</u>	<u>\$ 27,604</u>	<u>\$ 164,774</u>
	2005		
	Cost	Accumulated depreciation	Net
Land	\$ 101,786	\$ —	\$ 101,786
Furniture and fixtures	1,708	1,188	520
Vehicle	42,610	6,392	36,218
Computer equipment	2,351	2,236	115
	<u>\$ 148,455</u>	<u>\$ 9,816</u>	<u>\$ 138,639</u>

8. Long-term debt

In September 2005, the Corporation obtained vehicle purchase financing in the amount of \$45,000 with an implicit interest rate of 3.9% per annum having blended payments of \$1,346 every month from October 2005 to October 2008 and secured by the vehicle with a net book value of \$36,218. As at December 31, 2006, the balance of the financing was \$25,503, of which \$15,221 represents payments due within one year.

Future payments as at December 31, 2006 are as follows:

2007	\$ 15,221
2008	<u>10,282</u>
	<u>\$ 25,503</u>

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

9. Share capital

a) Authorized

Unlimited number of common shares

b) Common shares issued

	Number	Amount
Balance – December 31, 2004	25,404,761	\$ 1,783,979
Common share private placements (i)	7,345,500	1,351,315
Flow-through common share private placements (ii)	7,830,386	2,119,011
Acquisition of mineral properties (note 6)	2,450,000	522,500
Issued on conversion of debt (iii)	1,273,573	318,393
Stock options exercised (iv)	525,000	90,000
Cash received in 2004 for shares issued 2005 (v)	–	(230,000)
Share issue costs	–	(950,901)
Balance – December 31, 2005	44,829,220	5,004,297
Exercise of stock options (vi)	1,347,500	300,078
Exercise of warrants (vii)	618,333	315,673
Acquisition of mineral properties (note 6(f)(g))	90,000	39,000
Flow-through common share private placement (viii)	100,000	50,000
Tax effect of flow-through share proceeds (ii)	–	(1,053,614)
Share issue costs	–	(11,735)
Balance – December 31, 2006	<u>46,985,053</u>	<u>\$ 4,643,699</u>

i) Common share private placements

The Corporation completed the following private placements during 2005:

Date	Total Proceeds	Total Price per Share or Unit	Number of Shares	Amount for Common Shares	Number of Warrants	Warrant Exercise Price	Amount Ascribed to Warrants
February 17	\$ 180,000	\$ 0.20	900,000	\$ 159,000	450,000	\$ 0.40	\$ 21,000
March 18	28,000	0.20	140,000	28,000	–	–	–
August 22	250,000	0.20	1,250,000	82,298	625,000	0.30	167,702
August 22	750,000	0.25	3,000,000	386,845	1,500,000	0.40	363,155
November 15	329,850	0.45	733,000	216,611	366,500	0.65	113,239
December 7	661,250	0.50	1,322,500	478,561	661,250	0.75	182,689
	<u>\$ 2,199,100</u>		<u>7,345,500</u>	<u>\$ 1,351,315</u>	<u>3,602,750</u>		<u>\$ 847,785</u>

The fair value ascribed to the above warrants was estimated using the Black-Scholes Pricing Model based on the following significant assumptions:

Expected life	18 months
Risk-free interest rate	3.0%
Dividend yield	Nil
Expected volatility	105% to 130%

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

9. Share capital (continued)

b) Common shares issued (continued)

ii) Flow-through common share private placements

The Corporation completed the following private placements during 2005:

Date	Total Proceeds	Total Price per Share or Unit	Number of Shares	Amount for Common Shares	Number of Warrants	Warrant Exercise Price	Amount Ascribed to Warrants
February 17	\$ 200,000	\$ 0.20	1,000,000	\$ 200,000	–	–	\$ –
July 21	50,000	0.25	200,000	36,524	100,000	0.40	13,476
October 6	250,000	0.25	1,000,000	94,243	500,000	0.40	155,757
October 14	50,000	0.55	90,910	38,843	45,455	0.80	11,157
November 15	1,672,639	0.45	3,716,976	1,119,768	1,858,488	0.65	552,871
December 7	661,250	0.50	1,322,500	478,561	661,250	0.75	182,689
December 31	250,000	0.50	500,000	151,072	250,000	0.75	98,928
	<u>\$ 3,133,889</u>		<u>7,830,386</u>	<u>\$ 2,119,011</u>	<u>3,415,193</u>		<u>\$ 1,014,878</u>

The fair value ascribed to the above warrants was estimated using the Black-Scholes Pricing Model based on the following significant assumptions:

Expected life	18 months
Risk-free interest rate	3.0%
Dividend yield	Nil
Expected volatility	105% to 130%

A director of the Corporation subscribed to 1,000,000 flow-through shares and 500,000 warrants for total proceeds of \$250,000.

