

# **Plexmar Resources Inc.**

(an exploration company)

Consolidated Financial Statements  
**December 31, 2007 and 2006**

## Auditors' Report

### To the Shareholders of Plexmar Resources Inc.

We have audited the consolidated balance sheets of **Plexmar Resources Inc.** (an exploration company) as at December 31, 2007 and 2006 and the consolidated statements of earnings and comprehensive loss, deficit, contributed surplus 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 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 consolidated 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.

*PricewaterhouseCoopers LLP*

### Chartered Accountants

Quebec, Quebec, Canada  
April 25, 2008

# Plexmar Resources Inc.

(an exploration company)

Consolidated Balance Sheets

As at December 31, 2007 and 2006

	2007 \$	2006 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	167,576	3,716,197
Amounts receivable (note 3)	145,468	90,023
Amount receivable from Escondoro Resources Ltd., a company managed by the president of the Company, non-interest bearing (note 11g)	624,369	-
Prepaid expenses	32,374	43,482
	<u>969,787</u>	<u>3,849,702</u>
<b>Amount receivable from Escondoro Resources Ltd.</b> , a company managed by the president of the Company, bearing interest at 6% (note 11g)	250,000	-
<b>Loan to an officer</b> , bearing interest at prime rate, maturing in May 2009	12,500	-
<b>Security deposit on a lease agreement</b> (note 14)	57,436	-
<b>Commodity taxes receivable</b>	216,937	186,853
<b>Mining properties</b> (note 4)	9,017,110	5,244,586
<b>Property, plant and equipment</b> (note 5)	135,746	8,589
<b>Intangible assets</b> (net of accumulated amortization of \$4,043)	20,216	-
<b>Deposit on the purchase of mining properties</b>	294,450	175,470
<b>Property, plant and equipment held for sale</b> (note 6)	144,000	174,000
	<u>11,118,182</u>	<u>9,639,200</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	591,980	531,694
Current portion of long-term debt	8,699	-
	<u>600,679</u>	<u>531,694</u>
<b>Long-term debt</b> (note 7)	15,551	-
	<u>616,230</u>	<u>531,694</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (notes 8, 9 and 10)	26,903,758	23,705,702
<b>Warrants</b> (note 10)	636,582	637,477
<b>Stock options</b> (note 9)	1,635,987	826,150
<b>Contributed surplus</b>	1,866,053	1,499,894
<b>Deficit</b>	(20,540,428)	(17,561,717)
	<u>10,501,952</u>	<u>9,107,506</u>
	<u>11,118,182</u>	<u>9,639,200</u>
<b>Incorporation, nature of activities and going concern</b> (note 1)		
<b>Agreements</b> (note 11)		
<b>Commitments</b> (note 14)		
<b>Subsequent events and measurement uncertainty</b> (note 18)		

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

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Approved by the Board of Directors

(signed) GUY BÉDARD \_\_\_\_\_ Director

(signed) KENNETH B. CREMA \_\_\_\_\_ Director

# Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Deficit

For the years ended December 31, 2007 and 2006

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	2007 \$	2006 \$
<b>Balance – Beginning of year</b>	17,561,717	15,302,049
Loss for the year	2,942,014	2,065,861
Share issue expenses	36,697	193,807
<b>Balance – End of year</b>	<u>20,540,428</u>	<u>17,561,717</u>

## Consolidated Statements of Contributed Surplus

For the years ended December 31, 2007 and 2006

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	2007 \$	2006 \$
<b>Balance – Beginning of year</b>	1,499,894	511,130
Warrants matured or cancelled during the year (note 10)	587	869,584
Stock options matured or cancelled during the year (note 9)	365,572	119,180
<b>Balance – End of year</b>	<u>1,866,053</u>	<u>1,499,894</u>

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

# Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Earnings and Comprehensive Loss

For the years ended December 31, 2007 and 2006

	2007 \$	2006 \$
<b>Revenues</b>		
Interest	2,555	1,474
Other	839	1,337
	<hr/> 3,394	<hr/> 2,811
<b>Expenses</b>		
Professional and maintenance fees	519,276	574,110
Management fees	180,826	160,000
Stock-based compensation costs (including fringe benefits of \$2,545; \$133,838 in 2006)	1,244,282	937,147
General and administrative expenses	441,888	257,525
Travelling	136,388	65,704
Depreciation of property, plant and equipment	12,390	3,364
Amortization of intangible assets	4,043	-
Cost of mining properties abandoned or written off	308,866	-
Impairment of property, plant and equipment held for sale	30,000	-
Writeoff of property, plant and equipment	-	4,299
Tax credit adjustments on mining properties abandoned	-	6,559
Accretion on convertible debenture	-	17,715
Foreign exchange loss	67,449	42,249
	<hr/> 2,945,408	<hr/> 2,068,672
<b>Loss and comprehensive loss for the year</b>	<hr/> <b>2,942,014</b>	<hr/> <b>2,065,861</b>
<b>Basic and diluted loss per share</b> (note 15)	<hr/> <b>0.02</b>	<hr/> <b>0.02</b>

