

Consolidated Financial Statements
(Expressed in Canadian dollars)

TAMERLANE VENTURES INC.

Year ended December 31, 2007



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Tamerlane Ventures Inc. as at December 31, 2007 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the year ended December 31, 2007. 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 audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2006 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated February 28, 2007

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Accountants

Vancouver, Canada

April 27, 2008

TAMERLANE VENTURES INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,030,051	\$ 3,405,320
Marketable securities (note 5)	84,000	135,000
Amounts receivable	188,122	114,080
Prepaid expenses and deposits	265,962	5,902
	<u>4,568,135</u>	<u>3,660,302</u>
Furniture and equipment (note 6)	114,213	45,102
Property reclamation bond (note 7)	60,000	60,000
Mineral interests (note 7)	9,603,941	5,217,137
	<u>\$ 14,346,289</u>	<u>\$ 8,982,541</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 605,288	\$ 293,292
Income taxes payable	15,973	-
	<u>621,261</u>	<u>293,292</u>
Future income taxes (note 13)	76,945	146,094
Shareholders' equity:		
Share capital (note 8)	15,399,041	7,752,171
Contributed surplus (note 11)	1,661,467	1,783,409
Accumulated other comprehensive loss (note 5)	(51,000)	-
Deficit	(3,361,425)	(992,425)
	<u>13,648,083</u>	<u>8,543,155</u>
Commitments (notes 7 and 14)		
Subsequent events (notes 8, 12(b) and 15)		
	<u>\$ 14,346,289</u>	<u>\$ 8,982,541</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

“J. Cowan McKinney,”
(Signed)

Director

“Margaret Kent”,
(Signed)

Director

TAMERLANE VENTURES INC.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Expenses:		
Amortization	\$ 31,474	\$ 10,746
Foreign exchange loss (gain)	(5,611)	3,684
General and administrative	1,539,399	139,462
Professional fees	209,163	105,891
Stock-based compensation (note 10)	786,281	319,900
Transfer agent and regulatory fees	54,425	25,213
Travel and promotion	28,563	14,796
	<u>2,643,694</u>	<u>619,692</u>
Other income:		
Interest income	144,573	133,263
Loss before income taxes	(2,499,121)	(486,429)
Income tax recovery (expense)	130,121	(146,094)
Net loss for the year	(2,369,000)	(632,523)
Deficit, beginning of year	(992,425)	(359,902)
Deficit, end of year	<u>\$ (3,361,425)</u>	<u>\$ (992,425)</u>
Net loss per share - basic and diluted	\$ (0.06)	\$ (0.02)
Weighted average number of shares outstanding	<u>37,043,090</u>	<u>27,009,000</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Net loss for the year	\$ (2,369,000)	\$ (632,523)
Other comprehensive income (loss):		
Unrealized loss on available-for-sale:		
Marketable securities (note 2)	(120,000)	-
Comprehensive loss for the year	<u>\$ (2,489,000)</u>	<u>\$ (632,523)</u>

See accompanying notes to consolidated financial statements.

TAMERLANE VENTURES INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net loss for the year	\$ (2,369,000)	\$ (632,523)
Items not involving cash:		
Amortization	31,474	10,746
Stock-based compensation	786,281	319,900
Future income tax expense (recovery)	(146,094)	146,094
	(1,697,339)	(155,783)
Changes in non-cash working capital:		
Amounts receivable	(74,042)	39,161
Prepaid expenses	(260,060)	(5,902)
Accounts payable and accrued liabilities	311,996	254,328
Income taxes payable	15,973	-
	(1,703,472)	131,804
Investments:		
Expenditures on mineral interests	(3,928,613)	(2,672,739)
Purchase of property and equipment	(100,585)	(53,551)
	(4,029,198)	(2,726,290)
Financing:		
Proceeds from shares issued	6,539,201	6,147,365
Share issuance costs	(181,800)	(301,114)
	6,357,401	5,846,251
Increase in cash and cash equivalents	624,731	3,251,765
Cash and cash equivalents, beginning of year	3,405,320	153,555
Cash and cash equivalents, end of year	\$ 4,030,051	\$ 3,405,320
Supplementary information:		
Interest paid	\$ -	\$ -
Income taxes paid	-	-
Non-cash investing and financing activities:		
Common shares issued as finders' fees	117,500	253,112
Common shares issued for mineral interests	205,000	-
Future income tax accrual on mineral interest costs	76,945	-

