

**PRIZE MINING CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AUGUST 31, 2007**

**AUDITORS' REPORT**

To the Shareholders of  
Prize Mining Corporation

We have audited the consolidated balance sheets of Prize Mining Corporation as at August 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 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.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

November 30, 2007

A Member of *SC INTERNATIONAL*

**PRIZE MINING CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT AUGUST 31**

	2007	2006
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 29,986	\$ 675,416
Receivables	203,624	185,226
Prepaid expenses and deposits	<u>74,250</u>	<u>32,538</u>
	307,860	893,180
<b>Equipment</b> (Note 3)	1,421,540	21,045
<b>Mineral properties and deferred exploration costs</b> (Note 4)	23,054,287	19,068,210
<b>Deferred financing costs</b> (Note 5)	42,862	60,762
<b>Security deposit and reclamation bond</b>	<u>94,925</u>	<u>80,425</u>
	<u>\$ 24,921,474</u>	<u>\$ 20,123,622</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,347,098	\$ 71,674
Accounts payable to related parties (Note 9)	<u>37,245</u>	<u>76,526</u>
	<u>1,384,343</u>	<u>148,200</u>
<b>Convertible debenture</b> (Note 6)	1,058,210	1,019,877
<b>Future income taxes</b> (Note 7)	<u>1,176,246</u>	<u>774,960</u>
	<u>2,234,456</u>	<u>1,794,837</u>
<b>Shareholders' equity</b>		
Capital stock (Note 8)	28,881,592	25,224,744
Equity component of convertible debenture (Note 6)	191,667	191,667
Contributed surplus (Note 8)	1,366,860	835,587
Deficit	<u>(9,137,444)</u>	<u>(8,071,413)</u>
	<u>21,302,675</u>	<u>18,180,585</u>
	<u>\$ 24,921,474</u>	<u>\$ 20,123,622</u>

**Nature and continuance of operations** (Note 1)

**Contingency** (Note 11)

**Subsequent events** (Note 14)

**On behalf of the Board:**

"Harry McGucken"

Director

"Brian Farrell"

Director

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

**PRIZE MINING CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED AUGUST 31**

	2007	2006
<b>EXPENSES</b>		
Administrative	\$ 28,973	\$ 75,425
Amortization of deferred financing costs	17,900	17,900
Amortization of equipment	24,537	9,348
Consulting fees	14,940	3,979
Interest and bank charges	93,271	40,109
Management fees	182,000	185,000
Office and miscellaneous	106,753	104,386
Professional fees	216,650	149,959
Rent	23,083	21,897
Shareholder communications	116,243	65,730
Stock-based compensation (Note 8)	401,271	129,242
Transfer agent and regulatory fees	42,489	37,871
Travel and related costs	<u>67,915</u>	<u>70,924</u>
<b>Loss before other items</b>	<u>(1,336,025)</u>	<u>(911,770)</u>
<b>OTHER ITEMS</b>		
Interest income	24,626	19,954
Write-down of receivable	-	(2,305)
Write-down of exploration advances (Note 11)	<u>-</u>	<u>(494,714)</u>
	<u>24,626</u>	<u>(477,065)</u>
<b>Loss before income taxes</b>	(1,311,399)	(1,388,835)
<b>Future income tax recovery (Note 7)</b>	<u>245,368</u>	<u>396,356</u>
<b>Loss for the year</b>	(1,066,031)	(992,479)
<b>Deficit, beginning of year</b>	<u>(8,071,413)</u>	<u>(7,078,934)</u>
<b>Deficit, end of year</b>	<u>\$ (9,137,444)</u>	<u>\$ (8,071,413)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of common shares outstanding</b>	<u>38,075,793</u>	<u>23,762,051</u>

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

**PRIZE MINING CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED AUGUST 31**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,066,031)	\$ (992,479)
Items not affecting cash:		
Amortization	24,537	9,348
Amortization of deferred financing costs	17,900	17,900
Stock-based compensation	401,271	129,242
Future income tax recovery	(245,368)	(396,356)
Write-down of exploration advances	-	494,714
Accretion of liability component of convertible debt	38,333	38,334
Write-down of receivable	-	2,305
Changes in non-cash working capital items:		
Increase in receivables	(18,398)	(127,758)
(Increase) decrease in prepaid expenses and deposits	(41,712)	5,105
Increase (decrease) in accounts payable and accrued liabilities	150,334	(48,275)
Increase (decrease) in accounts payable to related parties	(39,281)	49,586
Net cash used in operating activities	<u>(778,415)</u>	<u>(818,334)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital stock	4,482,586	2,926,700
Capital stock issuance costs	(341,081)	(115,602)
Net cash provided by financing activities	<u>4,141,505</u>	<u>2,811,098</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Resource property payments	(495,000)	(450,000)
Acquisition of equipment	(1,425,032)	(8,272)
Deferred exploration costs	(2,443,853)	(1,823,500)
Recovery of costs	369,865	576,496
Short-term investment	-	155,394
Exploration advances receivable	-	(2,148)
Increase in security deposit and reclamation bond	(14,500)	(3,872)
Net cash used in investing activities	<u>(4,008,520)</u>	<u>(1,555,902)</u>
<b>Increase (decrease) in cash during the year</b>	(645,430)	436,862
<b>Cash, beginning of year</b>	<u>675,416</u>	<u>238,554</u>
<b>Cash, end of year</b>	<u>\$ 29,986</u>	<u>\$ 675,416</u>

**Supplemental disclosure with respect to cash flows (Note 10)**

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

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

---

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Prize Mining Corporation (the "Company") was incorporated under the Business Corporations Act (Alberta) on August 16, 1996 and is in the process of exploring its resource properties in Canada.

The Company is in the process of exploring and developing its Canadian resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

---

---

	2007	2006
Working capital (deficiency)	\$ (1,076,483)	\$ 744,980
Deficit	(9,137,444)	(8,071,413)

---

---

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

**Estimates**

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from those reported.

Significant accounts that require estimates as the basis for determining the stated amounts include mineral properties, stock based compensation and fair value of agent's warrants.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recorded using the declining balance method at the following annual rates:

Computer equipment	30%
Computer software	30%

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Equipment (cont'd...)**

Crushing unit	20%
Furniture and equipment	20%
Geological equipment	20%
Gravity processing plant	20%
Truck and equipment	20%

**Mineral properties and deferred exploration costs**

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the probable and proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The recorded cost of mineral exploration interests is based on cash paid, the assigned value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

**Asset retirement obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. The Company does not have any significant asset retirement obligations.

**Deferred financing costs**

Deferred financing costs consist of direct costs incurred to obtain the convertible debenture financing and are amortized over the life of this instrument.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Flow-through common shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. When flow-through expenditures are renounced, a portion of future income tax assets not recognized in previous years, due to the recording of a valuation allowance will be recognized as a recovery of income taxes in the statement of operations.

**Investment tax credits**

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collections from the Canada Revenue Agency.

**Stock-based compensation**

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the options.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year and does not include outstanding options or warrants. Dilutive loss per share is not presented separately from loss per common share as the conversion of outstanding options and warrants would be anti-dilutive.

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment of long-lived assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**3. EQUIPMENT**

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 31,142	\$ 22,709	\$ 8,433	\$ 31,142	\$ 19,095	\$ 12,047
Computer software	863	863	-	863	432	431
Furniture and equipment	2,491	733	1,758	2,491	294	2,197
Geological equipment	6,370	1,274	5,096	6,370	-	6,370
Crushing unit	180,000	16,373	163,627	-	-	-
Truck and equipment	33,000	2,405	30,595	-	-	-
Gravity processing plant	1,212,031	-	1,212,031	-	-	-
	<u>\$ 1,465,897</u>	<u>\$ 44,357</u>	<u>\$ 1,421,540</u>	<u>\$ 40,866</u>	<u>\$ 19,821</u>	<u>\$ 21,045</u>

The gravity processing plant was purchased close to year end and installation was completed subsequent to year end. Accordingly, no amortization for the year has been recognized.