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

# Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

	2007 \$	2006 \$
<b>Cash flows from operating activities</b>		
Loss for the year	(2,942,014)	(2,065,861)
Items not affecting cash		
Impairment of property, plant and equipment held for sale	30,000	-
Depreciation of property, plant and equipment	12,390	3,364
Amortization of intangible assets	4,043	-
Cost of mining properties abandoned or written off	308,866	-
Writeoff of property, plant and equipment	-	4,299
Accretion on convertible debenture	-	17,715
Net stock-based compensation costs	1,241,737	803,309
	<u>(1,344,978)</u>	<u>(1,237,174)</u>
Change in non-cash working capital items		
Amounts receivable	(55,445)	(52,163)
Prepaid expenses	11,108	(325)
Accounts payable and accrued liabilities	17,830	198,393
Balance of purchase price payable	-	(116,300)
	<u>(26,507)</u>	<u>29,605</u>
	<u>(1,371,485)</u>	<u>(1,207,569)</u>
<b>Cash flows from financing activities</b>		
Issuance of share capital and warrants	854,049	7,595,462
Share issue expenses	(24,866)	(189,720)
Long-term debt contracted	27,643	-
Payments on long-term debt	(3,393)	-
	<u>853,433</u>	<u>7,405,742</u>
<b>Cash flows from investing activities</b>		
Loan to an officer	(12,500)	-
Security deposit on a lease agreement	(57,436)	-
Increase in commodity taxes receivable	(30,084)	(12,823)
Purchase of mining properties and exploration costs	(3,157,279)	(2,314,388)
Option on mining properties	510,453	-
Additions to property, plant and equipment	(140,484)	(2,418)
Additions to intangible assets	(24,259)	-
Deposit on the purchase of mining properties	(118,980)	(175,470)
	<u>(3,030,569)</u>	<u>(2,505,099)</u>
<b>Net change in cash</b>	<u>(3,548,621)</u>	<u>3,693,074</u>
<b>Cash – Beginning of year</b>	<u>3,716,197</u>	<u>23,123</u>
<b>Cash – End of year</b>	<u>167,576</u>	<u>3,716,197</u>
<b>Additional information</b>		
Items not affecting cash related to financing and investing activities		
Acquisition of mining properties in consideration of the issuance of shares and warrants	2,200,000	1,340,000
Finder's fee for the purchase of mining properties settled through the issuance of shares	67,500	-
Options and warrants transferred to share capital upon exercise	112,567	859,559
Conversion of the convertible debenture in consideration of the issuance of shares	-	244,719
Issuance of warrants included in share issue expenses	9,870	4,087
Reclassification of property, plant and equipment held for sale	-	174,000
Depreciation of property, plant and equipment capitalized in mining properties	937	-
Share issue expenses included in accounts payable and accrued liabilities	1,960	-
Acquisition of mining properties included in accounts payable and accrued liabilities	(40,496)	-
Interest cashed	(2,555)	(1,474)

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

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

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## **1 Incorporation, nature of activities and going concern**

The company, incorporated under the Canada Business Corporations Act, is in the business of acquiring and exploring mining properties. It has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the ability to obtain necessary financing to complete exploration and development of the company's properties, and upon future profitable production or proceeds from the disposal of properties.

For the year ended December 31, 2007, the company recorded a loss of \$2,942,014. In addition to ongoing working capital requirements, the company must secure sufficient funding to meet its existing commitments for exploration and development programs and for general and administration costs.

Management is periodically seeking additional forms of financing through the issuance of new equity instruments, the exercise of existing warrants for the purchase of common shares and the exercise of stock options to continue its activities as a going concern, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify title to mining properties in which the company has an interest, in accordance with industry standards for the current 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 non-compliant with regulatory requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. The application of generally accepted accounting principles on a going concern basis may be inappropriate, since there is a significant doubt as to the validity of the going concern assumption.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the classification of balance sheet items, were the going concern assumption inappropriate, and these adjustments could be material. Management did not take these adjustments into account as it believes in the validity of the going concern assumption.

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

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## **2 Summary of significant accounting policies**

### **Basis of consolidation**

These consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiaries, Minera San Miguelito S.A.C., located in Peru, and Plexmar Ecuador S.A., located in Ecuador. The Peruvian subsidiary, incorporated on December 12, 2003, has been created in order to enable the company to manage its exploration activities on the properties located in Peru. The Ecuadorian subsidiary, incorporated on September 25, 2006, has been created in order to enable the company to manage its exploration activities on the properties located in Ecuador.

### **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 of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the carrying value of mining properties, the useful lives of property, plant and equipment, certain accrued liabilities and stock-based compensation. Actual results could differ from those estimates.

### **Foreign currency translation**

#### Foreign currency transactions

Transactions denominated in currencies other than Canadian dollars are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rate for the year. Non-monetary assets and liabilities are translated at historical rates. Exchange gains and losses arising from such translation are reflected in the statements of earnings.

#### Foreign subsidiaries

The foreign subsidiaries are considered to be integrated foreign operations. As a result, the foreign subsidiaries' accounts are remeasured into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the year. Exchange gains and losses resulting from remeasurement are reflected in the statements of earnings.

# **Plexmar Resources Inc.**

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Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

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## **Mining properties**

The company records its interests in mining properties and areas of geological interest at cost less option payments and other recoveries. Exploration costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they relate are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any writedowns are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

## **Property, plant and equipment**

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the periods mentioned in note 5.

## **Intangible assets**

Intangible assets consist of software and are recorded at cost. Amortization is calculated using the straight-line method at an annual rate of 33%.

## **Share capital**

Share issue expenses are allocated to the deficit.

## **Income taxes**

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

## **Basic and diluted earnings per share**

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

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Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating shares during the year.

## **Stock-based compensation plan**

The company maintains a stock option plan, which is described in note 9. Any consideration received from plan participants upon the exercise of stock options is credited to share capital. The company records compensation costs arising from all types of stock-based payments granted to employees and non-employees, including stock options, using a fair value-based method.