See accompanying notes to consolidated financial statements.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

1. Nature and continuance of operations:

The Company was incorporated under the Corporations Act of the Province of British Columbia on May 16, 2000. The Company is a natural resource company engaged in the exploration and development of base metals projects in Canada and Peru.

The Company has not generated any revenue since its inception and is considered to be a development stage company as defined by CICA Accounting Guideline No. 11. The Company is devoting its major efforts to the exploration and development of its Pine Point zinc-lead project in the Northwest Territories in Canada.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2007, the Company has working capital of \$3,946,874. The continuing operations of the Company and the recoverability of amounts recorded for mineral interests are dependent on the Company's ability to obtain additional financing to fund exploration and development, the discovery of economically recoverable reserves in order to generate positive cash flows in the future, or the receipt of sufficient proceeds on any sale of the mineral interests. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Adoption of new accounting standards::

Effective January 1, 2007, the Company has adopted five new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

- (a) Financial instruments - Recognition and Measurement (CICA Handbook Section 3855) and Financial Instruments - Disclosure and Presentation (CICA Handbook Section 3861):

In accordance with these new standards, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of loss.

The Company has classified its cash and cash equivalents as held for trading and therefore measures them at fair market value, with the unrealized gain or loss recorded in income.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

2. Adoption of new accounting standards (continued):

- (a) Financial instruments - Recognition and Measurement (CICA Handbook Section 3855) and Financial Instruments - Disclosure and Presentation (CICA Handbook Section 3861) (continued)

The Company has classified its marketable securities as available-for-sale securities and therefore carries them at fair market value, with unrealized gains or losses recorded in shareholders' equity as a component of other comprehensive income. These amounts will be reclassified from shareholders' equity to net income when they are realized. Previously, investments in public companies were carried at cost, less provisions for other than temporary declines in value. This change in accounting policy resulted in a \$69,000 increase in the carrying value of marketable securities as at January 1, 2007, representing the aggregate cumulative unrealized gain at that time.

- (b) Comprehensive income (CICA Handbook Section 1530):

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a consolidated statement of comprehensive loss and a new category, accumulated other comprehensive income (loss) has been added to the shareholders' equity section of the consolidated balance sheet. The components of this new category include unrealized gains and losses on securities classified as available-for-sale.

- (c) Hedges (CICA Handbook Section 3865):

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. As the Company has not designated any hedging relationships, adoption of Section 3865 currently has no impact on the financial statements.

Categories of regular-way purchases and sales of financial assets are accounted for at the trade date.

- (d) Equity (CICA Handbook Section 3251):

Establishes standards for the presentation of equity and changes in equity.

3. Significant accounting policies:

- (a) Basis of presentation:

These consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles and reflect the consolidation of the Company and its wholly-owned subsidiary, Tamerlane Ventures Peru S.A.C. All intercompany transactions and balances have been eliminated.

- (b) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 period. Significant financial statement items which involve the use of estimates include the valuation of mineral interests, assumptions used in valuing options and warrants in stock-based compensation calculations and future income tax asset valuation allowances. Actual results may differ from those estimates.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

3. Significant accounting policies (continued):

(c) Cash and cash equivalents:

The Company considers all highly liquid instruments with a maturity of three months or less when acquired to be cash equivalents.

(d) Marketable securities:

Marketable securities include publicly traded common shares received as proceeds of mineral property option transactions. Marketable securities are carried at market value based upon quoted market prices (note 2). Prior to January 1, 2007, marketable securities were recorded at the lower of cost and quoted market value.

(e) Furniture and equipment:

Furniture and equipment are stated at cost and are being amortized on a straight line basis over their estimated useful life of three years. The Company has not amortized the mining interests because they are not in production.

