

**UNITED BOLERO DEVELOPMENT CORP.**  
(A Development Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**



McGovern, Hurley, Cunningham, LLP  
Chartered Accountants

## AUDITORS' REPORT

To the Shareholders of  
**UNITED BOLERO DEVELOPMENT CORP.**  
(A Development Stage Company)

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

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

The consolidated financial statements as at December 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 12, 2006.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

*McGovern, Hurley, Cunningham, LLP*

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
March 30, 2007, except for Note 16,  
which is as at April 18, 2007

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**UNITED BOLERO DEVELOPMENT CORP.**  
**(A Development Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 3,100,663	\$ 833,674
Receivables	70,763	32,928
Prepaid expenses	34,390	34,988
Marketable securities (Note 3)	<u>5,251</u>	<u>-</u>
	3,211,067	901,590
<b>Equipment</b> (Note 4)	19,849	28,652
<b>Oil and gas properties</b> (Note 5)	2	2
<b>Mineral properties</b> (Note 6)	3,784,064	1,323,764
<b>Reclamation deposit</b> (Note 7)	144,398	141,360
<b>Future income tax asset</b> (Note 14(b))	<u>170,600</u>	<u>-</u>
	<u>\$ 7,329,980</u>	<u>\$ 2,395,368</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 307,543	\$ 166,013
<b>Asset retirement obligation</b> (Note 8)	<u>145,663</u>	<u>283,338</u>
	<u>453,206</u>	<u>449,351</u>
<b>Shareholders' equity</b>		
Capital stock (Note 10)	11,390,672	6,667,349
Warrants (Note 10)	1,438,995	-
Contributed surplus (Note 10)	851,380	601,036
Deficit	<u>(6,804,273)</u>	<u>(5,322,368)</u>
	<u>6,876,774</u>	<u>1,946,017</u>
	<u>\$ 7,329,980</u>	<u>\$ 2,395,368</u>

**Nature and continuance of operations** (Note 1)  
**Contingent liabilities and commitments** (Notes 16 and 17)  
**Subsequent events** (Note 19)

**On behalf of the Board:**

\_\_\_\_\_, Director

\_\_\_\_\_, Director

See accompanying notes to the consolidated financial statements.

**UNITED BOLERO DEVELOPMENT CORP.**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31**

	2006	2005
<b>EXPENSES</b>		
Amortization	\$ 8,805	\$ 7,878
Consulting fees	13,293	30,075
Management and administration fees	264,755	287,974
Office, rent, and miscellaneous	81,102	104,103
Professional fees	218,726	189,579
Shareholder communications and promotion	199,146	171,056
Stock-based compensation (Note 11)	456,154	192,030
Transfer agent and filing fees	40,973	33,190
Travel and accommodation	<u>44,847</u>	<u>90,098</u>
<b>Loss before other items</b>	<u>1,327,801</u>	<u>1,105,983</u>
<b>OTHER ITEMS</b>		
Foreign exchange loss	22,768	26,535
Interest income	(30,264)	(1,692)
Write-down of mineral properties (Note 6)	413,200	-
Write-down of oil and gas properties (Note 5)	-	231,373
Settlement of litigation	<u>-</u>	<u>8,000</u>
	<u>405,704</u>	<u>264,216</u>
Loss from operations	1,733,505	1,370,199
Future income tax (recovery) (Note 14(a))	<u>(251,600)</u>	<u>-</u>
<b>Net loss for the year</b>	1,481,905	1,370,199
<b>Deficit, beginning of year</b>	<u>5,322,368</u>	<u>3,952,169</u>
<b>Deficit, end of year</b>	<u>\$ 6,804,273</u>	<u>\$ 5,322,368</u>
<b>Basic and diluted loss per common share</b>	<u>\$ 0.03</u>	<u>\$ 0.06</u>
<b>Weighted average number of common shares outstanding</b>	<u>50,605,517</u>	<u>24,179,661</u>

See accompanying notes to the consolidated financial statements.