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

Title to mining properties involves certain inherent risk due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has diligently investigated rights of ownership of all of the mineral licences in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee of title. These mineral licences may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)**

**Nunavut Claims**

The Company holds a 100% interest in certain mineral claims in Nunavut, Canada. The claims are subject to a 2.5% gross overriding royalty. In 1998, the Company granted an option to acquire a 10% interest in the mineral claims to a former related party as consideration to postpone payment of a loan then outstanding and the advance of additional funds. The option is exercisable upon the optionee paying \$300,000 to the Company at the earlier of the claims being put into commercial production or December 31, 2020. If the option is exercised, the 10% interest will be converted into a 3% net smelter returns royalty in favour of the optionee upon the claims being put into commercial production.

The Company obtained call agreements with the holders of the royalties in certain mineral claims to purchase the royalties in consideration for a payment of \$2,000,000, to be paid by December 31, 2008.

During the fiscal year 2006, the Company entered into an Earn-In Agreement with Silvermet Corporation ("Silvermet") on its mineral claims in Nunavut. Silvermet may earn up to 70% interest in the mineral claims by funding and incurring exploration expenditures on the mineral claims of not less than \$10,000,000 by December 7, 2010. Of this amount \$4,000,000 must be expended by June 30, 2008. Within 30 days of Silvermet acquiring the 70% interest in the mineral claims, the Company will have the option, to transfer its remaining 30% interest to Silvermet in consideration for a 10% net profits interest ("NPI"). Silvermet will have the option to acquire 50% of the NPI from the Company for \$5,000,000. Silvermet has paid \$418,948 toward costs incurred on the mineral claims which has been recorded as a recovery.

**Atlin Claims**

During fiscal 2004, the Company obtained an option to acquire a 100% interest in certain mineral claims in the Atlin District of British Columbia. To date, the Company has made option payments totaling \$1,390,000 and the remaining terms of the option agreement are as follows:

- a) \$200,000 by January 15, 2007 (paid)
- b) \$200,000 by June 15, 2007 (paid) and
- c) \$200,000 by January 15, 2008, and each year thereafter to January 15, 2011 until total cash payments of \$2,590,000 have been paid.

The optionor will retain a 1.5% net smelter returns royalty.

During fiscal 2007, the Company received \$300,917 from the government for the British Columbia Mining Exploration tax credit. This amount has been recorded as a recovery.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)**

**Atlin Claims (cont'd...)**

The Company acquired an option to purchase a 100% interest in several additional mineral claims located in the Atlin mining district of British Columbia. To acquire this interest, the Company issued 2,000,000 common shares with a value of \$400,000 and 2,000,000 share purchase warrants. Each warrant will entitle the holder to purchase one common share of the Company at a price of \$0.35 until May 3, 2007 (expired unexercised). To earn its option, the Company is required to make option payments as follows:

- a) \$110,000 by October 31, 2007 (paid subsequent to August 31, 2007).
- b) \$160,000 by October 31, 2008.
- c) \$250,000 by October 31, 2009.

The optionors will retain a 3% net smelter returns royalty. The Company has the option to purchase 2% of the royalty at any time for \$2,000,000.

On October 10, 2006, the Company announced that it entered into an option agreement with Kotcho Lake Logging Ltd. ("Kotcho") pursuant to which it was granted the right to acquire from Kotcho a 100% interest in certain mineral claims located in the Atlin mining district of British Columbia.

To exercise this option, the Company was to pay a total of \$450,000 and issue 1,200,000 common shares to Kotcho on or before December 15, 2006. Of this consideration, \$25,000 and 200,000 common shares valued at \$52,000 were issued on October 18, 2006. The option expired without further consideration being paid.

On April 27, 2007, the Company announced that it entered into a new option agreement with Kotcho pursuant to which it was granted the right to acquire from Kotcho a 100% interest in the claims previously optioned plus additional mineral claims. To exercise this option, the Company is required to pay a total of \$450,000 and issue 1,200,000 common shares to Kotcho. Of this consideration, the Company paid \$50,000 cash and issued 1,200,000 common shares valued at \$240,000. The remaining \$400,000 is due by February 29, 2008.

**Primrose Claims**

Refer to Note 14.

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)**

2007	Nunavut Claims	Atlin Claims	Primrose Claims	Total
Acquisition costs, beginning balance	\$ 2,816,158	\$ 1,860,000	\$ -	\$ 4,676,158
Additions during the year	<u>-</u>	<u>767,000</u>	<u>20,000</u>	<u>787,000</u>
Acquisition costs, ending balance	<u>2,816,158</u>	<u>2,627,000</u>	<u>20,000</u>	<u>5,463,158</u>
Deferred exploration costs, beginning balance	<u>10,487,997</u>	<u>3,904,055</u>	<u>-</u>	<u>14,392,052</u>
Additions during the year				
Camp maintenance	63,543	239,545	-	303,088
Consulting	-	23,175	-	23,175
Demobilization	-	16,900	-	16,900
Due diligence	-	-	4,128	4,128
Equipment rental	-	516,915	-	516,915
Expediting and freight	-	7,764	-	7,764
Field personnel	-	208,874	-	208,874
Geological and geochemical	-	454,360	-	454,360
Geophysics	-	196,956	-	196,956
Insurance	-	1,781	-	1,781
Mobilization	-	20,450	-	20,450
Pit excavation	-	934,895	-	934,895
Sampling	-	61,331	-	61,331
Site access	-	730,302	-	730,302
Storage	-	13,716	-	13,716
Telecommunications	-	4,839	-	4,839
Tenure and licenses	-	12,879	-	12,879
Travel and accommodation	<u>-</u>	<u>56,589</u>	<u>-</u>	<u>56,589</u>
	<u>63,543</u>	<u>3,501,271</u>	<u>4,128</u>	<u>3,568,942</u>
Costs recovered	<u>(68,948)</u>	<u>(300,917)</u>	<u>-</u>	<u>(369,865)</u>
Deferred exploration costs, ending balance	<u>10,482,592</u>	<u>7,104,409</u>	<u>4,128</u>	<u>17,591,129</u>
Total mineral properties and deferred exploration costs	<u>\$ 13,298,750</u>	<u>\$ 9,731,409</u>	<u>\$ 24,128</u>	<u>\$ 23,054,287</u>

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)**

2006	Nunavut Claims	Atlin Claims	Total
Acquisition costs, beginning balance	\$ 2,816,158	\$ 1,010,000	\$ 3,826,158
Additions during the year	<u>-</u>	<u>850,000</u>	<u>850,000</u>
Acquisition costs, ending balance	<u>2,816,158</u>	<u>1,860,000</u>	<u>4,676,158</u>
Deferred exploration costs, beginning balance	<u>10,517,333</u>	<u>2,354,299</u>	<u>12,871,632</u>
Additions during the year			
Administration	-	1,366	1,366
Camp maintenance	-	76,462	76,462
Drilling	-	610,776	610,776
Equipment rental	-	114,885	114,885
Expediting and freight	-	1,775	1,775
Geological and geochemical	287,447	283,807	571,254
Geophysics	-	437,028	437,028
Legal fees	-	(85)	(85)
Telecommunications	-	1,285	1,285
Tenure and licenses	33,217	3,727	36,944
Travel and accommodation	<u>-</u>	<u>18,730</u>	<u>18,730</u>
	<u>320,664</u>	<u>1,549,756</u>	<u>1,870,420</u>
Costs recovered	<u>(350,000)</u>	<u>-</u>	<u>(350,000)</u>
Deferred exploration costs, ending balance	<u>10,487,997</u>	<u>3,904,055</u>	<u>14,392,052</u>
Total mineral properties and deferred exploration costs	<u>\$ 13,304,155</u>	<u>\$ 5,764,055</u>	<u>\$ 19,068,210</u>

**5. DEFERRED FINANCING COSTS**

Deferred financing costs consist of the finders' fees of \$89,500 paid to obtain the convertible debenture financing.

	2007	2006
Finders' fees	\$ 89,500	\$ 89,500
Amortization	<u>(46,638)</u>	<u>(28,738)</u>
	<u>\$ 42,862</u>	<u>\$ 60,762</u>

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**6. CONVERTIBLE DEBENTURE**

The Company issued an unsecured, non-interest bearing convertible debenture in the amount of \$1,150,000. The principal amount of the debenture is due and payable on January 22, 2010. At any time prior to the maturity date, the holder may convert the principal amount, in whole or in part, into units of the Company. Each unit consists of one common share of the Company and one common share purchase warrant. The units are convertible at \$0.66 of principal outstanding until January 22, 2008, at \$0.715 of principal outstanding until January 22, 2009, and \$0.786 of principal outstanding until January 22, 2010. Each warrant will entitle the holder to purchase one common share at an exercise price equal to the conversion price of the convertible debenture. The warrants will expire on the earlier of one year from the date of issue of the warrants or January 22, 2010. On issuance, the relative fair value of \$191,667 attributed to the equity component of the debenture was classified as shareholders' equity on the balance sheet. The debt component will be accreted to its face value over the term of the debenture by recording interest expense.