## **New accounting standards**

### *Accounting changes adopted*

On January 1, 2007, the company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

- Section 1506, "Accounting Changes". This section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below.
- Section 1530, "Comprehensive Income". This section establishes standards for reporting and display of certain gains and losses recognized in comprehensive income, but excluded from net income.
- Section 3251, "Equity". This section establishes standards for the presentation of equity and changes in equity. The requirements of this section are in addition to those in Section 1530, "Comprehensive Income", Section 3240, "Share capital", and Section 3260, "Reserves".
- Section 3855, "Financial Instruments – Recognition and Measurement". This section describes the standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented.

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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This section requires that:

- All financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity;
- All financial liabilities be measured at fair value if they are derivatives or classified as held-for-trading purposes. Other financial liabilities are measured at their carrying value;
- All derivative financial instruments be measured at fair value, even when they are part of a hedging relationship;
- Financial assets and liabilities be recognized.

Following the adoption of Section 3855, the company classified its financial instruments as follows:

Cash	Held for trading
Amounts receivable	Loans and receivables
Loan to an officer	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

- Section 3865, "Hedges". This section provides an alternative to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13, "Hedging Relationships", and on the hedging guidance in Section 1650, "Foreign Currency Translation".

The implementation of these standards had no significant impact on the consolidated financial statements of the company.

### *Future accounting changes*

The CICA published the following new sections that will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007:

- Section 3862, "Financial Instruments – Disclosures". This section describes the required disclosure to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- Section 3863, "Financial Instruments – Presentation". This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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- Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance.

The CICA published amendments to the following sections, which will apply to interim and annual financial statements:

Relating to fiscal years beginning on or after January 1, 2008:

- Section 1400, "General Standards of Financial Statement Presentation". The CICA changed the guidance relating to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

Relating to fiscal years beginning on or after October 1, 2008:

- Section 3064, "Goodwill and Intangible Assets". In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be implemented for the year beginning January 1, 2009.

The company has not yet completed its assessment of the effect of these new standards on its consolidated financial statements.

### 3 Amounts receivable

	<b>2007</b>	<b>2006</b>
	\$	\$
Commodity taxes receivable	33,556	24,236
Credit on duties refundable for loss	-	318
Amount receivable from an officer	5,972	-
Other receivables	105,940	65,469
	<hr/>	<hr/>
	145,468	90,023
	<hr/>	<hr/>

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

## 4 Mining properties

December 31, 2007

	Undivided interest %	Balance as at January 1, 2007 \$	Costs incurred \$	Mining properties under option, abandoned or written off \$	Balance as at December 31, 2007 \$
Marilia I, II & III (Peru) (note 11a)					
Mining property	100	150,598	-	(150,598)	-
Exploration costs		8,298	-	(8,298)	-
		<u>158,896</u>	<u>-</u>	<u>(158,896)</u>	<u>-</u>
Lucma (Cascajal) (Peru) (note 11b)					
Mining property	100	70,947	-	-	70,947
Oro Del Norte I, II & III (Cascajal) (Peru) (note 11c)					
Mining property	100	374,165	-	-	374,165
Gran Chimu I & II (Cascajal) (Peru)					
Mining property	100	2,974	-	-	2,974
Almirante Miguel Grau (Peru) (note 11f)					
Mining property	100	1,398,075	-	-	1,398,075
Exploration costs		35,971	36,549	-	72,520
		<u>1,434,046</u>	<u>36,549</u>	<u>-</u>	<u>1,470,595</u>
Angolos (Bolsa Del Diablo) (Peru) (note 11d) and 11h)					
Mining property	100	976,184	1,124,012	(149,970)	1,950,226
Exploration costs		1,416,969	645,841	-	2,062,810
		<u>2,393,153</u>	<u>1,769,853</u>	<u>(149,970)</u>	<u>4,013,036</u>
Ecuador (Escondida) (notes 11g and 18)					
Mining property	100	541,225	3,243,225	(1,384,822)	2,399,628
Exploration costs		269,180	416,585	-	685,765
		<u>810,405</u>	<u>3,659,810</u>	<u>(1,384,822)</u>	<u>3,085,393</u>
		<u>5,244,586</u>	<u>5,466,212</u>	<u>(1,693,688)</u>	<u>9,017,110</u>

# Plexmar Resources Inc.

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

December 31, 2006

	Undivided interest %	Balance as at January 1, 2006 \$	Costs incurred \$	Mining properties abandoned \$	Balance as at December 31, 2006 \$
Marilia I, II & III (Peru) (note 11a)					
Mining property	100	145,262	5,336	-	150,598
Exploration costs		8,298	-	-	8,298
		153,560	5,336	-	158,896
Lucma (Cascajal) (Peru) (note 11b)					
Mining property	100	69,946	1,001	-	70,947
Oro Del Norte I, II & III (Cascajal) (Peru) (note 11c)					
Mining property	100	369,334	4,831	-	374,165
Gran Chimu I & II (Cascajal) (Peru)					
Mining property	100	1,661	1,313	-	2,974
Almirante Miguel Grau (Peru) (note 11f)					
Mining property	100	-	1,398,075	-	1,398,075
Exploration costs		-	35,971	-	35,971
		-	1,434,046	-	1,434,046
Angolos (Bolsa Del Diablo) (Peru) (note 11d)					
Mining property	100	449,634	526,550	-	976,184
Exploration costs		546,063	870,906	-	1,416,969
		995,697	1,397,456	-	2,393,153
Ecuador (Escondida) (note 11g)					
Mining property	100	-	541,225	-	541,225
Exploration costs		-	269,180	-	269,180
		-	810,405	-	810,405
		1,590,198	3,654,388	-	5,244,586