**UNITED BOLERO DEVELOPMENT CORP.**  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,481,905)	\$ (1,370,199)
Items not affecting cash:		
Future income tax recovery	(251,600)	-
Amortization	8,805	7,878
Accrued interest income	(3,038)	-
Stock-based compensation	456,154	192,030
Write-down of mineral properties	413,200	-
Write-down of oil and gas properties	<u>-</u>	<u>231,373</u>
	(858,384)	(938,918)
Changes in non-cash working capital items:		
Increase in receivables	(8,802)	(23,914)
Decrease (increase) in prepaid expenses	598	(34,988)
(Decrease) increase in accounts payable and accrued liabilities	<u>(91,711)</u>	<u>38,225</u>
Cash flows from operating activities	<u>(958,299)</u>	<u>(959,595)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of private placement units	4,190,000	1,933,600
Exercise of options and warrants	2,090,867	863,754
Proceeds from share subscription receivable	-	9,860
Share issue costs	<u>(480,308)</u>	<u>(205,926)</u>
Cash flows from financing activities	<u>5,800,559</u>	<u>2,601,288</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of marketable securities	(5,251)	-
Proceeds on sale of equipment	4,461	-
Purchase of equipment	(4,463)	(19,764)
Reclamation deposit	-	(141,360)
Mineral property expenditures	<u>(2,570,018)</u>	<u>(761,229)</u>
Cash flows from investing activities	<u>(2,575,271)</u>	<u>(922,353)</u>
<b>Increase in cash during the year</b>	2,266,989	719,340
<b>Cash, beginning of year</b>	<u>833,674</u>	<u>114,334</u>
<b>Cash, end of year</b>	<u>\$ 3,100,663</u>	<u>\$ 833,674</u>
<b>Cash paid for interest during the year</b>	\$ 920	\$ -
<b>Cash paid for income taxes during the year</b>	\$ -	\$ -

**Supplemental disclosure with respect to cash flows (Note 12)**

See accompanying notes to the consolidated financial statements.

## 1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in British Columbia on August 13, 1985 and is listed on the TSX Venture Exchange ("TSX-V"). The Company's principal business is the acquisition and exploration of resource property interests. To date, the Company has not generated significant revenues from its operations and is considered to be in the exploration stage.

The Company is in the process of exploring its resource properties and has not yet determined whether the properties contain 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, the achievement of profitable production, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

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 any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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	2006	2005
Working capital	\$ 2,903,524	\$ 735,577
Deficit	\$ 6,804,273	\$ 5,322,368

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## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles, and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Montana Molybdenum Corporation ("MT Moly"), a company incorporated under the laws of Montana, U.S.A. Significant inter-company balances and transactions have been eliminated upon consolidation. All references to the Company should be treated as references to United Bolero Development Corp. and its subsidiary.

### **Cash and equivalents**

Cash and equivalents include balances with banks and short-term investments with original maturities of 90 days or less.

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

**Marketable securities**

The Company holds equity securities in public companies as marketable securities.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is being provided for annually using the declining balance method of amortization at the following rates:

Office equipment	20%
Machinery and other equipment	20%
Computer equipment	30%
Vehicles	30%

**Foreign currency translation**

The Canadian dollar is the functional currency of the Company, all of whose operations are classified as integrated for foreign currency translation purposes. Under this method, all monetary assets and liabilities are translated at the rate of exchange at the balance sheet date, and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of operations.

**Mineral properties**

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 proven reserves available on the related property following commencement of production.

The cost of mineral property interests includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral property interests on a periodic basis and will recognize an impairment value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

**Asset retirement obligations**

The Company follows the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. Under this standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets.

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

**Flow-through shares**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to mineral properties.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

**Income taxes**

The Company follows the asset and liability method of accounting for income taxes whereby future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

**Stock-based compensation**

Stock options and direct awards of stock granted to employees and non-employees are recorded at fair value on the date of grant and the associated expense is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

**Loss per share**

The Company uses the treasury stock method to calculate diluted loss per share. The treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant estimates made by the Company include factors affecting the recoverability of resource property interests, valuation of asset retirement obligations, stock-based compensation, warrants and future tax assets and liabilities. Actual results could differ from those estimates.

**3. MARKETABLE SECURITIES**

During the year ended December 31, 2006, the Company acquired 52,515 common shares of Ontex Resources Ltd. The investment is carried at cost. The market value at December 31, 2006 was \$7,877.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**4. EQUIPMENT**

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 4,023	\$ 1,504	\$ 2,519	\$ 2,683	\$ 1,041	\$ 1,642
Machinery and other equipment	7,186	2,289	4,897	7,186	316	6,870
Vehicles	3,125	625	2,500	7,021	1,070	5,951
Computer equipment	<u>23,974</u>	<u>14,041</u>	<u>9,933</u>	<u>23,974</u>	<u>9,785</u>	<u>14,189</u>
	\$ 38,308	\$ 18,459	\$ 19,849	\$ 40,864	\$ 12,212	\$ 28,652

**5. OIL AND GAS PROPERTIES**

During the year ended December 31, 2005, the oil and gas properties were written down to a nominal value.