The Company reviews long-lived assets 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(f) Mineral interests:

The Company follows the method of accounting for its mineral interests whereby all costs related to acquisition, exploration and development are capitalized by project, net of recoveries received. The amounts shown as mineral interests represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values. These costs will be amortized on a units of production basis or written off if the interest is abandoned or sold.

In the event that reserves are determined, the carrying values of a mineral interest, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the mineral interest will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized is dependent upon the identification of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and to realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment will be based on current conditions. However, it is possible that changes could occur in the near term, which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionees, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received, respectively.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

3. Significant accounting policies (continued):

(g) Foreign currency translation:

The reporting and functional currency of the Company is the Canadian dollar. The functional currency of its Peruvian subsidiary is also the Canadian dollar as it is dependent on funding from its parent. Foreign currency monetary assets and liabilities are translated to Canadian dollars at the prevailing year end exchange rate. Foreign currency non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at the average rate of exchange for the year. Translation gains and losses are included in the statement of operations.

(h) Financial instruments:

For certain of the Company's financial instruments, including cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities, the carrying amounts approximate fair values due to their short-term to maturity.

The fair value of amounts due to or from related parties are not practical to determine due to their related party nature and absence of a secondary market for such instruments.

(i) Asset retirement obligations:

The present value of the asset retirement obligations and the associated retirement costs related to site reclamation and abandonment is recorded when that liability is incurred with a corresponding increase in the related asset. The liability is increased over time to reflect an accretion to the amount ultimately payable on the date it is paid. As at December 31, 2007, the Company has not incurred any asset retirement obligations related to the exploration and development of its mineral properties.

(j) Income taxes:

The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, future income taxes are recognized to reflect the expected future tax consequences arising from tax losses carried forward and temporary differences between the carrying value and the tax bases of the Company's assets and liabilities. Future income tax assets are not recognized until realization is more likely than not. Future tax assets and liabilities are measured using tax rates anticipated to be in effect in the periods that the temporary differences are expected to be settled or realized. The effect of a change in income tax rates is recognized in income in the period the change occurs.

(k) Flow-through shares:

When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

3. Significant accounting policies (continued):

(l) Stock-based compensation:

The Company applies the fair value method to stock-based payments to employees based upon the fair value of the award at the date of grant. For non-employee awards, the compensation cost is measured at the fair value as the awards are earned and services provided. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital.

(m) Earnings per share:

The basic earnings (loss) per share amounts are computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants. However, outstanding options and warrants would be anti-diluted for any loss year.

(n) Comparative figures:

Certain figures presented for comparative purposes have been reclassified to conform to the presentation adopted for the current year.

4. Future accounting pronouncements:

(a) Capital disclosures:

CICA Handbook Section 1535, *Capital Disclosures*, requires additional disclosures about how a company manages its capital. Such information includes quantitative and qualitative disclosure about the Company's objectives, policies and processes for managing capital, as well as summary quantitative data about what it manages as capital. The Company will also be required to disclose whether during the period it complied with externally imposed capital requirements and the consequences of non-compliance, if applicable. Such disclosures will be based on information provided internally by the Company's key management personnel. The standard is effective for interim and annual periods beginning on or after October 1, 2007. The Company is evaluating the impact of the adoption of this Section on the disclosure in the financial statements.

(b) Financial Instruments - Presentation:

Section 3863, *Financial Instruments - Presentation*, establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The standard is effective for interim and annual periods beginning on or after October 1, 2007. The Company does not expect adoption of this Section to have a significant effect on the presentation in the financial statements.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

4. Future accounting pronouncements (continued):

(c) Financial instruments - disclosure:

Section 3862, *Financial Instruments - Disclosures*, requires additional quantitative and qualitative disclosures about an entity's financial assets and liabilities, and their associated risks. Such disclosures include the significance of financial instruments for an entity's financial position and performance and the nature and extent of risks arising from financial instruments. Specific disclosures include the criteria for designating the classification of different types of financial instruments and determining when impairment is recorded against the related financial asset or when an allowance is used. The standard is effective for interim and annual periods beginning on or after October 1, 2007. The Company is evaluating the impact of the adoption of this Section on the disclosure in the financial statements.