	2007	2006
	\$ 1,150,000	\$ 1,150,000
Balance to be accreted	<u>(91,790)</u>	<u>(130,123)</u>
	<u>\$ 1,058,210</u>	<u>\$ 1,019,877</u>

**7. FUTURE INCOME TAXES**

- a) A reconciliation of income taxes at statutory rates is as follows:

	2007	2006
Loss before income taxes	<u>\$ (1,311,399)</u>	<u>\$ (1,388,835)</u>
Expected income tax (recovery)	\$ (430,139)	\$ (466,649)
Non-deductible expenses	301,518	426,457
Deductible expenses	(81,403)	(60,468)
(Recognized) benefits of non-capital losses	<u>(35,344)</u>	<u>(295,696)</u>
Total future income tax (recovery)	<u>\$ (245,368)</u>	<u>\$ (396,356)</u>

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**7. FUTURE INCOME TAXES (cont'd...)**

b) Details of future income tax assets and liabilities are as follows:

	2007	2006
Future income tax assets		
Equipment	\$ 12,642	\$ 5,748
Share issue costs	134,262	117,931
Non-capital losses carried forward	1,435,300	1,259,957
Capital losses	<u>-</u>	<u>71,734</u>
Future income tax assets	1,582,204	1,455,370
Future income tax liabilities		
Mineral properties	<u>(2,758,450)</u>	<u>(2,230,330)</u>
Net future income tax liability	<u>\$ (1,176,246)</u>	<u>\$ (774,960)</u>

The Company has non-capital losses of approximately \$5,191,000 which may be applied to reduce taxable income in future years. If not utilized, these losses expire through to 2027. The tax benefits of these non-capital losses and other tax assets have not been recognized in these consolidated financial statements except to the extent that they can be used to offset future income tax liabilities that existed at the fiscal year end.

During the year ended August 31, 2007, the Company issued 7,301,874 common shares on a flow-through basis for gross proceeds of \$1,971,506. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. During the year ended August 31, 2007, the Company renounced exploration expenditures of \$1,971,506 resulting in a charge to capital stock of \$646,655 with a related increase in future income tax liability.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

**8. CAPITAL STOCK**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited number of voting common shares without par value			
Unlimited number of preferred shares, issuable in series			
Common shares issued			
Balance at August 31, 2005	17,765,995	\$ 22,071,575	\$ 670,166
Private placements	8,405,443	2,901,200	-
Share issuance re: property option	2,000,000	400,000	-
Share issuance costs	-	(115,602)	-
Issuance costs for agents' options and brokers' warrants	-	(44,383)	44,383
Future income taxes on exploration expenditures renounced to shareholders	-	(21,750)	-
Warrants exercised	30,000	10,500	-
Options exercised	60,000	23,204	(8,204)
Stock-based compensation	-	-	129,242
Balance at August 31, 2006	28,261,438	25,224,744	835,587
Private placements	17,587,692	4,480,836	-
Share issuance re: property option	1,400,000	292,000	-
Share issuance costs	-	(341,081)	-
Issuance costs for agents' options and brokers' warrants	-	(130,561)	130,561
Future income taxes on exploration expenditures renounced to shareholders	-	(646,655)	-
Options exercised	8,750	2,309	(559)
Stock-based compensation	-	-	401,271
Balance, at August 31, 2007	47,257,880	\$ 28,881,592	\$ 1,366,860

August 31, 2006

*Property Acquisition*

On November 4, 2005, the Company issued 2,000,000 common shares for a value of \$400,000 as part of the Atlin property option agreement.

*Private placement of 300,000 flow-through shares*

On November 28, 2005, the Company issued 300,000 flow-through common shares at a price of \$0.25 per share for gross proceeds of \$75,000.

The Company paid associated share issue costs of \$6,877.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

**8. CAPITAL STOCK (cont'd...)**

*Private placement of 3,285,000 units*

On December 12, 2005, the Company issued 3,285,000 units at a price of \$0.20 per unit for gross proceeds of \$657,000. Each unit consisted of one common share and one half of one half share purchase warrant. Each whole share purchase warrant entitled the holder to purchase an additional common share at a price of \$0.35 on or before December 12, 2006.

The Company paid finders' fees of \$6,790 and issued 33,950 finders' options which entitled the holder to purchase additional common shares at a price of \$0.20 per share on or before December 12, 2006. The fair value of finders' options of \$2,170 was allocated to capital stock and contributed surplus.

*Private placement of 4,820,443 units*

On March 30, 2006, the Company completed the first tranche of a private placement. The private placement was comprised of 1,743,333 units issued at a price of \$0.45 per unit for gross proceeds of \$784,500. Each unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable at \$0.65 per common share until March 30, 2008.

The Company issued 126,167 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.45 per share until March 30, 2008. The fair value of the finders' fees warrants of \$27,442 was allocated to share issue costs and contributed surplus.

On May 4, 2006, the Company completed the second tranche of a private placement. The private placement was comprised of 2,849,110 units issued at a price of \$0.45 per unit for gross proceeds of \$1,282,100. Each unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable at \$0.65 per common share until May 4, 2008.

The Company issued 51,094 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.45 per share until May 4, 2008. The fair value of the finders' fees warrants of \$14,771 was allocated to share issue costs and contributed surplus.

On May 12, 2006, the Company completed the final tranche of the private placement. The private placement was comprised of 228,000 units issued at a price of \$0.45 per unit for gross proceeds of \$102,600. Each unit comprised of one common share and one share purchase warrant. Each warrant is exercisable at \$0.65 per common share until May 12, 2008. The Company incurred \$27,167 in legal fees related to this private placement which have been recorded as share issuance costs.

If, during the warrant term, the common shares trade at or above \$0.85 per share for a period of 20 consecutive trading days, the Company will notify the warrant holder to exercise the warrants at a date no later than 30 calendar days after the notification date.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

**8. CAPITAL STOCK (cont'd...)**

August 31, 2007

*Property acquisition*

On October 18, 2006, the Company issued 200,000 common shares valued at \$52,000 as part of the expired Atlin property option agreement with Kotcho (Note 4).

On April 27, 2007 the Company issued 1,200,000 common shares valued at \$240,000 to Kotcho as part of a new option agreement to acquire a 100% interest in three placer claims and leases located in the Atlin mining district of British Columbia (Note 4).

*Private placement of 2,070,818 units and 7,301,874 flow-through shares*

On December 7, 2006, the Company completed the first tranche of a private placement. The private placement was comprised of 1,229,000 units issued at a price of \$0.22 per unit for gross proceeds of \$270,380. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 7, 2007.

An additional 4,762,374 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$1,285,841.

The Company issued 485,361 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.22 per share until December 7, 2007. The fair value of the finders' fees warrants of \$56,404 was allocated to share issue costs and contributed surplus.

On December 14, 2006, the Company completed the second tranche of the private placement. The private placement was comprised of 560,000 units issued at a price of \$0.22 per unit for gross proceeds of \$123,200. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 14, 2007.

An additional 1,669,000 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$450,630.

The Company issued 159,215 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.22 per share until December 14, 2007. The fair value of the finders' fees warrants of \$14,962 was allocated to share issue costs and contributed surplus.

On December 28, 2006, the Company completed the final tranche of the private placement. The private placement was comprised of 281,818 units issued at a price of \$0.22 per unit for gross proceeds of \$62,000. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 28, 2007.

An additional 870,500 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$235,035.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

**8. CAPITAL STOCK (cont'd...)**

*Private placement of 2,070,818 units and 7,301,874 flow-through shares (cont'd...)*

The Company issued 64,044 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.22 per share until December 28, 2007. The fair value of the finders' fees warrants of \$6,968 was allocated to share issue costs and contributed surplus.