# Plexmar Resources Inc.

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Notes to Consolidated Financial Statements

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Detailed analysis of deferred exploration costs and expenses

	2007	2006
	\$	\$
Balance – Beginning of year	5,244,586	1,590,198
Costs incurred during the year		
Cost of claims	4,367,236	2,478,331
Geophysics	-	13,862
Sampling and analyses	41,450	197,549
Geologists and other salaries	819,181	798,828
Community relations	140,399	102,002
Fuel and maintenance of vehicles	29,844	15,999
Maintenance of facilities	6,783	35,914
Equipment rental	60,382	-
Exploration equipment and maps	-	11,903
Depreciation of property, plant and equipment	937	-
Mining properties under option	(1,384,822)	-
Mining properties abandoned or written off	(308,866)	-
	<u>9,017,110</u>	<u>5,244,586</u>
Balance – End of year	9,017,110	5,244,586

## 5 Property, plant and equipment

		2007		2006	
	Depreciation periods (years)	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Leasehold improvement	5	77,359	4,333	-	-
Office furniture	5	47,397	5,148	1,719	1,144
Hardware	3 to 5	17,514	9,152	24,578	18,804
Camp	5	14,105	1,996	4,044	1,804
		156,375	<u>20,629</u>	30,341	<u>21,752</u>
Less: Accumulated depreciation		<u>20,629</u>		<u>21,752</u>	
Net amount		<u>135,746</u>		<u>8,589</u>	

An amount of \$937 related to depreciation of property, plant and equipment was capitalized to mining properties.

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## 6 Property, plant and equipment held for sale

As at December 31, 2007, the company has classified a processor located in Peru in the amount of \$144,000 (\$174,000 in 2006) as property, plant and equipment held for sale. Such classification results from management's decision to sell this fixed asset in its current state and to search actively for a purchaser for the purposes of a probable sale within one year at a reasonable price, which should not be lower than the related carrying value. The company recorded an impairment of \$30,000 in 2007.

## 7 Long-term debt

	2007 \$	2006 \$
Loan bearing interest at 9.4%, payable in monthly payments of \$884, including principal and interest, maturing in July 2010 and secured by the company's intangible assets	24,250	-
Less: Current portion	8,699	-
	<u>15,551</u>	<u>-</u>

The estimated payments over the next three years are \$8,699 in 2008, \$9,551 in 2009 and \$6,000 in 2010.

## 8 Share capital

Authorized

Unlimited number of common shares, without par value

Variation of issued share capital:

	2007		2006	
	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	126,184,109	23,705,702	60,408,715	14,527,654
Private placements *	2,882,145	367,439	26,448,900	2,362,734
Purchase of mining properties	6,000,000	2,200,000	2,000,000	1,340,000
Issuance of shares in settlement of finder's fee	300,000	67,500	-	-
Exercise of warrants	2,397,047	374,727	32,255,996	4,091,127
Exercise of stock options	829,166	188,390	4,320,498	1,139,468
Conversion of debenture	-	-	750,000	244,719
	<hr/>		<hr/>	
Balance – End of year	138,592,467	26,903,758	126,184,109	23,705,702

# **Plexmar Resources Inc.**

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- \* Private placements are presented net of the fair value of the related warrants totalling \$36,061 (\$852,716 in 2006), which has been determined using the Black-Scholes model (note 10).

## **Issuance of shares and warrants upon private placements**

On December 21, 2007, the company issued 2,882,145 common shares of its share capital at a price of \$0.14 per share and 1,441,073 warrants entitling to subscribe for one common share of the company at a price of \$0.20 over a 12-month period following the closing of the placement.

On February 9, 2006, the company issued 20,833,329 common shares of its share capital at a price of \$0.06 per share and 20,833,329 warrants entitling to subscribe for one common share of the company at a price of \$0.12 over a 18-month period following the closing of the placement.

On October 13, 2006, the company issued 5,615,571 common shares of its share capital at a price of \$0.35 per share and 5,615,571 warrants entitling to subscribe for one common share of the company at a price of \$0.41 over a 24-month period following the closing of the placement.

## **9 Stock option plan**

In accordance with a stock option plan established by the company, some managers, directors, key employees and consultants may be granted stock options for shares of the company. A maximum of 18,370,408 stock options may be granted (maximum of 5% of the number of common shares outstanding in favour of one person for the managers, directors and key employees and 2% for the consultants).

Options granted expire after a maximum of five years following the date of grant. Options granted to consultants, managers, directors and key employees vest generally over an eighteen-month period at the rate of 1/6 for every three-month period or at the board of directors' discretion. These costs are amortized on a straight-line basis over their vesting period.

On September 11, 2007, the company granted 2,300,000 stock options at an exercise price of \$0.30 per share. These stock options will generate aggregate stock-based compensation costs of \$378,832.

On August 30, 2007, the company granted 3,850,000 stock options at an exercise price of \$0.30 per share. These stock options will generate aggregate stock-based compensation costs of \$855,481.

On May 8, 2007, the company granted 150,000 stock options at an exercise price of \$0.42 per share. These stock options will generate aggregate stock-based compensation costs of \$49,410.

On November 15, 2006, the company granted 350,000 stock options at an exercise price of \$0.73 per share. These stock options will generate aggregate stock-based compensation costs of \$146,278.

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On October 18, 2006, the company granted 2,000,000 stock options at an exercise price of \$0.56 per share. These stock options will generate aggregate stock-based compensation costs of \$511,217.