The \$1,053,614 tax effect of the 2005 total flow-through share proceeds was recorded in February 2006 when the tax benefits were filed with the tax authorities and renounced to investors with an effective date of December 31, 2005.

As at December 31, 2006, a total of \$2,830,694 (2005 – \$286,567) of qualifying expenditures had been incurred. The Corporation incurred interest on unspent flow-through proceeds from February 28 to December 31, 2006 and an additional penalty on the remaining amount of \$303,195 unspent at December 31, 2006.

iii) Debt conversion

In August 2005, the Corporation's shareholders approved the conversion of existing related party debt to equity. The total amount of outstanding debt extinguished by the Corporation was in the amount of \$225,000 for 900,000 common shares. An additional 373,573 shares were issued in the amount of \$93,393, to a related company that was owned by the Corporation's president to extinguish a tax burden created by the Corporation on the flow-through requirements that were not met during the required time period. Both conversions were recorded at \$0.25 per share which is the trading price of the shares as at the date the conversions were approved.

iv) Stock options exercised

During 2005, the Corporation issued 525,000 common shares for total proceeds of \$90,000 on the exercise of 225,000 options at \$0.20 per share and 300,000 options at \$0.15 per share.

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

9. Share capital (continued)

b) Common shares issued (continued)

v) Cash received in 2004 for shares issued in 2005

In December 2004, the Corporation received \$230,000 of cash proceeds on account of 150,000 units and 1,000,000 flow-through shares and, consisting of 150,000 common shares and 75,000 warrants, issued on February 17, 2005.

vi) Stock options exercised

During 2006, the Corporation issued 1,347,500 common shares for total proceeds of \$278,750 on the exercise of 1,300,000 options at \$0.20 per share, 17,500 options at \$0.30 per share and 30,000 options at \$0.45 per share. In addition to the cash proceeds, a \$21,329 pro-rata allocation of the options' fair value has been reclassified from contributed surplus to the amount for common shares. Five directors of the Corporation exercised 1,100,000 options for total proceeds of \$220,000. Two officers of the Corporation exercised 200,000 options for total proceeds of \$40,000.

vii) Warrants exercised

During 2006, the Corporation issued 618,333 common shares for total proceeds of \$243,168 on the exercise of 618,333 warrants. In addition to the cash proceeds, a pro-rata allocation of the exercised warrants' fair value in the amount of \$72,505 has been reclassified from warrants to the amount for common shares.

viii) Flow-through common share private placement

In December 2006, the Corporation completed a non-brokered private placement of 100,000 flow-through shares at a price of \$0.20 per flow-through share for aggregate proceeds of \$50,000. The related tax benefits of the flow-through share proceeds were renounced to investors in February 2007 with an effective date of December 31, 2006. The Corporation has until December 31, 2007 to incur the \$50,000 of qualifying flow-through expenditures.

c) Stock options

The Corporation has a stock option plan, administered by the Board of Directors, for directors, officers and key consultants of the Corporation. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Corporation, and vest over terms determined at the time of grant. In August 2006, the Corporation's shareholders approved increasing the number of shares covered by the Corporation's stock option plan from 5,600,000 to 9,200,000.