The Company paid \$189,126 cash for finders' fees, commissions and expenses on the three tranches.

*Private placement of 8,215,000 units*

On May 3, 2007, the Company completed the first tranche of a private placement. The private placement was comprised of 6,235,000 units issued at a price of \$0.25 per unit for gross proceeds of \$1,558,750. Each unit is comprised of one common share and one share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until May 3, 2009.

The Company issued 511,550 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.25 per share until May 3, 2009. The fair value of the finders' fees warrants of \$43,401 was allocated to share issue costs and contributed surplus.

The Company paid \$121,924 cash for finders' fees, commissions and expenses on this tranche of the private placement.

On June 14, 2007, the Company completed the second tranche of a private placement. The private placement was comprised of 1,980,000 units issued at a price of \$0.25 per unit for gross proceeds of \$495,000. Each unit is comprised of one common share and one share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until June 14, 2009.

The Company issued 107,800 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.25 per share until June 14, 2009. The fair value of the finders' fees warrants of \$8,826 was allocated to share issue costs and contributed surplus.

The Company paid \$30,031 cash for finders' fees, commissions and expenses on this tranche of the private placement.

*Exercise and expiry of finders' options*

On December 12, 2006, the Company received \$1,750 from the exercise of 8,750 finders' options exercisable at \$0.20 per option. The remaining 25,200 finders' options expired unexercised on December 12, 2006. The Company also adjusted share capital and contributed surplus by \$559 for these exercised options.

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**8. CAPITAL STOCK (cont'd...)**

**Warrants**

Warrant transactions are summarized as follows:

	2007		2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	8,610,204	\$ 0.52	5,004,667	\$ 0.21
Issued	10,578,379	0.34	8,640,204	0.52
Exercised	-	-	(30,000)	0.35
Expired	<u>(3,612,500)</u>	0.35	<u>(5,004,667)</u>	0.21
Balance, end of year	15,576,083	\$ 0.43	8,610,204	\$ 0.52

The following warrants to acquire common shares were outstanding at August 31, 2007:

Number of Shares	Exercise Price	Expiry Date
614,500	\$0.35	December 7, 2007
280,000	0.35	December 14, 2007
140,909	0.35	December 28, 2007
126,167	0.45	March 30, 2008
1,743,333	0.65	March 30, 2008
51,094	0.45	May 4, 2008
2,849,110	0.65	May 4, 2008
228,000	0.65	May 12, 2008
6,235,000	0.35	May 3, 2009
<u>1,980,000</u>	0.35	June 14, 2009
14,248,113		

On December 12, 2006, 1,612,500 warrants exercisable at \$0.35 expired unexercised.

On May 3, 2007, 2,000,000 warrants exercisable at \$0.35 expired unexercised.

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**8. CAPITAL STOCK (cont'd...)**

The following finders' warrants were outstanding at August 31, 2007:

Number of Shares	Exercise Price	Expiry Date
485,361	\$0.22	December 7, 2007
159,215	0.22	December 14, 2007
64,044	0.22	December 28, 2007
511,550	0.25	May 3, 2009
<u>107,800</u>	0.25	June 14, 2009
1,327,970		

	2007	2006
Weighted average fair value of finders' warrants granted during year	\$ 0.10	\$ 0.21

The following weighted average assumptions were used for the Black-Scholes valuation of finders' warrants granted:

	2007	2006
Risk-free interest rate	4.08	4.01
Expected life	1.5 years	2 years
Annualized volatility	79.00%	87.77%
Dividend rate	0.00%	0.00%

**Stock options**

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option shall not be less than the market price of the Company's stock as calculated immediately preceding the day of the grant. The options can be granted for a maximum term of 5 years and are subject to vesting provisions determined by the board of directors.

**PRIZE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2007**

**8. CAPITAL STOCK (cont'd...)**

**Stock options (cont'd...)**

	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable at August 31, 2005	991,000	\$ 0.70
Granted	1,110,000	0.32
Exercised	(60,000)	0.25
Expired/cancelled	<u>(337,500)</u>	0.70
Outstanding at August 31, 2006	1,703,500	0.47
Granted	2,036,500	0.27
Exercised	-	-
Expired/cancelled	<u>(258,500)</u>	0.26
Outstanding at August 31, 2007	<u>3,481,500</u>	<u>0.37</u>
Options exercisable as of August 31, 2007	<u>3,481,500</u>	<u>0.37</u>
	2007	2006
Weighted average fair value of options granted during year	\$ 0.18	\$ 0.16

The following stock options were outstanding at August 31, 2007:

Number of Shares	Exercise Price	Expiry Date
130,000	\$0.70	July 24, 2008
149,000	0.70	August 17, 2008
70,000	0.70	September 24, 2009
70,000	0.70	October 15, 2009
226,000	0.70	January 17, 2010
770,000	0.25	October 24, 2010
30,000	0.25	October 27, 2010
250,000	0.55	June 16, 2011
286,500	0.40	September 1, 2011
<u>1,500,000</u>	0.25	January 2, 2012
<u>3,481,500</u>		

On July 31, 2007, the Company cancelled 250,000 options exercisable at \$0.25 until May 16, 2012.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

---

**8. CAPITAL STOCK (cont'd...)**

**Stock-based compensation**

The total stock-based compensation calculated under the fair value method was \$356,823 (2006 - \$173,690). The company expensed \$401,271 (2006 - \$129,242) leaving an unamortized balance of \$Nil (2006 - \$44,448).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

---

---

	2007	2006
Risk-free interest rate	4.00%	3.87%
Expected life of options	5 years	5 years
Annualized volatility	92.82%	84.73%
Dividend rate	0.00%	0.00%

---

---

**9. RELATED PARTY TRANSACTIONS**

Accounts payable to related parties at August 31, 2007 and 2006, are to companies controlled by directors.

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$182,000 (2006 - \$185,000) in management fees to companies controlled by common directors.
- b) Paid or accrued legal fees of \$50,609 (2006 - \$61,093) to a firm in which a director of the Company is a partner.
- c) Paid or accrued share issue costs of \$21,370 (2006 - \$Nil) to a firm in which a director of the Company is a partner.
- d) Paid or accrued \$219,728 (2006 - \$144,896) in various fees to a company controlled by a director which are allocated to deferred exploration costs.
- e) Paid or accrued \$26,403 (2006 - \$Nil) in administration fees to a company controlled by a director.
- f) Paid or accrued \$33,395 (2006 - \$Nil) in geological consulting fees to a company controlled by a director which are allocated to deferred exploration costs.
- g) Paid or accrued \$43,403 (2006 - \$Nil) in accounting fees to a company controlled by a director.

These transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

---

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

---

---

	2007	2006
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	-	-

---

---

The significant non-cash transactions for the year ended August 31, 2007 were as follows:

- a) On October 18, 2006, the Company issued 200,000 common shares valued at \$52,000 as part of the expired Atlin property option agreement with Kotcho.

On April 27, 2007 the Company issued 1,200,000 common shares valued at \$240,000 to Kotcho as part of a new option agreement to acquire a 100% interest in three placer claims and leases located in the Atlin mining district of British Columbia (Note 4).

- b) During the current fiscal year, the Company issued 1,327,970 finders' fees warrants which entitle the holders to purchase an additional 1,327,970 common shares. The fair value of the finders' fees warrants of \$130,561 was allocated to share issue costs and contributed surplus.
- c) Included in accounts payable is \$1,125,089 which relates to deferred exploration costs.

The significant non-cash transactions for the year ended August 31, 2006 were as follows:

- a) Included in deferred exploration costs is \$19,980 which relates to accounts payable and accrued liabilities and \$26,940 which relates to accounts payable to a related party.
- b) The Company reclassified \$76,553 from prepaid expenses and deposits to security deposit and reclamation bond.
- c) The Company issued 2,000,000 common shares for value of \$400,000 as part of the Atlin property option agreement.
- d) In connection with private placements, the Company recorded the fair value of finders' options of \$2,170 and the fair value of finders' warrants of \$42,213. These amounts are reflected in capital stock and contributed surplus.
- e) The Company recorded \$8,204 for stock options exercised during the year in capital stock and contributed surplus.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

---

**11. CONTINGENCY**

*Exploration advances*

---

---

	2007	2006
Canamera Geoscience Corp.	\$ 387,566	\$ 387,566
Titan Drilling Ltd.	<u>107,148</u>	<u>107,148</u>
	494,714	494,714
Allowance for doubtful recovery	<u>(494,714)</u>	<u>(494,714)</u>
	<u>\$ -</u>	<u>\$ -</u>

---

---

During fiscal 2005, these companies failed to account for exploration costs associated with the above advances and they did not return the advanced amounts as requested by the Company. The Company is continuing in its legal action for full repayment of its advances. However, during the fiscal year ended August 31, 2006, management provided for a 100% allowance for recovery of the advances.