(d) Inventories:

Section 3031, *Inventories*, establishes standards for the measurement and disclosure of inventory. It provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. The Section also provides guidance on the cost formulas that are used to assign costs to inventories. This standard is effective for interim and annual financial statements beginning on January 1, 2008. The Company has determined that there is no current impact from the adoption of this Section on the financial statements.

(e) International financial reporting standards (IFRS):

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

5. Marketable securities:

The effect of adopting the new accounting standards (note 2) on the marketable securities as at January 1, 2007 is summarized below. As prescribed by these standards, prior periods have not been restated.

2007	Fair value	Cost	Accumulated unrealized gains (losses)
Century Mining Corporation (note 7)	\$ 84,000	\$ 135,000	\$ (51,000)

2006	Fair value	Cost	Accumulated unrealized gains (losses)
Century Mining Corporation	\$ 204,000	\$ 135,000	\$ 69,000

Accumulated other comprehensive income:

Opening balance on adoption of new accounting standards on January 1, 2007:			
Unrealized gain on available-for-sale marketable securities			\$ 69,000
Other comprehensive loss for the year - unrealized loss on available-for-sale securities			(120,000)
Accumulated other comprehensive loss at December 31, 2007			\$ (51,000)

6. Furniture and equipment:

2007	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 76,926	\$ 18,641	\$ 58,285
Mining software	47,659	20,469	27,190
Other software	32,309	3,571	28,738
	\$ 156,894	\$ 42,681	\$ 114,213

2006	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 56,308	\$ 11,206	\$ 45,102

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

7. Mineral interests:

	Pine Point property	Carolyn Mine property	Los Pinos property	Total
Balance, December 31, 2005	\$ 2,445,046	\$ 99,352	\$ -	\$ 2,544,398
Expenditures during the year:				
Acquisition costs and option payments	1,006,565	55,834	-	1,062,399
Engineering and geological services	1,180,175	1,500	-	1,181,675
Drilling	129,935	-	-	129,935
Equipment rental and maintenance	5,798	-	-	5,798
Mining supplies	3,426	-	-	3,426
Survey	244,988	-	-	244,988
Travel	84,518	-	-	84,518
Less: Option payment received	-	(40,000)	-	(40,000)
Balance, December 31, 2006	5,100,451	116,686	-	5,217,137
Expenditures during the year:				
Acquisition costs and option payments	41,770	-	853,411	895,181
Engineering and geological services	3,160,637	-	20,893	3,181,530
Drilling	256,033	-	-	256,033
Travel	35,523	-	-	35,523
Office and clerical support	18,537	-	-	18,537
Balance, December 31, 2007	\$ 8,612,951	\$ 116,686	\$ 874,304	\$ 9,603,941

(a) Pine Point property:

On March 2, 2004 and later amended on April 30, 2004, the Company entered into an option agreement with Karst Investments, LLC (Karst), an entity with common officers and a common director, to acquire up to a 100% interest in the Pine Point Property located in the Northwest Territories. In consideration for acquiring a 60% interest, the Company issued 1,200,000 of its shares at a fair value of \$660,000, paid \$150,000 in cash and agreed to incur cumulative exploration expenditures on the property of not less than \$1,250,000 on or before September 30, 2007 (completed).

In June 2006 the Company purchased the remaining 40% interest in the property for \$1,000,000. Karst retains a royalty of 3% of net smelter returns.

On February 7, 2005, the Company posted a \$60,000 environmental bond for the Pine Point property.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

7. Mineral interests (continued):

(b) Los Pinos property:

On March 21, 2007, the Company entered into an option agreement to acquire a 100% interest in the Los Pinos and El Pino mineral properties in southern Peru after paying a deposit of \$353,820. The three concessions cover a total area of 790 hectares. The Company is required to pay the vendors a total of US\$1,000,000 in three staged payments over 18 months under the option agreement as follows:

- (i) US\$300,000 upon signing the agreement (paid);
- (ii) US\$250,000 on or before August 31, 2007 (paid);
- (iii) US\$250,000 on or before March 21, 2008 (paid); and
- (iv) US\$200,000 on or before September 21, 2008.