On July 14, 2006, the company granted 2,000,000 stock options at an exercise price of \$0.51 per share. These stock options will generate aggregate stock-based compensation costs of \$696,280.

On January 13, 2006, the company granted 3,750,000 stock options at an exercise price of \$0.105 per share. These stock options will generate aggregate stock-based compensation costs of \$251,071.

The following tables present the stock option activity since January 1, 2006 and summarize information about stock options outstanding and exercisable as at December 31, 2007 and 2006:

	2007			2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding – Beginning of year	7,275,335	826,150	0.39	4,750,000	572,797	0.21
Granted	6,300,000	-	0.30	8,100,000	-	0.34
Exercised	(829,166)	(66,328)	0.15	(4,320,498)	(430,776)	0.16
Matured or cancelled *	(2,208,335)	(365,572)	0.54	(1,254,167)	(119,180)	0.21
Net stock-based compensation costs	-	1,241,737	-	-	803,309	-
Outstanding – End of year	<u>10,537,834</u>	<u>1,635,987</u>	<u>0.33</u>	<u>7,275,335</u>	<u>826,150</u>	<u>0.39</u>
Exercisable – End of year	<u>4,479,494</u>		<u>0.33</u>	<u>2,067,001</u>		<u>0.24</u>

\* A portion of the matured or cancelled stock options, representing an amount of \$124,964 (\$8,137 in 2006), has been allocated to stock-based compensation costs, and the balance, representing an amount of \$365,572 (\$119,180 in 2006) has been allocated to the contributed surplus.

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		<b>Options outstanding</b>		
<b>Exercise price</b>		<b>Number</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price \$</b>
\$0.11 to \$0.30	Directors and managers	5,021,167	3.80	0.24
\$0.42 to \$0.51	Directors and managers	600,000	3.74	0.49
\$0.11 to \$0.30	Consultants	3,016,667	1.75	0.30
\$0.51 to \$0.73	Consultants	<u>1,900,000</u>	0.60	0.55
		<u>10,537,834</u>		
		<b>Options currently exercisable</b>		
<b>Exercise price</b>		<b>Number</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price \$</b>
\$0.11 to \$0.30	Directors and managers	2,312,832	2.79	0.17
\$0.42 to \$0.51	Directors and managers	425,000	3.74	0.49
\$0.11 to \$0.30	Consultants	216,665	1.94	0.11
\$0.51 to \$0.73	Consultants	<u>1,524,997</u>	0.59	0.54
		<u>4,479,494</u>		

The fair value of stock options granted for the years ended December 31, 2007 and 2006 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2007</b>	<b>2006</b>
Weighted average risk-free interest rate	4.25%	4.06%
Expected volatility	103%	114%
Dividend yield	Nil	Nil
Weighted average expected life	3.64 years	3.9 years
Weighted average fair value of options granted	0.20\$	\$0.198

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## 10 Warrants

The following tables present the warrant activity since January 1, 2006 and summarize information about warrants outstanding and exercisable as at December 31, 2007 and 2006:

	2007			2006		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable						
– Beginning of year	7,905,404	637,477	0.33	25,502,000	1,070,065	0.24
Granted	1,602,073	45,931	0.19	26,591,400	856,803	0.18
Exercised	(2,397,047)	(46,239)	0.14	(32,255,996)	(419,807)	0.11
Matured or cancelled	(50,000)	(587)	0.10	(11,932,000)	(869,584)	0.38
Outstanding and exercisable						
– End of year	7,060,430	636,582	0.36	7,905,404	637,477	0.33

Exercise price	Warrants outstanding	
	Number	Weighted average remaining contractual life (years)
\$0.14	161,000	0.98
\$0.20	1,441,073	0.98
\$0.41	5,458,357	0.78
	<u>1,602,073</u>	

The fair value of warrants granted for the years ended December 31, 2007 and 2006 was estimated using the Black-Scholes warrant pricing model with the following weighted average assumptions:

	2007	2006
Weighted average risk-free interest rate	3.99%	4.00%
Expected volatility	83.4%	101.5%
Dividend yield	Nil	Nil
Weighted average expected life	1 year	1.6 year
Weighted average fair value of warrants granted	0.029\$	\$0.032

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## 11 Agreements

### (a) Marilia property

On February 16, 2004, the company signed an agreement for the acquisition of all mining rights in the Marilia gold property located north of Peru in the Cajamarca area for a total cash consideration of US\$70,000. This amount was paid in two equal instalments of US\$35,000 on March 6, 2004 and February 7, 2005.

Furthermore, on March 30, 2004, the company acquired mining rights in an adjacent piece of land with the view to extending the Marilia property. The company paid the seller a cash consideration of US\$30,000. A 1.5% royalty on the net smelter return will be payable to the seller. This royalty is redeemable at any time for an amount of US\$1,500,000.

On December 31, 2007, the Company has written off this property in whole (\$158,896) because of its low discovery potential.

### (b) Lucma property

Following the acquisition of the rights of ownership, the company committed to paying a 2% royalty on net proceeds from future output sales.

### (c) Oro Del Norte I & II property

On March 29, 2004, the company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte II). This agreement was amended on December 27, 2004. Pursuant to the amended agreement, a 1.5% royalty on the net smelter return will be payable to the seller.

On April 16, 2004, the company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte I), which agreement was modified in October 2004, in December 2004 and on April 18, 2006. Pursuant to the amended agreement, all the rights will be acquired upon receipt of a last payment in the amount of US\$100,000, due on October 30, 2006, an amount of US\$100,000 having already been paid during fiscal 2004. As at December 31, 2005, a balance of purchase price payable has been accounted for in the amount of \$116,300 (US\$100,000). This amount was paid to the seller in 2006. Furthermore, the company committed to paying a royalty of US\$3 per ounce of gold upon establishment of proven reserves.