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**6. MINERAL PROPERTIES**

At December 31, 2006, expenditures incurred on mineral properties were as follows:

	Cannivan Gulch Project, Montana	South Baird Project, Ontario	Bald Butte Project, Montana	Chong Project, Ontario	Total
Acquisition costs:					
Balance, beginning of year	\$ 125,125	\$ 29,000	\$ 429,231	\$ 11,120	\$ 594,476
Additions during the year	<u>186,167</u>	<u>100,000</u>	<u>11,122</u>	<u>18,250</u>	<u>315,539</u>
Balance, end of year	<u>311,292</u>	<u>129,000</u>	<u>440,353</u>	<u>29,370</u>	<u>910,015</u>
Deferred exploration costs:					
Balance, beginning of year	65,485	44,801	590,709	28,293	729,288
Assays	-	-	41,269	1,169	42,438
Excavation, drilling and transportation	-	183,144	1,111,433	-	1,294,577
Field supplies	-	-	177,068	-	177,068
Geologists and other labour	2,560	-	891,610	-	894,170
Insurance	-	-	69,580	-	69,580
Licences, permits and maintenance fees	-	-	15,795	-	15,795
Reports, drafting, maps	-	-	36,923	323	37,246
Travel and accommodation	-	-	12,507	-	12,507
Advance	-	-	17,480	-	17,480
	<u>68,045</u>	<u>227,945</u>	<u>2,964,374</u>	<u>29,785</u>	<u>3,290,149</u>
Less: recovery of costs	-	(2,900)	-	-	(2,900)
Balance, end of year	<u>68,045</u>	<u>225,045</u>	<u>2,964,374</u>	<u>29,785</u>	<u>3,287,249</u>
	379,337	354,045	3,404,727	59,155	4,197,264
Less: Write off of Expenditures	-	(354,045)	-	(59,155)	(413,200)
Total, December 31, 2006	\$ 379,337	\$ -	\$ 3,404,727	\$ -	\$ 3,784,064

At December 31, 2005, expenditures incurred on mineral properties were as follows:

	Cannivan Gulch Project, Montana	South Baird Project, Ontario	Bald Butte Project, Montana	Chong Project, Ontario	Total
Acquisition costs:					
Balance, beginning of year	\$ 64,500	\$ 29,000	\$ -	\$ -	\$ 93,500
Additions during the year	<u>60,625</u>	<u>-</u>	<u>429,231</u>	<u>11,120</u>	<u>500,976</u>
Balance, end of year	<u>125,125</u>	<u>29,000</u>	<u>429,231</u>	<u>11,120</u>	<u>594,476</u>
Deferred exploration costs:					
Balance, beginning of year	-	36,804	-	-	36,804
Assays	-	-	23,735	1,163	24,898
Excavation, drilling and transportation	-	-	327,847	9,913	337,760
Field supplies	-	-	18,238	1,027	19,265
Geologists and other labour	65,485	-	172,393	14,190	252,068
Insurance	-	-	8,429	-	8,429
Licences and permits	-	-	16,664	-	16,664
Reports, drafting, maps	-	-	14,208	2,000	16,208
Surveys	-	7,997	-	-	7,997
Travel and accommodation	-	-	9,195	-	9,195
Balance, end of year	<u>65,485</u>	<u>44,801</u>	<u>590,709</u>	<u>28,293</u>	<u>729,288</u>
Total, December 31, 2005	\$ 190,610	\$ 73,801	\$ 1,019,940	\$ 39,413	\$ 1,323,764

**UNITED BOLERO DEVELOPMENT CORP.**  
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**6. MINERAL PROPERTIES (cont'd...)**

**Cannivan Gulch Project, Montana, USA**

During the year ended December 31, 2004 the Company entered into an option agreement to acquire a 100% interest in the Cannivan Gulch deposit, which is located in northern Beaverhead County, Montana. The optionors will retain a 2% net smelter returns royalty ("NSR"). The Company may purchase 1% of the NSR on the third anniversary of the agreement for US\$600,000. During the year ended December 31, 2006, the Company issued 66,666 common shares (2005 – 266,666) as finders' fees valued at \$16,666 (2005 - \$42,250).