The Company also paid a finder's fee of US\$50,000 in June 2007 and issued 50,000 common shares of the Company to the finder in July 2007 with an estimated market value of \$2.35 per share.

(c) Carolin Mine property:

On February 10, 2004, the Company entered into an option agreement with Athabaska Gold Resources Ltd. (Athabaska) to acquire a 90% interest in the dormant Carolin gold mine on the Ladner Creek properties, together with the plant and equipment situated thereon, known as the Carolin Mine, located near Hope, B.C.

On April 3, 2006, the Company exercised its option and purchased the remaining 10% of the property from Athabaska under the original agreement dated February 10, 2004 by making a payment of \$40,000 (paid) and paying any outstanding consulting fees owed to Athabaska. These outstanding fees totaled \$5,000 (paid).

On February 13, 2004 and later amended July 31, 2004, the Company sub-optioned its option in the Carolin Mine by entering into an option agreement with Century Mining Corporation (Century), a company with common officers and directors, whereby Century was granted the exclusive right and option to earn an undivided 70% interest in the property, which was earned in 2007. Century has an option to acquire the Company's remaining 30% interest in the property for \$6,667 cash for each 1% interest held by the Company or in the equivalent value of common shares of Century at Century's option.

In April 2007, Century signed an agreement with Module Resources Incorporated whereby Module can acquire up to 90% of the Carolin Mine and associated Ladner Creek properties.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

8. Share capital:

(a) Authorized: 100,000,000 common shares without par value

	Number of shares		Amount
Balance, December 31, 2005	14,024,662	\$	3,150,038
Issued pursuant to private placement	14,285,714		5,000,000
Issued as finders' fees	723,178		253,112
Fair value attributed to share purchase warrants included in private placement	-		(1,254,118)
Share issuance costs	-		(554,226)
Exercise of share purchase warrants	2,830,911		1,132,365
Exercise of stock options	50,000		15,000
Fair value of stock options exercised transferred from contributed surplus	-		10,000
Balance, December 31, 2006	31,914,465		7,752,171
Issued pursuant to flow through private placements	3,657,819		3,067,501
Issued as finders' fees	50,000		117,500
Issued pursuant to exploration agreements	125,000		205,000
Fair value attributed to share purchase warrants included in flow through placement	-		(357,456)
Share issuance costs	-		(181,800)
Exercise of share purchase warrants	7,515,946		3,382,070
Fair value of warrants exercised transferred from contributed surplus	-		1,255,163
Exercise of stock options	205,500		89,630
Fair value of stock options exercised transferred from contributed surplus	-		69,262
Balance, December 31, 2007	43,468,730	\$	15,399,041

(b) Private placements:

On April 13, 2006 the Company completed a private placement of 14,285,714 units at \$0.35 per unit for gross proceeds of \$5,000,000. Each unit consisted of one common share and one half warrant to purchase an additional common share at \$0.45 per common share expiring on October 13, 2007.

On November 9, 2007, the Company completed a private placement of 811,667 flow-through common shares at \$1.50 per common share for gross proceeds of \$1,217,501

On December 31, 2007 the Company also completed a private placement of 2,846,152 flow-through units at \$0.65 per unit for gross proceeds of \$1,850,000. A total of \$357,456 proceeds has been allocated to warrants on a relative fair value basis. Each unit consisted of one flow-through common share and one half share purchase warrant with each warrant entitling the holder to acquire one non-flow-through common share at \$1.50 for the first twelve-month period or at \$2.50 for the next twelve-month period. Cash finder's fees of \$111,000 were paid.