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(d) Angolos property (Bolsa Del Diablo)

On March 14, 2005, the company signed an agreement whereby it has the option to acquire all the mining rights in the Angolos gold property located north of Peru in the Piura area in consideration of regular cash payments amounting to US\$1,600,000. During fiscal 2007, an amount of US\$450,000 (US\$400,000 in 2006) was paid in relation to this agreement. Other payments are as follows:

	US\$
March 12, 2008	250,000
September 12, 2008	<u>275,000</u>
	<u>525,000</u>

The company can terminate this agreement at any time if a notice is given to the property owner. In the case of a termination, the company shall pay the owner an amount corresponding to the number of days that have elapsed between two instalments dates multiplied by the next payable amount.

A 2% royalty on the net smelter return will be payable to the owner.

(e) Molinetes property

On September 20, 2004, the company signed a letter of intent in order to acquire an option on all mining rights of the Molinetes property in consideration of future cash payments amounting to US\$350,000.

(f) Almirante Miguel Grau property

On August 18, 2006, the company signed an agreement for the acquisition of all mining rights in the Almirante Miguel Grau property in consideration of a cash payment of US\$50,000 and the issuance of 2,000,000 common shares of the company.

(g) Escondida properties (Ecuador)

On November 7, 2006, the company signed an agreement whereby it has the option to acquire all the mining rights in the Escondida properties from Minera DMG S.A. (DMG) in consideration of regular cash payments amounting to US\$2,000,000. During fiscal 2007, an amount of US\$700,000 (US\$450,000 in 2006) was paid in relation to this agreement. Other payments amounting to US\$850,000 were delegated to Escondoro Resources Ltd. (see Signing of an Option and Joint Venture Agreement).

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Furthermore, in 2007, 6,000,000 common shares were issued in relation to this agreement.

## *Signing of an Option and Joint Venture Agreement*

On September 14, 2007, the company and its wholly-owned subsidiary Plexmar Ecuador S.A. ("Plexmar S.A.") entered into an Option and Joint Venture Agreement (the "Option Agreement") with Escondoro Resources Ltd. ("Escondoro"), a corporation managed by the president of the company, and its wholly-owned subsidiary SADCOECUADOR S.A. ("Sadco"). Escondoro has filed a final prospectus and intends to complete its initial public offering ("IPO") in the first half of 2008. Sadco was granted the sole and exclusive option (the "Option") to acquire up to an undivided 60% interest in properties held by Plexmar Ecuador (the "Escondida properties"), which is subject to the performance of the following terms and conditions:

1. the payment by Escondoro to the company of an aggregate amount equal to the expenditures previously incurred by the company on the Escondida properties amounting to \$1,384,822, of which an amount of \$510,453 was already paid as of December 31, 2007;
2. the issuance by Escondoro, on the listing date, of 3,000,000 common shares to the company;
3. the undertaking by Escondoro to bear and pay all payments due by the company or its subsidiary to Minera "DMG" S.A. ("DMG") as regards the acquisition of the mining rights in the Escondida properties as follows:

	US\$
November 7, 2007 (paid)	200,000
February 7, 2008	200,000
May 7, 2008	200,000
November 7, 2008	250,000

4. Sadco will incur work expenditures aggregating US\$3,000,000 with respect to the exploration and development of the Escondida properties in accordance with the following schedule:
  - (i) US\$750,000 on or before one year after the listing date;
  - (ii) US\$1,000,000 on or before two years after the listing date;
  - (iii) US\$1,250,000 on or before three years after the listing date.
5. as long as the company or Plexmar S.A. is a shareholder of Escondoro, undertaking by Escondoro to propose to its shareholders two Directors designated by the company.

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Upon Sadco having acquired a 60% interest in the Escondida properties, a joint venture will automatically be formed with Plexmar S.A. holding a 40% interest. Terms of the joint venture will include:

- Sadco will act as operator of the joint venture and will have the right (but not the obligation) to remain operator for as long as its participating interest is 50% or more; and
- a management committee will be formed for the direction and control of the affairs of the joint venture, with the operator having a preponderant vote on any matter to be determined by this committee;

Because Escondoro's and Sadco's interest in the Escondida properties is by way of an option agreement only,

1. Escondoro and Sadco do not own the Escondida properties; rather Sadco has the right to acquire an interest in the Escondida properties by incurring the expenditures and meeting the other obligations outlined in the Option Agreement;
2. if Sadco fails to incur the work expenditures as provided in the Option Agreement or if Escondoro does not issue the common shares to the company, then the Option Agreement shall terminate.

### *Signing of a Delegation Agreement*

On September 14, 2007, Escondoro and its subsidiary (Sadco) entered into a Delegation Agreement with the company, Plexmar S.A. and DMG whereby, jointly and severally, Escondoro and Sadco undertake to bear and pay all payments due by the company or Plexmar S.A. to DMG as described in (g)3. DMG agreed to such delegation and the grant of the Option pursuant to the Option Agreement, subject to the performance of the following terms and conditions:

- issuance by Escondoro to DMG on the listing date of:
  - (i) 2,200,000 common shares of Escondoro; and
  - (ii) 1,100,000 share purchase warrants of Escondoro.

DMG is entitled to receive a 2.5% net smelter return royalty from the operator if and when the properties are put into production.