The following options were granted during 2006:

Date of Grant	Number of Options	Exercise Price	Expiry Date	Estimated Fair Value	Stock Based Compensation Recognized in 2006
April	1,025,000	\$ 0.30	April 2011	\$ 385,615	\$ 314,598
November	2,200,000	\$ 0.40	November 2011	617,109	334,267
	<u>3,225,000</u>			<u>\$ 1,002,724</u>	<u>\$ 648,865</u>

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

9. Share capital (continued)

The following options were granted during 2005:

Date of Grant	Number of Options	Exercise Price	Expiry Date	Estimated Fair Value	Stock Based Compensation Recognized in 2005	Stock Based Compensation Recognized in 2006
June	200,000	\$ 0.20	June 2009	\$ 39,591	\$ 31,343	\$ 8,248
July	200,000	\$ 0.25	July 2009	49,514	35,073	14,441
October	950,000	\$ 0.45	October 2010	491,097	306,935	184,162
	<u>1,350,000</u>			<u>\$ 580,202</u>	<u>\$ 373,351</u>	<u>\$ 206,851</u>

The options granted in 2006 and 2005 vest as to 50% immediately and 50% on the first anniversary of the grant date. The estimated fair value of the options is recognized over the vesting period of the options and has been recorded in these financial statements as follows:

	2006	2005
Stock-based compensation expense	\$ 757,144	\$ 322,623
Capitalized to mineral properties	98,572	50,728
	<u>\$ 855,716</u>	<u>\$ 373,351</u>

The fair value of options granted in 2006 and 2005 was estimated using the Black-Scholes Pricing Model based on the following significant assumptions including a dividend yield of nil:

	2006	2005
Expected life	5 years	5 years
Risk-free interest rate	4.13% to 4.30%	3.0%
Expected volatility	113% to 125%	105% to 124%

The following is a continuity of stock options for which shares have been reserved at December 31:

	2006		2005	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance – opening	3,575,000	\$ 0.27	2,750,000	\$ 0.19
Granted	3,225,000	0.37	1,350,000	0.40
Exercised	(1,347,500)	0.20	(525,000)	0.17
Balance – closing	<u>5,452,500</u>	<u>\$ 0.40</u>	<u>3,575,000</u>	<u>\$ 0.27</u>

The following table summarizes information about stock options as at December 31, 2006:

Exercise price	Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life(years)
\$ 0.20	925,000	925,000	\$ 0.20	2.9
0.25	200,000	200,000	0.25	3.5
0.30	1,207,500	695,000	0.30	4.3
0.40	2,200,000	1,100,000	0.40	4.9
0.45	920,000	920,000	0.45	3.8
	<u>5,452,500</u>	<u>3,840,000</u>	<u>\$ 0.40</u>	<u>4.2</u>

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

9. Share capital (continued)

d) Per share amounts

Per share calculations are based on the weighted average number of common shares outstanding during the year of 46,310,796 (2005 – 32,528,259). The effect of the conversion of all outstanding options and warrants would be anti-dilutive.

10. Warrants

	Number	Amount
Balance – December 31, 2004	205,000	\$ 15,433
Agent warrants (a)	1,009,497	372,466
Common share private placements (note 9(b)(i))	3,602,750	847,785
Flow-through common share private placements (note 9(b)(iii))	3,415,193	1,014,878
Balance – December 31, 2005	8,232,440	2,250,562
Expired	(205,000)	–
Exercised (note 9(b)(vii))	(618,333)	(72,505)
Balance – December 31, 2006	<u>7,409,107</u>	<u>\$ 2,178,057</u>

- a) The fair value of warrants issued to various agents in conjunction with the Corporation's 2005 private placements was estimated using the Black-Scholes Pricing Model and the following assumptions including a dividend yield of nil:

Date of Issue in 2005	Number of Warrants	Exercise Price	Fair Value of Warrants	Expected Life	Risk-free Interest Rate	Expected Volatility
August	300,000	\$ 0.40	\$ 72,631	18 months	3.0%	122%
November	444,997	0.65	207,525	18 months	3.0%	130%
December	264,500	0.75	92,310	18 months	3.0%	123%
	<u>1,009,497</u>		<u>\$ 372,466</u>			

The following table summarizes information about warrants as at December 31, 2006:

Exercise Price \$	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable
\$ 0.40	2,390,000	0.21	\$ 0.40	2,390,000
0.30	500,000	0.22	0.30	500,000
0.65	2,191,655	0.37	0.65	2,191,655
0.75	2,281,997	0.83	0.75	2,281,997
0.80	45,455	0.32	0.80	45,455
	<u>7,409,107</u>	<u>0.46</u>	<u>\$ 0.58</u>	<u>7,409,107</u>