There is a counterclaim for an alleged breach of a multi-year sublease agreement. The management of the Company is of the opinion that the counterclaim is without merit and is defending the claim.

**12. SEGMENT INFORMATION**

The Company currently conducts substantially all of its operations in Canada in one business segment being the exploration and development of resource properties.

**13. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, security deposit and reclamation bond, accounts payable and accrued liabilities, accounts payable to related parties and convertible debenture. In management's opinion, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

**14. SUBSEQUENT EVENTS**

The following events occurred subsequent to August 31, 2007:

*Primrose and Red Ridge Claims*

Pursuant to option agreements between the optionors and the Company dated October 12, 2007, the Company issued 250,000 common shares to the optionors to acquire the right to a 100% interest in the Primrose Moly and Red Ridge projects located in the mining district of Atlin, British Columbia.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

**14. SUBSEQUENT EVENTS** (cont'd...)

*Primrose and Red Ridge Claims* (cont'd...)

Further terms of the option agreements are:

- a) payment of \$100,000, issuing 200,000 common shares of the Company and mining expenditures of \$60,000 by December 31, 2008;
- b) payment of \$200,000, issuing 300,000 common shares of the Company and mining expenditures of \$200,000 by December 31, 2009;
- c) payment of \$400,000, issuing 500,000 common shares of the Company and mining expenditures of \$500,000 by December 31, 2010.

The optionors retain a 3% Net Smelter Return Royalty over the properties.

*Private placement of 9,390,965 flow-through shares*

On September 11, 2007, the Company completed the first tranche of a private placement. The private placement was comprised of 2,593,000 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$700,110.

The Company issued 181,510 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until September 11, 2009.

The Company also paid \$49,008 cash for finder's fees on this tranche of the private placement.

On September 21, 2007, the Company completed the second tranche of a private placement. The private placement was comprised of 3,682,003 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$994,141.

The Company issued 257,740 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until September 21, 2009.

The Company also paid \$69,590 cash for finder's fees on this tranche of the private placement.

On October 9, 2007, the Company completed the third tranche of a private placement. The private placement was comprised of 2,004,852 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$541,310.

The Company issued 132,080 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until October 9, 2009.

The Company also paid \$35,662 cash for finder's fees on this tranche of the private placement.

On October 18, 2007, the Company completed the fourth and final tranche of a private placement. The private placement was comprised of 1,111,110 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$300,000.

**PRIZE MINING CORPORATION**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2007

---

**14. SUBSEQUENT EVENTS** (cont'd...)

*Private placement of 9,390,965 flow-through shares* (cont'd...)

The Company issued 77,777 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until October 18, 2009.

The Company also paid \$21,000 cash for finder's fees on this tranche of the private placement.

**PRIZE MINING CORPORATION**  
**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**YEAR ENDED AUGUST 31, 2007**

The following discussion and analysis, prepared as of December 21, 2007, should be read together with the audited financial statements for the year ended August 31, 2007 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the years ended August 31, 2006 and 2005, and the Management Discussion and Analysis for those years.

Additional information related to the Company is available for view on the Company's website at [www.prizemining.com](http://www.prizemining.com) and SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

### **Description of Business**

The Company was incorporated under the Business Corporations Act (Alberta) on August 16, 1996 and is in the process of exploring and developing its resource properties in Canada.

During the fiscal year 2005, the Company changed its name from Muscox Minerals Corp. to Prize Mining Corporation and consolidated its outstanding common shares on the basis of five old shares for one new share. All references to number of common shares and per common share amounts were retroactively restated to reflect consolidation, unless otherwise noted.

The Company is in the process of exploring and developing its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

#### ***Atlin Claims***

During the fiscal year 2006, the Company focused its attention on the development of the Atlin Gold Project in Northwestern BC. The Atlin Project has been extensively drilled by the Company since late 2003 and a resource model has been built. The Company is testing this model through a 10,000 tonne bulk sample project on the Yellowjacket zone of the Atlin Property. The bulk sample consists of 4 phases: diversion of Pine Creek to move the water away from the area of the bulk sample (completed), the stripping of the placer material overlying the target zone (completed), the bulk sample itself by means of an open pit extraction (completed) and the processing of the bulk sample for testing of the resource model and recovery of gold for revenue. All engineering and permitting for the project was completed in the fiscal year 2006 as well as Phase 1 and seventy percent of phase 2. The remainder of the project will be completed in 2007.

During the year ended August 31, 2007, the Company purchased a Knelson gravity processing plant for \$1,212,031. The 3-cycle processing plant will be used for the bulk sampling (trial mining) program to be conducted on the Yellowjacket zone. A Cedarapids two trailer jaw/rolls 50 tonne per hour crushing unit was also purchased for \$180,000. Management successfully negotiated a lease on a 7' X 8' Allis Chalmers Ball Mill and an 800 kw generator. All of this equipment is being mobilized to the site for the anticipated crushing and processing on the bulk sampling program.

On April 27, 2007, the Company entered into an option agreement with Kotcho Lake Logging Ltd. (“Kotcho”) to which it was granted the right to acquire from Kotcho a 100% interest in three placer claims and leases located over or adjacent to the Company’s existing hard rock claims on its Atlin gold property.

To exercise this option, the Company is required to pay a total of \$450,000 and issue 1,200,000 common shares to Kotcho. Of this consideration, the Company paid \$50,000 cash and issued 1,200,000 common shares valued at \$240,000. The remaining \$400,000 is due by December 15, 2007.

### ***Nunavut Claims***

The Company holds a 100% interest in certain mineral claims in Nunavut, Canada. In 1998, the Company granted an option to acquire a 10% interest in the claims to a former related party. During the 2006 fiscal year, the Company entered into an Earn-In Agreement with Silvermet Corporation (“Silvermet”). Silvermet may earn up to 70% interest in the mineral claims by funding and incurring exploration expenditures on the mineral claims of not less than \$10,000,000 by December 7, 2010. Of this amount \$4,000,000 must be expended by June 30, 2008. Within 30 days of Silvermet acquiring the 70% interest in the mineral claims, the Company will have the option, to transfer its remaining 30% interest to Silvermet in consideration for a 10% net profits interest (“NPI”). Silvermet will have the option to acquire 50% of the NPI from the Company for \$5,000,000. Silvermet also paid \$418,948 toward costs incurred on the mineral claims.

### **Performance Summary**

The following is a summary of significant events and transactions that occurred during the year ended August 31, 2007:

1. On September 1, 2006, the Company granted 286,500 stock options at \$0.40 per option to directors and officers which will expire on September 1, 2011.
2. On September 11, 2006, the Company announced that it began metallurgical and mineralogical test work on drill core samples from the Yellowjacket zone of the Atlin gold property.
3. On September 18, 2006, the Company announced that it commenced with a two phase exploration program on its LD claims (Atlin).
4. On September 28, 2006, the Company commenced the proposed bulk sampling program on its Atlin gold property.
5. On October 10, 2006, the Company announced that it entered into an option agreement with Kotcho Lake Logging Ltd. (“Kotcho”) pursuant to which it was granted the right to acquire from Kotcho a 100% interest in the placer claims and leases located over or adjacent to the Company’s existing hard rock claims on its Atlin gold property.

To exercise this option, the Company was to pay a total of \$450,000 and issue 1,200,000 common shares to Kotcho on or before December 15, 2006 (expired unexercised). Of this consideration, \$25,000 and 200,000 common shares valued at \$52,000 were issued on October 18, 2006. All of the shares issued under this agreement were subject to a 4 month hold period.

6. On November 14, 2006, the Company announced that it completed Stage 1 of the 10,000 tonne bulk sampling program on the Atlin gold property.