- (h) Hans X, XX, XXX, Dorado del Norte and Virgen Del Carmen de Pataz

On July 24, 2007, the company signed two agreements for the acquisition of all mining rights in five properties in Peru, adjacent to its Bolsa del Diablo project. These properties are Hans X, Hans XX, Hans XXX (collectively "Hans"), Dorado Del Norte 1 and Virgen Del Carmen de Pataz (collectively "Dorado").

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The terms of the acquisition of these properties are as follows:

- Cash payments totalling US\$3,600,000. An amount of US\$548,500 was paid in 2007 and the future payments are as follows:

		<b>Hans US\$</b>	<b>Dorado US\$</b>
2008	January	-	174,000
	May	100,000	-
	July	-	249,000
	November	100,000	-
2009	January	-	149,000
	May	100,000	-
	July	-	149,000
	November	250,000	-
2010	January	-	222,500
	May	250,000	-
	July	-	122,500
	November	450,000	-
2011	January	-	220,500
	July	-	515,000

- Furthermore, a payment through the issuance of 2,000,000 common shares of the company for the acquisition of the Dorado properties shall be made subject to approval of the transaction by the TSX Venture Exchange as follows:
  - 500,000 shares upon signing of the contract;
  - 500,000 shares thirty days after the signing of the contract;
  - 500,000 shares six months after the signing of the contract; and
  - 500,000 shares twelve months after the signing of the contract.
- To date, no shares have been issued, and the company may terminate this agreement at any time by sending a notarial letter.
- The company temporarily stopped payments under the Dorado agreement because of *Force Majeure*. Payments will resume once the company has obtained the social license from the community giving the company the right to do exploration work.
- The company decided to abandon the Hans properties, thus resulting in a loss of \$149,970.

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## 12 Related party transactions

The company entered into the following transactions with:

	<b>2007</b>	<b>2006</b>
	\$	\$
Companies controlled by officers and directors		
Management fees	180,826	160,000
Professional fees	110,000	138,810
Rent – Offices	9,900	19,800
Escondoro Resources Ltd., a corporation managed by the president of the company		
Recharge of general and administrative expenses	37,911	-

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.

In addition, the company and its subsidiary entered into an Option Agreement with Escondoro, as described in note 11(g). This transaction has been accounted for at its carrying value.

## 13 Income taxes

The income tax recovery differs from the amount that would have been calculated by applying the Canadian federal and provincial combined statutory tax rate of 32.02% (34.02% in 2006) as follows:

	<b>2007</b>	<b>2006</b>
	\$	\$
Income tax recovery at the Canadian combined statutory tax rate	(942,000)	(703,000)
Increase (decrease) resulting from:		
Share issue expenses not affecting earnings	(9,000)	(66,000)
Non-deductible expenses for income tax purposes	36,000	73,000
Stock-based compensation	398,000	273,000
Difference in statutory and future tax rates	318,000	142,000
Expiry of operating losses carried forward	53,000	34,000
Effect of the consolidation of the Peruvian subsidiary	122,000	93,000
Other	23,000	28,000
Change in valuation allowance	1,000	126,000
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The company is entitled to the following tax benefits:

- As at December 31, 2007, the company has accumulated, for federal and provincial income tax purposes, non-capital losses which can be applied against future years' taxable income and which will expire as follows:

	<b>Federal</b>	<b>Provincial</b>
	\$	\$
2008	260,000	260,000
2009	335,000	335,000
2010	494,000	474,000
2011	765,000	706,000
2015	643,000	587,000
2016	1,146,000	964,000
2027	1,201,000	1,179,000
	<hr/>	<hr/>
	4,844,000	4,505,000

- During the year, the company has accumulated, for Peruvian income tax purposes, a non-capital loss totalling \$751,000 (2,276,000 new soles). This loss can be applied against taxable income according to the following method: the total loss can be applied against taxable income over the four-year period from the first year of taxable income.

Significant components of the company's future income tax assets and liabilities are as follows:

	<b>2007</b>	<b>2006</b>
	\$	\$
Mining properties	756,000	769,000
Property, plant and equipment	9,000	6,000
Tax losses carried forward	1,488,000	1,440,000
Share issue expenses	89,000	127,000
Others	3,000	2,000
Valuation allowance	(2,345,000)	(2,344,000)
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The company recorded a valuation allowance corresponding to 100% of the possible tax benefits resulting from these items.

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## 14 Commitments

### Operating lease

The company's minimum aggregate commitments under a lease for its office spaces, which expires on May 31, 2017, amounted to \$242,864. Minimum rental amounts for the next fiscal years are as follows: \$24,465 from 2008 to 2011, \$25,922 in 2012, \$26,962 from 2013 to 2016 and \$11,234 for 2017.

In order to secure the payment of the rent and compliance with the terms and conditions of the lease agreement for the premises, the company paid \$57,436 to the lessor as a security deposit.

## 15 Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted loss per share calculations:

	2007	2006
Basic weighted average number of shares outstanding	131,117,736	101,339,551
Options	1,653,797	355,398
Warrants	21,423	1,686,404
	<hr/>	<hr/>
Diluted weighted average (potentially dilutive) number of shares outstanding	132,792,956	103,381,353
	<hr/>	<hr/>
Items excluded from the calculation of the potentially dilutive number of shares because the exercise price was greater than the average market price of the common shares		
Options	2,500,000	6,796,168
Warrants	5,458,357	-

For the years ended December 31, 2007 and 2006, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding.

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## 16 Financial instruments

### Fair value

The fair value of cash, amounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their short-term maturity or to current market rates and the fact that certain financial instruments are recognized at fair value.