Pursuant to the agreement, the Company is required to make cash payments and issue common shares as follows:

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Date	Cash payments	Common share issuances
On execution of option agreement	US\$ 50,000 (paid - Cdn\$64,500)	100,000 (issued, valued at \$18,375)
On or before December 31, 2005	US\$ 50,000 (paid - Cdn\$58,000)	100,000 (issued, valued at \$25,000)
On or before December 31, 2006	US\$ 50,000 (paid - Cdn\$58,500)	100,000 (issued, valued at \$28,000)
On or before each anniversary date from December 31, 2007 to December 31, 2008	US\$ 75,000	100,000
On or before December 31, 2009	US\$ 75,000	-
On or before each anniversary date from December 31, 2010 to December 31, 2109	US\$100,000	-

**Bald Butte Project, Montana, USA**

The Company entered into an option agreement dated February 18, 2005, whereby the Company can acquire a 100% interest in certain claims referred to as the Bald Butte property in Montana, subject to a 3% net smelter returns royalty. The Company can reduce the royalty to 2% by paying US\$500,000 in the third year of the agreement. During the year ended December 31, 2005, the Company issued 121,959 common shares valued at \$22,410 as a finder's fee.

To complete the option, the Company is required to make cash payments and issue common shares as follows:

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Date	Cash payments	Common share issuances
On execution of option agreement	US\$ 80,000 (paid – Cdn\$98,392)	120,000 (issued, valued at \$22,050)
On or before February 18, 2006	US\$100,000 (paid – Cdn\$114,850)	120,000 (issued, valued at \$30,000)
On or before each anniversary date from February 18, 2007 to February, 2010	US\$200,000 (paid - Note 19)	120,000 (issued – Note 19)
On or before each anniversary date from February 18, 2011 to February 18, 2031	US\$200,000	-

The Company has acquired additional contiguous claims through staking. An asset retirement obligation of \$145,663 related to the property has been recorded as an acquisition cost on the property.

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 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**6. MINERAL PROPERTIES (cont'd...)**

**South Baird Project, Ontario, Canada**

On November 3, 2003, the Company entered into an option agreement to acquire a 50% interest in certain mineral claims located in Baird Township, Red Lake Mining Division, Ontario. Pursuant to this agreement, the Company paid \$15,000, issued 100,000 common shares valued at \$14,000, and incurred exploration and development expenditures totalling \$44,801.

In January 2006, the agreement was renegotiated whereby the Company could earn up to a 75% interest in the property, subject to a 2% net smelter returns royalty, for the following additional consideration:

Date	Cash payments	Exploration expenditures	Common share issuances
On regulatory approval	\$ 10,000 (paid)	\$ -	150,000 (issued, valued at \$90,000)
On or before January 19, 2007	\$ 15,000	\$200,000	100,000
On or before January 19, 2008	\$ 20,000	\$200,000	100,000
On or before January 19, 2009	\$ -	\$350,000	-

During 2006, 10 diamond drill holes were completed on the South Baird property. Anomalous, but sub-economic gold intersections were encountered. Based on the results of the drill holes, the Company decided not to pursue the option agreement and wrote off the carrying value of the investment.

**Chong Molybdenum Property, Ontario**

During the year ended December 31, 2005, the Company entered into an option agreement to acquire a 100% interest in certain claims referred to as the Chong Molybdenum Property in Ontario. To acquire the option, the Company paid \$5,000 and was required to make cash payments and issue shares as follows:

Date	Cash payments	Common share issuances
On execution of option agreement	\$ 5,000 (paid)	-
On regulatory approval	-	50,000 (issued, valued at \$18,250)
On or before November 16, 2006	\$15,000	75,000
On or before November 16, 2007	\$20,000	75,000
On or before November 16, 2008	\$60,000	100,000

During the year ended December 31, 2006, a preliminary exploration program was initiated on the Chong property. Based on the assay results from the program, the Company decided to terminate the option agreement and focus its efforts on more advanced projects. The carrying value of the investment has been written off.

**7. RECLAMATION DEPOSIT**

The Company has assigned certificates of deposit in the amount of \$139,836 (US\$120,000) to the Department of Environmental Quality (DEQ) in lieu of a bond for the restoration of roads related to the Bald Butte property. (See Note 8). The certificates accrue interest and as at December 31, 2006, \$4,562 (US\$3,915) of interest has been recorded.

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**8. ASSET RETIREMENT OBLIGATION**

The Company estimates its asset retirement obligation at the Bald Butte property, based on its understanding of its requirements to reclaim the currently disturbed areas as \$145,663 (US\$125,000) (2005 - \$283,338 – US\$243,000). The Company has assigned certificates of deposit to the DEQ for the restoration of the roads in these areas. (See Note 7).