7. On December 7, 2006, the Company completed the first tranche of a private placement. The private placement was comprised of 1,229,000 units issued at a price of \$0.22 per unit for gross proceeds of \$270,380. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 7, 2007.

An additional 4,762,374 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$1,285,841.

The Company issued 485,361 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.22 per share until December 7, 2007

On December 14, 2006, the Company completed the second tranche of the private placement. The private placement was comprised of 560,000 units issued at a price of \$0.22 per unit for gross proceeds of \$123,200. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 14, 2007

An additional 1,669,000 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$450,630.

The Company issued 159,215 finders' fees warrants which entitles the holders to purchase additional common shares at \$0.22 per share until December 14, 2007

On December 28, 2006, the Company completed the final tranche of the private placement. The private placement was comprised of 281,818 units issued at a price of \$0.22 per unit for gross proceeds of \$62,000. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 28, 2007.

An additional 870,500 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$235,035.

The Company issued 64,044 finders' fees warrants which entitles the holders to purchase additional common shares at \$0.22 per share until December 28, 2007.

The Company paid in cash \$189,126 for finders' fees, commissions and expenses on the three tranches.

8. On December 11, 2006, the Company announced the results from Phase I of a two phase exploration program on its LD property. Two strong gold soil anomalies were identified in this program.
9. On December 12, 2006, the Company received \$1,750 from the exercise of 8,750 finders' options exercisable at \$0.20 per option. The remaining 25,200 finders' options expired unexercised on December 12, 2006.
10. On December 12, 2006, 1,612,500 warrants exercisable at \$0.35 per share expired unexercised.
11. On December 29, 2006, the Company received \$300,917 from the government for recovery of exploration costs incurred on properties in British Columbia.
12. On January 2, 2007, the Company granted 1,500,000 stock options at \$0.25 per option to directors, officers and a consultant which will expire on January 2, 2012.
13. On January 15, 2007, the Company paid \$200,000 for the Atlin property option.
14. On January 16, 2007, the Company announced that Howlett Research Corp. published a research report on the Company. The Company intends to use this report for communicating its progress and corporate strategy.

15. On January 31, 2007, the Company announced that it received the final results of a metallurgical study in respect of drill core taken from holes drilled on the Yellowjacket zone of the Atlin property.
16. On March 15, 2007, the Company entered into an agreement to purchase a Knelson gravity processing plant for \$1,100,000.
17. On March 19, 2007, the Company paid \$180,000 to purchase a Cedarapids two trailer jaw/rolls 50 tonne per hour crushing unit.
18. On March 30, 2007, the Company recovered \$68,948 from Silvermet Corporation for filing and lease fees related to the Nunavut claims.
19. On April 27, 2007, the Company issued 1,200,000 common shares valued at \$240,000 to Kotcho Lake Logging Ltd. as part of a new option agreement to acquire a 100% interest in three placer claims and leases located over or adjacent to the Company's existing hard rock claims on it Atlin gold property.
20. On May 3, 2007, 2,000,000 warrants exercisable at \$0.35 expired unexercised.

21. On May 3, 2007, the Company completed the first tranche of a private placement. The private placement was comprised of 6,235,000 units issued at a price of \$0.25 per unit for gross proceeds of \$1,558,750. Each unit is comprised of one common share and one share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until May 3, 2009.

The Company issued 511,550 finders' fees warrants valued at \$43,401 which entitles the holders to purchase additional common shares at \$0.25 per share until May 3, 2009.

The Company paid \$121,924 in cash for finders' fees, commissions and expenses on this tranche of the private placement.

22. On May 16, 2007, the Company announced the appointment of Robert D. Ashauer as its Chief Financial Officer.
23. On May 16, 2007, the Company granted 250,000 stock options at \$0.25 per option to an officer which will expire on May 16, 2012. These stock options were cancelled on July 31, 2007.
24. On May 23, 2007, the Company announced that it completed overburden excavation in preparation for extraction of the 10,000 tonne bedrock sample from its Atlin gold property. Detailed mapping and channel sampling of the exposed bedrock is currently underway in order to determine the best orientation for extraction of the bulk sample blocks.
25. On June 14, 2007, the Company completed the second tranche of a private placement. The private placement was comprised of 1,980,000 units issued at a price of \$0.25 per unit for gross proceeds of \$495,000. Each unit is comprised of one common share and one share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until June 14, 2009.

The Company issued 107,800 finders' fees warrants valued at \$8,826 which entitles the holders to purchase additional common shares at \$0.25 per share until June 14, 2009.

The Company paid \$30,031 in cash for finders' fees, commissions and expenses on this tranche of the private placement.

26. On June 15, 2007, the Company paid \$150,000 to Knelson Gravity Solutions for the agreed 3<sup>rd</sup> installment of the purchase agreement.

27. On June 15, 2007, the Company paid \$200,000 pursuant to the Atlin property option agreement.
28. On July 9, 2007, the Company announced the completion of a detailed mapping and channel sampling program on the Atlin gold property.
29. On July 15, 2007, the Company paid \$655,000 to Knelson Gravity Solutions for the agreed 4<sup>th</sup> installment of the purchase agreement.
30. On July 23, 2007, the Company announced that a bedrock pit has been located along the mineralized trace of the Pine Creek Fault in the Yellowjacket zone of the Atlin gold property. The entire 10,000 tonne bulk sample has now been excavated from the bedrock pit. The 250 tonne blocks have been extracted from three lifts of 2.5 metres each (the deepest bedrock extraction being 7.5 metres below the bedrock surface).

The Company also announced the assay results from select two metre channel samples collected from the central core area of the bedrock pit.

The following events occurred subsequent to August 31, 2007:

1. On September 10, 2007, the Company announced that it shipped its first batch of gold concentrate from the Atlin Gold Project. The Gold is being refined by Technic Inc. of Vancouver, British Columbia. The Company's first shipment returned a settlement weight of 206.90 ounces of gold, recovered from a very clean batch of gold concentrate of total weight 218.04 ounces. Fineness testing of the gold bar is currently underway.
2. On September 12, 2007, the Company announced that it signed a binding Letter of Intent ("LOI") that sets out basic terms and conditions by which the Company may enter into an option agreement or some other mutually acceptable arrangement with the optionor to acquire a 100% interest in the optionor's Primrose molybdenum project.

The Company's management is satisfied with the results of its due diligence review of the Primrose project and will now proceed with the negotiation with the optionor of definitive documentation in respect of the transaction. The Company and the optionor agreed in the LOI that the transaction documents would provide the Company with the right to purchase a 100% interest in the Primrose project by paying \$350,000 (\$20,000 paid) and issuing 550,000 common shares (250,000 issued in October 2007) to the optionor in tranches over the course of three years following the date of the transaction documents. In addition, the Company and the optionor agreed that the transaction documents would provide the Company with the obligation to incur expenditures on the Primrose project totaling \$380,000 over the course of the three years following the date of the transaction documents in order to maintain its right to purchase the Primrose project. The LOI also provides that the transaction documents will provide that upon the completion of the purchase of the Primrose project, the optionor will be granted a royalty in an amount equal to 3% of net smelter returns in all minerals produced from the Primrose project and that the Company will have the option to purchase one-half of such royalty for \$2,000,000.

The completion of this transaction is subject to TSX Venture Exchange approval.

3. On September 11, 2007, the Company completed the first tranche of a private placement. The private placement was comprised of 2,593,000 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$700,110.

The Company issued 181,510 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until September 11, 2009.

The Company also paid \$49,008 cash for finder's fees on this tranche of the private placement.

4. On September 20, 2007, Silvermet announced that it has now completed 23 drill holes totaling 3,746 metres to date on the Nunavut claims. Silvermet announced its plan to complete at least 5,000 metres during the 2007 season. Silvermet also announced that the drill rig will be stored on-site over the winter and the balance of the planned 10,000 metre program will commence prior to spring break-up in 2008.

5. On September 21, 2007, the Company completed the second tranche of a private placement. The private placement was comprised of 3,682,003 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$994,141.

The Company issued 257,740 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until September 21, 2009.

The Company also paid \$69,590 cash for finder's fees on this tranche of the private placement.

6. On October 9, 2007, the Company completed the third tranche of a private placement. The private placement was comprised of 2,004,852 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$541,310.

The Company issued 132,080 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until October 9, 2009.

The Company also paid \$35,662 cash for finder's fees on this tranche of the private placement.