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

11. Contributed surplus

Balance – December 31, 2004	\$ 98,774
Stock-based compensation (<i>note 9(c)</i>)	<u>373,351</u>
Balance – December 31, 2005	\$ 472,125
Exercise of stock options (<i>note 9(b)(vi)</i>)	(21,329)
Stock-based compensation (<i>note 9(c)</i>)	<u>855,716</u>
Balance, December 31, 2006	<u>\$ 1,306,512</u>

12. Income taxes

The Corporation's computation of future income tax provision is as follows:

	2006	2005
Loss for the year before income taxes	\$ (1,234,715)	\$ (594,274)
Anticipated income tax recovery at 34.50% (2005 – 37.62%)	\$ (425,977)	\$ (223,566)
Stock compensation and other non-deductible items	354,923	121,371
Change in valuation allowance	44,922	43,416
Resource allowance	15,220	8,934
Non-deductible financing fee	–	35,134
Other	72,010	(39,298)
Effect of rate change	<u>(183,622)</u>	<u>(17,258)</u>
Future income tax recovery	(122,524)	(71,267)
Current income tax provision	<u>9,159</u>	<u>–</u>
	<u>\$ (113,365)</u>	<u>\$ (71,267)</u>

The components of the net future income tax liability at December 31 are as follows:

	2006	2005
Non-capital loss carry forwards	\$ 401,748	\$ 281,468
Share issue costs	110,128	185,487
Cumulative eligible capital	13,595	15,717
Mineral properties and deferred exploration costs	<u>(1,322,685)</u>	<u>(393,718)</u>
	(797,214)	88,954
Valuation allowance	<u>(511,876)</u>	<u>(466,954)</u>
	<u>\$ (1,309,090)</u>	<u>\$ (378,000)</u>

As at December 31, 2006, the Corporation has approximately \$1,650,000 (2005 - \$1,500,000) in tax pools and \$1,385,000 (2005 \$837,000) in non-capital losses available for deduction against future taxable income. The non-capital losses expire between 2007 and 2027.

The future income tax assets for non-capital losses and share issue costs have not been recognized as their recovery is uncertain.

Jasper Mining Corporation

Notes to the Financial Statements

December 31, 2006 and 2005

13. Related party balances and transactions

Except as disclosed elsewhere in the financial statements, the Corporation had the following related party transactions:

- a) Legal fees of \$120,221 (2005 – \$141,825) relating to various financings were charged by the President's law firm of which \$23,055 (2005 – \$141,825) was capitalized to share issue costs, \$63,836 (2005 – nil) was capitalized to mineral properties and \$33,330 (2005 – nil) was recorded to general and administrative expenses.
- b) A total of \$22,075 (2005 – \$10,400) was charged by a company owned by the President for rent and administrative services.
- c) Consulting and rental fees of \$255,246 (2005 – \$197,789) was paid to a company owned by an officer of the Corporation and capitalized to exploration and development costs. Consulting fees of \$70,000 (2005 – nil) were paid to the President.

Transactions in the normal course of operations were recorded at exchange amounts, which is the amount of consideration established and agreed to by the related parties.

14. Change in non-cash working capital

	2006	2005
Accounts receivable	\$ (333)	\$ (33,973)
Accounts payable and accrued liabilities	(8,562)	206,239
	<u>\$ (8,895)</u>	<u>\$ 172,266</u>

The change in non-cash working capital has been allocated to the following activities:

	2006	2005
Operating	\$ 105,542	\$ 18,536
Financing	(75,520)	73,958
Investing	(38,917)	79,772
	<u>\$ (8,895)</u>	<u>\$ 172,266</u>

15. Financial instruments

a) Fair values of financial assets and liabilities

Financial instruments consist of cash, term deposit, accounts receivable, mineral property deposits, accounts payable and accrued liabilities and long-term debt. At December 31, 2006 and 2005 there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

b) Credit Risk

The Corporation has not experienced any material credit loss in the collection of receivables in the past. Substantially all of the Corporation's cash is held at one Canadian chartered bank and as such the Corporation is exposed to the risks of that institution.

16. Subsequent event

In the first quarter of 2007, 600,000 warrants were exercised for gross proceeds of \$190,000. In addition 1,925,000 warrants expired.