The following is an analysis of the asset retirement obligation:

Balance, December 31, 2004	\$ -
Additions	<u>283,338</u>
Balance, December 31, 2005	283,338
Reductions	<u>(137,675)</u>
Balance, December 31, 2006	<u>\$ 145,663</u>

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$263,282 (2005 - \$244,508) to current and former directors of the Company and to a corporation controlled by a director of the Company.
- b) Paid or accrued consulting fees of \$5,000 (2005 - \$30,000) to former directors of the Company.
- c) Paid or accrued professional fees of \$52,750 (2005 - \$Nil) to a corporation controlled by a director of the Company.
- d) Paid or accrued rent of \$Nil (2005 - \$3,530) to a former director of the Company.
- e) Paid or accrued geologist consulting fees included in deferred development costs of \$56,926 (2005 - \$38,755) to a former director of the Company.
- f) Paid or accrued report writing fees included in reports, drafting, maps in deferred development costs of \$Nil (2005 - \$5,000) to a former director of the Company.
- g) During the year ended December 31, 2006, a director, who is also an officer of the Company, subscribed for a total of 125,000 units at \$0.20 per unit for gross proceeds of \$25,000 pursuant to the private placement described in Note 10(ii).

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount established and agreed to by the related parties.

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**10. CAPITAL STOCK**

	Number of Shares	Capital Stock	Warrants	Contributed Surplus
Authorized				
Unlimited common shares without par value				
Common shares				
Balance as at December 31, 2004	18,190,616	\$ 3,998,833	\$ -	\$ 381,009
Flow-through private placement	850,000	170,000	-	-
Finders' fee for flow-through private placement	-	(7,002)	-	7,002
Private placements	11,380,000	1,763,600	-	-
Finders' fee for private placements	-	(80,571)	-	80,571
Exercise of warrants	4,570,083	789,137	-	-
Exercise of stock options	577,165	74,617	-	-
Fair value of stock options exercised	-	59,576	-	(59,576)
Acquisition of mineral properties	220,000	40,425	-	-
Finders' fees for mineral properties	388,625	64,660	-	-
Stock-based compensation (Note 11)	-	-	-	192,030
Issue costs	-	(205,926)	-	-
Balance as at December 31, 2005	36,176,489	\$ 6,667,349	\$ -	\$ 601,036
Flow-through private placement	1,000,000	500,000	-	-
Private placements	12,021,429	2,333,805	1,356,195	-
Issue costs – broker warrants	-	(243,425)	243,425	-
Exercise of warrants	11,250,810	1,916,061	-	-
Fair value of warrants exercised	-	51,145	(3,735)	(47,410)
Exercise of stock options	1,539,848	203,839	-	-
Fair value of stock options exercised	-	158,400	-	(158,400)
Acquisition of mineral properties	520,000	191,250	-	-
Finders' fees for mineral properties	66,666	16,666	-	-
Stock-based compensation (Note 11)	-	-	-	456,154
Flow-through share renunciation	-	(81,000)	-	-
Issue costs	-	(323,418)	(156,890)	-
Balance as at December 31, 2006	62,575,242	\$ 11,390,672	\$ 1,438,995	\$ 851,380

- (i) During the year ended December 31, 2006, the Company issued 1,539,848 common shares (2005 – 577,165) of the Company for \$203,839 (2005 - \$74,617) pursuant to the exercise of stock options and 11,250,810 common shares (2005 – 4,570,083) for \$1,916,061 (2005 - \$789,137) on the exercise of warrants.
- (ii) On February 21, 2006, pursuant to a private placement, the Company issued 3,450,000 units at \$0.20 per unit for proceeds of \$690,000, of which \$286,854 was allocated to the value of the warrants. Each unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one common share of the Company at \$0.25 for two years. A finders' fee of \$50,325 was paid, of which \$20,922 was allocated to the warrants, and 185,000 compensation warrants were issued valued at \$72,332. Each compensation warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 for a period of two years. (See Note 9(g))