7. On October 18, 2007, the Company announced that the TSX Venture Exchange has accepted filing documentation pursuant to an option agreement between the Company and the optionor of the Red Ridge property.

The Company has the right to acquire a 100% interest in the Red Ridge property. The property consists of 30 mineral claims in Whitehorse, Yukon. The Company is obliged to incur expenditures totalling \$380,000 over the course of the period ending December 31, 2010, of which \$30,000 must be incurred by December 31, 2008. As consideration for this option, the Company is obligated to pay \$350,000 cash and issue 700,000 common shares at a deemed price of \$0.25 per share. The optionor will retain a net smelter return ("NSR") equal to 3%. The Company has the right to purchase 50% of the NSR for \$2,000,000.

8. On October 18, 2007, the Company completed the fourth and final tranche of a private placement. The private placement was comprised of 1,111,110 flow-through shares issued at a price of \$0.27 per share for gross proceeds of \$300,000.

The Company issued 77,777 finders' fees warrants which entitle the holders to purchase additional common shares at \$0.27 per share until October 18, 2009.

The Company also paid \$21,000 cash for finder's fees on this tranche of the private placement.

9. On November 11, 2007, the Company announced that it is reviewing the 10,000 tonne bulk sampling program. During the initial testing and commissioning of the Knelson gravity processing plant it became apparent that the jaw and roller crusher was not working optimally with the soft bedrock material, causing blockage in the crushing plant. In order to control this problem, a washing/screening plant was implemented prior to material entering the crushing unit. This then enabled the material to be processed, however at a much slower rate than the original plant design intended. Due to this slowdown in production, the entire 10,000 tonne bulk sample, for both cost and time efficiencies, will not be completed until remodeling of the processing plant is done.

The Company is pleased to have SGS Mineral Services Ltd. contracted to do extensive testing using both a scrubbing/washing circuit and an autogenous milling circuit. The results of these tests are expected before December 31, 2007, and the remodeling of the processing plant is expected to be completed in early 2008 to allow the remainder of the bulk sample blocks to then be processed efficiently.

10. On November 19, 2007, the Company provided a summary of its review of the historic data from prior exploration programs carried out on the Red Ridge property.

11. On November 29, 2007, the Company announced that it received assay results for rock grab and chip samples collected on the Red Ridge property. Widespread precious and base metal mineralization occurs throughout the claims, which are centred on a prominent gossanous ridge. Silver assay values up to 8,662 grams per tonne (278.5 ounces per ton) and copper assay values up to 2.144% have been obtained from chip samples collected from the East zone.

As a result of the success of the initial sampling program, an aggressive exploration program is recommended for the Red Ridge property in early 2008.

12. On December 6, 2007, the Company will, subject to regulatory approval, extend the term of the total of 1,035,409 warrants issued pursuant to its private placement offering of units which closed in three tranches on December 7, 2006, December 14, 2006 and December 28, 2006 respectively. The warrants were set to expire one year from the date of issuance. The term of each warrant will be extended to June 30, 2008.

## Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the Financial Statements.

	For The Year Ended August 31, 2007	For The Year Ended August 31, 2006	For The Year Ended August 31, 2005
Total interest income	\$ 24,626	\$ 19,954	\$ 16,712
Net income (loss) before extraordinary items	(1,066,031)	(992,479)	(3,727,765)
Net income (loss)	(1,066,031)	(992,479)	(3,727,765)
Basic and diluted earnings (loss) per share	(0.03)	(0.04)	(0.22)
Total assets	24,921,474	20,123,622	18,085,552
Total long-term liabilities	2,234,456	1,794,837	2,131,109
Cash dividends	-	-	-

On October 10, 2006, the Company announced that it entered into an option agreement with Kotcho Lake Logging Ltd. ("Kotcho") pursuant to which it was granted the right to acquire from Kotcho a 100% interest in the placer claims and leases located over or adjacent to the Company's existing hard rock claims on its Atlin gold property.

To exercise this option, the Company was to pay a total of \$450,000 and issue 1,200,000 common shares to Kotcho on or before December 15, 2006 (expired unexercised). Of this consideration, \$25,000 and 200,000 common shares valued at \$52,000 were issued on October 18, 2006. All of the shares issued under this agreement were subject to a 4 month hold period.

On April 27, 2007, the Company announced that it entered into a new option agreement with Kotcho Lake Logging Ltd. ("Kotcho") pursuant to which it was granted the right to acquire from Kotcho a 100% interest in three placer claims and leases located over or adjacent to the Company's existing hard rock claims on its Atlin gold property.

To exercise this option, the Company is required to pay a total of \$450,000 and issue 1,200,000 common shares to Kotcho. Of this consideration, the Company paid \$50,000 cash and issued 1,200,000 common shares valued at \$240,000. The remaining \$400,000 is due by February 29, 2008.

The increase in total assets during the year ended August 31, 2007, is attributed to exploration activities on the Atlin property which have been capitalized and the issuance of common shares for gross proceeds of \$4,482,586. On March 15, 2007, the Company entered into an agreement to purchase a Knelson gravity processing plant for \$1,100,000. An additional \$112,032 was incurred for installation services and parts on the gravity processing plant. During the current year the Company paid \$180,000 to purchase a Cedarapids two trailer jaw/rolls 50 tonne per hour crushing unit. The increase in total assets is also attributed to the \$33,000 acquisition of truck and trailers.

The Company received \$300,917 from the government for recovery of exploration costs incurred on properties in British Columbia. On March 30, 2007, the Company recovered \$68,948 from Silvermet Corporation for filing and lease fees related to the Nunavut claims.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

## **Results of Operations**

The Company had a net loss of \$1,066,031 (2006 - \$992,479) during the year ended August 31, 2007. Some of the significant expenses are as follows:

- Administrative expenses of \$28,973 (2006 - \$75,425) are lower than the comparative year as a result of management sharing these costs with other unrelated companies.
- Amortization on equipment of \$24,537 (2006 - \$9,348) is higher than the comparative year as a result of the acquisition of a new crushing unit, a truck and trailers.
- Consulting fees of \$14,940 (2006 - \$3,979) is higher than the comparative year as a result of Company hiring a consulting firm to prepare a research report and the fees paid to a company controlled by a former Chief Financial Officer.
- Interest and bank charges of \$93,271 (2006 - \$40,109) are significantly higher than the comparative year. This increase is primarily attributed to the Company incurring interest and penalties for not spending the required amount on exploration costs in the time allotted for flow-through renunciations.
- Management fees \$182,000 (2006 - \$185,000) are similar to the previous fiscal year.
- Office and miscellaneous expense of \$106,753 (2006 - \$104,386) is similar to the comparative year.
- Professional fees of \$216,650 (2006 - \$149,959) are significantly higher than the comparative year as a result of increased business activity, legal costs associated with property option agreements and the statement of claim to recover exploration advances.
- Rent of \$23,083 (2006 - \$21,897) is similar to the comparative year.
- Shareholder communications of \$116,243 (2006 - \$65,730) increased significantly compared to the previous fiscal year. During the current year the Company increased their attendance and has exhibited at various mining shows.
- Stock based compensation expense of \$401,271 (2006 - \$129,242) is significantly higher than the comparative year as a result of more stock options being granted.
- Transfer agent and regulatory fees of \$42,489 (2006 - \$37,871) are higher than the comparative year as a result of the Company conducting more private placements.

- Travel and related costs of \$67,915 (2006 - \$70,924) are similar to the comparative year.

The Company received \$24,626 (2006 - \$19,954) interest income from cash held in term deposits

During the year ended August 31, 2007, the Company continued exploration activities on the Atlin property. The Company incurred \$1,275,425 in accounts payable and accrued liabilities and repaid \$39,281 in accounts payable to related parties. Of these amounts, \$1,125,089 in accounts payable and \$39,281 due to a related party are primarily attributed to the exploration of the Atlin property. An additional \$2,443,853 in cash was spent on deferred exploration costs.