The Company renounced \$3,067,501 in flow-through shares expenditures subsequent to December 31, 2007, representing 100% of flow-through proceeds received in 2007.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

8. Share capital (continued):

(c) Shareholder rights plan:

The directors of the Company approved the adoption of a shareholder rights plan, dated April 16, 2007 (the Plan). The Plan is designed to give the Company's Board of Directors and shareholders sufficient time to properly assess an unsolicited take-over bid without any undue pressure. Adoption of the Plan also provides the Company's Board of Directors time to consider alternatives designed to allow the Company's shareholders to receive full and fair value for their common shares. Rights under the Plan will become exercisable when a person, together with any parties related to it, acquires or announces its intention to acquire 20% or more of the Company's outstanding common shares without complying with the provisions of the Plan or without approval of the Board of Directors of the Company. Under such circumstances, each right, upon exercise, will permit the purchase of common shares of the Company at a substantial discount to the market price. The Company received shareholder approval of the Plan at its annual and special meeting on June 29, 2007.

9. Share purchase warrants:

The following table summarizes the continuity of the Company's share purchase warrants.

	Number of shares	Weighted average exercise price
Balance, December 31, 2005	2,901,921	\$ 0.40
Issued with private placement	7,142,857	0.45
Issued as finder's fee	373,439	0.45
Exercised	(2,830,911)	0.40
Expired	(71,010)	0.40
Balance, December 31, 2006	7,516,296	0.45
Issued with flow through private placement	1,423,075	2.00
Exercised	(7,515,946)	0.45
Expired	(350)	0.45
Balance, December 31, 2007	1,423,075	\$ 2.00

As at December 31, 2007 the following share purchase warrants were outstanding:

Number of warrants	Exercise price	Expiry date
1,423,075	\$ 1.50	December 31, 2009
	\$ 2.50	December 31, 2010

10. Stock options:

The Company has a stock-based compensation plan in effect which provides that up to ten percent of the number of shares outstanding may be reserved for stock option grants to eligible optionees. Stock options granted under the plan prior to July 15, 2007 vested immediately, and stock options granted to persons other than directors subsequent to July 15, 2007 are subject to 33% vesting at 6, 18, and 30 months after the grant date.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

10. Stock options (continued):

At December 31, 2007, this plan provided for the grant of stock options to purchase a maximum of 4,346,873 common shares of which 3,017,500 have been granted and 1,329,373 options are available for future grants.

The following table summarizes the continuity of the Company's stock options:

	Number of shares	Weighted average exercise price
Balance, December 31, 2005	1,030,000	\$ 0.33
Granted	733,000	0.30
Exercised	(50,000)	0.30
Cancelled/forfeited	(75,000)	0.33
Balance, December 31, 2006	1,638,000	0.30
Granted	1,835,000	1.61
Exercised	(205,500)	0.44
Cancelled/forfeited	(250,000)	1.12
Balance, December 31, 2007	3,017,500	\$ 1.06

Additional information regarding stock options outstanding as of December 31, 2007 is as follows:

Exercise price	Outstanding and exercisable		
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price
2.45	585,000	4.58	\$ 2.45
1.82	50,000	4.67	1.82
1.78	50,000	4.67	1.78
1.63	10,000	4.42	1.63
1.52	400,000	4.58	1.52
1.35	20,000	4.33	1.35
1.34	50,000	4.33	1.34
1.19	50,000	4.83	1.19
0.74	300,000	4.92	0.74
0.72	20,000	4.33	0.72
0.56	100,000	4.25	0.56
0.50	25,000	3.67	0.50
0.48	102,500	3.00	0.48
0.45	330,000	3.29	0.45
0.38	395,000	1.54	0.38
0.30	480,000	2.08	0.30
0.28	50,000	3.08	0.28
Options outstanding	3,017,500	3.58	\$ 1.06
Options exercisable	2,132,500	3.13	\$ 0.66

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

10. Stock options (continued):

The fair values for stock options granted were estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2007	2006
Expected dividends	Nil	Nil
Interest rate	4.0%	4.0%
Expected life (in years)	4.76	5
Expected volatility	115%	108%

The weighted average grant date fair value of stock options granted during 2007 was \$0.66 per option (2006 - \$0.26).