### Interest rate risk

As at December 31, 2007, the company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Amounts receivable	Non-interest bearing
Deposit on the purchase of mining properties	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Amount receivable for Escondoro Resources Ltd.	Fixed rate
Loan to an officer	Variable interest rate
Long-term debt	Fixed rate

### Foreign exchange risk

The company carries out business in Peru and Ecuador. Consequently, it is exposed to risks related to exchange rate fluctuations. The company does not use any derivative instruments to hedge these risks.

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## 17 Consolidated segment information by geographic region

The company is organized under three geographic regions, which are Canada, Peru and Ecuador. The accounting policies used for these reportable segments are consistent with those described in the summary of significant accounting policies. The principal financial information for each of these segments is detailed as follows:

For the year ended December 31, 2007

	<b>Ecuador</b>	<b>Peru</b>	<b>Canada</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest income	-	-	2,555	2,555
Other revenues	-	584	255	839
Professional and maintenance fees	-	-	(519,276)	(519,276)
Management fees	-	-	(180,826)	(180,826)
Stock-based compensation costs	-	-	(1,244,282)	(1,244,282)
General and administrative	-	(159,726)	(282,162)	(441,888)
Travelling	-	-	(136,388)	(136,388)
Depreciation of property, plant and equipment	-	(1,244)	(11,146)	(12,390)
Amortization of intangible assets	-	-	(4,043)	(4,043)
Cost of mining properties abandoned or written off	-	(308,866)	-	(308,866)
Impairment of property, plant and equipment held for sale	-	(30,000)	-	(30,000)
Foreign exchange loss	-	(61,263)	(6,186)	(67,449)
Loss for the year	-	(560,515)	(2,381,499)	(2,942,014)
Segment assets	3,391,394	6,432,597	1,294,191	11,118,182
Additions to mining properties	3,659,810	1,806,402	-	5,466,212
Mining properties under option	(1,384,822)	-	-	(1,384,822)

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For the year ended December 31, 2006

	Ecuador \$	Peru \$	Canada \$	Total \$
Interest income	-	1,371	103	1,474
Other revenues	-	1,337	-	1,337
Professional and maintenance fees	-	-	(574,110)	(574,110)
Management fees	-	-	(160,000)	(160,000)
Stock-based compensation costs	-	-	(937,147)	(937,147)
General and administrative expenses	-	(96,983)	(160,542)	(257,525)
Travelling	-	-	(65,704)	(65,704)
Depreciation of property, plant and equipment	-	(1,004)	(2,360)	(3,364)
Writeoff of property, plant and equipment	-	(4,299)	-	(4,299)
Tax credit adjustment on mining properties abandoned	-	-	(6,559)	(6,559)
Accretion on convertible debenture	-	-	(17,715)	(17,715)
Foreign exchange gain (loss)	-	(42,979)	730	(42,249)
Loss for the year	-	(142,557)	(1,923,304)	(2,065,861)
Segment assets	821,958	5,087,187	3,730,055	9,639,200
Additions to mining properties	810,405	2,843,983	-	3,654,388

## 18 Subsequent events and measurement uncertainty

### *Potential changes to mining laws in Ecuador*

On April 18, 2008, the Ecuadorian government through its Constitutional Assembly approved a Mining Mandate (the "Mandate"), which has created uncertainty over the status of tenure to mining concessions in Ecuador. The company is evaluating the impact of the Mandate as amendments are still possible.

Some of the major features of the Mandate that may have an impact on the company are as follows:

- The Mandate limits mining companies to holding a maximum of three concessions. The company will seek to protect all investments made to date at its 24 concessions.
- The Mandate invokes an immediate 180-day suspension of activities on virtually all mining concessions in Ecuador while a new mining law is drafted and adopted. The company is awaiting formal notification from the Ministry of Mines and Petroleum of the effects of the Mandate on the company's operations, as defined in the final provisions of the Mandate.

# **Plexmar Resources Inc.**

(an exploration company)

Notes to Consolidated Financial Statements

**December 31, 2007 and 2006**

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## *Potential impact on the value of the mining properties in Ecuador*

As at December 31, 2007, the carrying value of mining properties held in Ecuador is \$3,085,393. The company's management believes it has complied with the necessary requirements to ensure that it has maintained title in good standing for all of its mining properties. If the Mandate is applied as it is now, the company could experience difficulties upholding title to its mining properties. This would represent an impairment event for its mining properties held in Ecuador, and the resulting impairment would be material to the company and could be up to the full amount of \$3,085,393.

## *Potential impact on the amount receivable from Escondoro Resources Ltd.*

As at December 31, 2007, the amount receivable from Escondoro Resources Ltd. ("Escondoro") upon the Option Agreement as described in note 11 (g) is \$874,369. If the Mandate is applied as it is now, the company could experience difficulties recovering this amount as Escondoro could be unable to complete its initial public offering. This would represent an impairment event, and the resulting impairment would be material to the company and could be up to the full amount of \$874,369.

## *Private placements*

On January 18, 2008, the company completed a private placement by issuing 275,000 common shares of its share capital at a price of \$0.14 per share for a total of \$38,500 and 137,500 warrants entitling to subscribe for one common share of the company at a price of \$0.20 over a 12-month period following the closing of the placement.

On April 11, 2008, the company completed a private placement by issuing 2,330,000 common shares of its share capital at a price of \$0.14 per share for a total of \$326,200 and 1,165,000 warrants entitling to subscribe for one common share of the company for a period of 24 months following the closing of the placement, at a price of \$0.20 per share for the first 12 months and \$0.25 per share for the following 12 months.

## **19 Comparative figures**

Certain comparative figures have been reclassified to conform with the current year presentation.