## Summary of Quarterly Results

	For the Quarters Ended			
	August 31, 2007	May 31, 2007	February 28, 2007	November 30, 2006
Total assets	\$ 24,924,474	\$ 25,063,845	\$ 21,983,319	\$ 20,378,664
Working capital (deficiency)	(1,076,483)	1,489,164	1,577,844	(308,685)
Shareholders' equity	21,302,675	22,044,988	20,065,151	18,052,147
Income	8,314	8,184	4,650	3,478
Net income (loss)	(154,218)	(236,025)	(435,531)	(240,257)
Earnings (loss) per share	(0.01)	(0.01)	(0.01)	(0.01)

	For the Quarters Ended			
	August 31, 2006	May 31, 2006	February 28, 2006	November 30, 2005
Total assets	\$ 20,123,622	\$ 20,997,239	\$ 18,863,741	\$ 18,464,163
Working capital (deficiency)	744,980	1,644,964	568,288	362,985
Shareholders' equity	18,180,585	18,516,243	16,525,476	16,123,567
Income	15,548	1,346	1,457	1,603
Net Income (loss)	(263,095)	(154,166)	(198,804)	(351,414)
Earnings (loss) per share	(0.01)	(0.01)	(0.01)	(0.02)

The Company's working capital position changed to a deficiency in the fourth quarter of the year ended August 31, 2007. The completion of private placements generated gross proceeds of \$4,482,586. The Company received \$300,917 from the government for recovery of exploration costs incurred on properties in British Columbia. On March 30, 2007, the Company recovered \$68,948 from Silvermet Corporation for filing and lease fees related to the Nunavut claims. Overall, the deficiency is primarily attributed to account payable related to exploration of the Atlin Gold property

## Liquidity and Capital Resources

The financial statements have been prepared on a going concern basis which assumes that the Company will be able realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	August 31, 2007	August 31, 2006
Working capital (deficiency)	\$ (1,076,483)	\$ 744,980
Deficit	(9,137,444)	(8,071,413)

Net cash used in operating activities during the year was \$778,415 (2006 – \$818,334). The cash used in operating activities consists primarily of operating costs and the change in non-cash working capital items.

Net cash provided by financing activities during the year was \$4,141,505 (2006 - \$2,811,098). During the current year the Company closed private placements generating gross proceeds of \$4,480,836 and incurred \$341,081 cash in share issue costs directly related to the private placements. In the comparative year the Company received \$2,926,700 from the issuance of capital stock and incurred \$115,602 cash in share issue costs in the 2006 comparative period. The Company received \$1,750 from the exercise of 8,750 finders' options exercised at \$0.20 per option in the current year.

Net cash used in investing activities during the year was \$4,008,520 (2006 - \$1,555,902). During the current year the Company incurred \$2,443,853 in exploration costs that were primarily associated with the completion of Phase 1 on the Yellowjacket zone of the Atlin property exploration program. The Company paid \$75,000 cash to acquire the Atlin placer claims; \$20,000 for the Primrose property option agreement and \$400,000 for the Atlin property option agreement; each of these payments were allocated to acquisition costs. The Company received \$300,917 from the government for recovery of exploration costs incurred on properties in British Columbia. On March 30, 2007, the Company recovered \$68,948 from Silvermet Corporation for filing and lease fees related to the Nunavut claims. During the current year the Company acquired a crushing unit for \$180,000; a gravity processing plant for \$1,100,000 and a truck and trailers for \$33,000. An additional \$112,032 was incurred for installation services and parts on the gravity processing plant. During the current year the Company posted \$4,000 and \$10,500 reclamation bonds for the LD claims and Atlin claims respectively.

There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of gold or base metals or interests related thereto. The economics of developing and producing gold properties are affected by many factors including the cost of operations, variations in the grade of ore mined and the price of gold. Depending on the price of gold, the Company may determine that it is impractical to continue commercial production. The price of gold has fluctuated widely in recent years. Gold prices are affected by many factors beyond the Company's control including anticipated changes in international investment patterns and monetary systems, economic growth rates, political developments, extent of sales of reserves by governments and shifts in the private supply of and demand for gold. The supply of gold consists of a combination of new mine production and existing stocks held by governments, producers, financial institutions and consumers. If the market price for gold falls below the Company's full production costs and remains at such levels for any sustained period of time, the Company will experience losses and may decide to discontinue operations or other development of a project or mining at one or more of its properties.

The Company has sufficient funds to meet its property maintenance payments for 2007 and cover anticipated administrative expenses throughout the year. It will continue to focus its exploration and development efforts on its mineral properties.

## **Related Party Transactions**

Accounts payable to related parties at August 31, 2007 and 2006, are to companies controlled by directors.

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$182,000 (2006 - \$185,000) in management fees to companies controlled by common directors.
- b) Paid or accrued legal fees of \$50,609 (2006 - \$61,093) to a firm in which a director of the Company is a partner.

- c) Paid or accrued share issue costs of \$21,370 (2006 - \$Nil) to a firm in which a director of the Company is a partner.
- d) Paid or accrued \$219,728 (2006 - \$144,896) in various fees to a company controlled by a director which are allocated to deferred exploration costs.
- e) Paid or accrued \$26,403 (2006 - \$Nil) in administration fees to a company controlled by a director.
- f) Paid or accrued \$33,395 (2006 - \$Nil) in geological consulting fees to a company controlled by a director which are allocated to deferred exploration costs.
- g) Paid or accrued \$43,403 (2006 - \$Nil) in consulting fees to a company controlled by a director.

These transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

## Contingency

### *Exploration Advances*

	2007	2006
Canamera Geoscience Corp.	\$ 387,566	\$ 387,566
Titan Drilling Ltd.	<u>107,148</u>	<u>107,148</u>
	494,714	494,714
Allowance for doubtful recovery	<u>(494,714)</u>	<u>(494,714)</u>
	\$ -	\$ -

During fiscal 2005, these companies failed to account for exploration costs associated with the above advances nor did they return the advanced amounts as requested by the Company. The Company is continuing in its legal action for full repayment of its advances. However, during the fiscal year ended August 31, 2006, management provided for a 100% allowance on recovery of the advances.

There is a counterclaim in the amount of \$7.5 million for an alleged breach of a multi-year sublease agreement. The management of the Company is of the opinion that the counterclaim is without merit and is defending the claim.

## Financial Instruments and Other Instruments

The Company's other financial instruments consist of cash, receivables, amounts due from a related party, security deposit and reclamation bond, accounts payable and accrued liabilities, accounts payable to related parties and convertible debenture. In management's opinion, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The fair value of amounts due to and from related parties is not determinable as they have no specific repayment terms.

## Critical Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and form the basis for the following discussion and analysis of critical accounting policies and estimates. The Company makes estimates and assumptions that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities during the course of preparing these financial statements. On a regular basis, the Company evaluates estimates and assumptions including those related to the recognition of stock-based compensation.

Estimates are based on historical experience and on various other assumptions that the Company believes to be reasonable. These estimates form the basis of judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

### **Additional Disclosure for Venture Issuers without Significant Revenue**

Please refer to Note 4 in the audited consolidated financial statements for the year ended August 31, 2007 for description of the capitalized exploration and development costs presented on a property-by-property basis.

### **Outstanding Share Data**

The following table summarizes the outstanding share capital as at December 21, 2007:

---

---

Common shares	56,898,845
Stock options	3,481,500
Warrants	14,248,113
Finders' warrants	1,977,077

---

---

### **Disclosure Controls and Procedures**

The Company has established certain disclosure controls and procedures to provide a reasonable level of assurance that the financial and other information required to be disclosed under applicable securities laws is accurately prepared and disclosed within the time periods required. The Company's Chief Executive Officer and Chief Financial Officer have evaluated these controls and procedures and concluded that they are effective.

### **Internal Controls Over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with Canadian GAAP. The design of the Company's internal control over financial reporting was assessed as of the date of this Management Discussion and Analysis.

Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. The officers will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties. Since the increased costs of such hiring could threaten the Company's financial viability, management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when the budgets and work load will enable the action. The Company has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by the CFO of the financial reports, the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the audit committee.

### **Business Risks**

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

- Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.
- Financial risks include commodity prices, interest rates and the Canadian / United States exchange rate, all of which are beyond the Company's control.
- Regulatory risks include the possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the company must meet in order to maintain its exchange listing.

## **Outlook**

The Company's primary focus for the foreseeable future will be on reviewing its financial position, continuing its bulk sample program on the Atlin gold property, commencing exploration activities on the Primrose and Red Ridge properties and financing new business ventures in the mineral resource industry.

Davis:2746666.1