11. Contributed surplus:

The following table summarizes the continuity of the Company's contributed surplus:

		Amount
Balance, December 31, 2005	\$	219,391
Fair value of stock options granted		319,900
Fair value of stock options exercised transferred to share capital		(10,000)
Fair value of share purchase warrants		1,254,118
Balance, December 31, 2006		1,783,409
Fair value of stock options granted		845,027
Fair value of stock options exercised transferred to share capital		(69,262)
Fair value of share purchase warrants		357,456
Fair value of warrants exercised transferred to share capital		(1,255,163)
Balance, December 31, 2007	\$	1,661,467

12. Related party transactions:

In addition to related party transactions described elsewhere in the financial statements, the Company has entered into the following related party transactions:

- (a) In 2004, the Company entered into an agreement with Century, a company with common officers and directors, whereby this company would provide administrative, accounting and geological services and office and vehicle rentals. During 2007, Century was paid \$1,320,000 for administrative, accounting, legal, investor relations, secretarial, office support staff, and rent. The Company also paid \$1,070,558 to Century for engineering and geological services, which are included in mineral interests. The total amount paid during the year by the Company is \$2,390,558 (2006 - \$682,560) to Century.

As at December 31, 2007, \$20,015 was due from Century and included in amounts receivable, and \$63,251 was due to Century and included in accounts payable and accrued liabilities.

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

12. Related party transactions (continued):

- (b) Subsequent to December 31, 2007, the Company advanced \$500,000 to Century. The advance bears interest at 9% per annum, is secured by certain mining equipment and is repayable in monthly installments.
- (c) Included in professional fees are legal fees of \$129,053 (2006 - \$61,525) paid to a law firm in which the Company's Corporate Secretary, a director of the Company, is a partner. At December 31, 2007, \$18,921 (2006 - nil) was due to the law firm and included in accounts payable.

13. Income taxes:

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 33.60% (2006 - 34.12%) to pre-tax loss as a result of the following:

	2007	2006
Loss before income taxes	\$ (2,499,121)	\$ (486,249)
Computed expected tax recovery	(839,705)	(165,970)
Change in valuation allowance	395,946	223,625
Permanent differences	283,929	109,150
Other	29,709	(20,711)
Income tax expense (recovery)	\$ (130,121)	\$ 146,094

The tax effect of the significant temporary differences which comprise future tax assets and liabilities are as follows:

	2007	2006
Future income tax assets:		
Property and equipment	\$ 4,315	\$ -
Non-capital tax losses carried forward	722,150	287,025
Marketable securities	6,758	
Share issuance costs	97,276	111,527
Total gross future income tax assets	830,499	398,552
Valuation allowance	(395,946)	-
Net future income tax assets	434,553	398,552
Future income tax liabilities:		
Property and equipment	-	(5,182)
Mineral interests	(511,498)	(539,464)
Net future income tax assets (liabilities)	\$ (76,945)	\$ (146,094)

TAMERLANE VENTURES INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

13. Income taxes (continued):

As at December 31, 2007, the Company has non-capital losses carried forward of approximately \$2,725,000, which are available to offset taxable income earned in Canada. These non-capital loss carry forwards expire as follows:

2008	\$	35,000
2009		68,000
2010		93,000
2014		174,000
2015		220,000
2026		259,000
2027		1,876,000
	\$	2,725,000

The Company has cumulative resource pools available of \$7,089,812 which can be carried forward indefinitely to offset future taxable income in Canada. Unamortized share issue costs for tax purposes which are available to reduce taxable income of years 2008-2011 amounts to \$367,079.

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

14. Commitments:

The Company entered into a commercial building lease in Hay River, in the Northwest Territories, on October 31, 2007 which expires October 31, 2009. Under the terms of the lease, the Company is required to pay taxes, maintenance, utilities and insurance, in addition to minimum rental payments of \$4,000 per month.

15. Subsequent events:

Subsequent to the end of the year, the Company:

- (a) Granted 25,000 stock options to an employee with an exercise price of \$0.81 per share and expiry date of five years from grant date.
- (b) Entered into consulting agreements with a director and an unrelated party to provide expertise for the arrangement of financing for the Pine Point Project.