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

- (iii) On March 23, 2006, the Company issued 1,000,000 flow-through shares of the Company at \$0.50 per unit for proceeds of \$500,000 pursuant to a private placement. (See Note 17)
- (iv) On November 23, 2006, pursuant to a brokered private placement, the Company issued 8,571,429 units at \$0.35 per unit for proceeds of \$3,000,000, of which \$1,069,341 was allocated to the value of the warrants. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.45 per share for two years. A finders' fee of \$300,000 was paid, of which \$106,934 was allocated to warrants, and 857,142 compensation warrants were issued valued at \$171,093. Each compensation warrant entitles the holder to purchase one common share of the Company at a price of \$0.35 for a period of two years.
- (v) On November 28, 2005, the Company issued 3,660,000 units at a price of \$0.20 per unit for total proceeds of \$732,000 pursuant to a private placement. Each unit consisted of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitled the holder to purchase a further common share of the Company at a price of \$0.25 per share for a period of two years. The Company paid \$73,201 and issued 366,001 warrants valued at \$39,494, as finders' fees.
- (vi) On November 28, 2005, the Company issued 850,000 flow-through units at a price of \$0.20 per unit for total proceeds of \$170,000 pursuant to a private placement. Each unit consisted of one flow-through common share of the Company and one half of one non-transferable common share purchase warrant. One whole warrant entitled the holder to purchase a further common share of the Company at a price of \$0.25 per share for a period of one year. The Company paid \$14,500 and issued 65,000 warrants, valued at \$7,002, as finders' fees.
- (vii) On November 1, 2005, the Company issued 3,450,000 units at a price of \$0.20 per unit for total proceeds of \$690,000 pursuant to a private placement. Each unit consisted of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitled the holder to purchase a further common share of the Company at a price of \$0.25 per share for a period of two years. The Company paid \$58,500 and issued 245,000 warrants, valued at \$27,573, as finders' fees.
- (viii) On August 22, 2005, the Company issued 4,270,000 units at a price of \$0.08 per unit for total proceeds of \$341,600 pursuant to a non-brokered private placement. Each unit consisted of one share and one common share purchase warrant which entitled the holder to purchase an additional share of the Company at \$0.10 until August 22, 2006, and \$0.15 until August 22, 2007. The Company also paid the sum of \$24,020 and issued 290,250 warrants, valued at \$13,504, as finders' fees.
- (ix) In June 2005, the Company issued 120,000 common shares valued at \$22,050 for mineral properties related to the Bald Butte Project and issued 121,959 common shares valued at \$22,410 for finder's fees related to the Project.
- (x) In March 2005, the Company issued 100,000 common shares valued at \$18,375 for mineral properties related to the Cannivan Gulch Project and issued 66,666 common shares valued at \$12,250 for finder's fees related to the Project.
- (xii) In January 2005, the Company issued 200,000 common shares valued at \$30,000 for finder's fees related to the acquisition of the Cannivan Gulch Project.

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

The following weighted average assumptions were used for the Black-Scholes valuation of agent warrants granted during the year:

	2006	2005
Risk-free interest rate	4.07%	3.55%
Expected life of warrants	2 years	2 years
Annualized volatility	116%	87%
Dividend rate	0.00%	0.00%

**11. STOCK OPTIONS AND WARRANTS**

**Share purchase warrants**

At December 31, 2006, warrants were outstanding enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
307,150	0.15	August 22, 2007
2,098,500	0.25	November 1, 2007
2,840,000	0.25	November 28, 2007
376,801	0.20	November 28, 2007
3,400,000	0.25	February 22, 2008
185,000	0.20	February 22, 2008
8,571,429	0.45	November 23, 2008
857,142	0.35	November 23, 2008
<u>18,636,022</u>		

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2004	10,968,127	\$ 0.17
Warrants granted	12,771,251	0.19
Warrants cancelled/expired	(2,167,083)	0.20
Warrants exercised	<u>(4,570,083)</u>	0.17
As at December 31, 2005	17,002,212	0.19
Warrants granted	13,063,571	0.39
Warrants cancelled/expired	(178,951)	0.30
Warrants exercised	<u>(11,250,810)</u>	0.17
As at December 31, 2006	18,636,022	\$ 0.34
Number of warrants currently exercisable	9,207,451	\$ 0.24

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**11. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock options**

The Company is authorized to grant to directors, employees and consultants up to 20% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price, less any applicable discounts, of the Company's stock as calculated on the date of grant. Options vest over an eighteen-month period or over a longer period if specified by the directors of the Company. The options can be granted for a maximum term of 5 years.

As at December 31, 2006, the following incentive stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
211,670	\$ 0.10	June 24, 2007
100,000	0.15	September 30, 2007
35,000	0.25	October 17, 2007
100,000	0.15	August 15, 2008
50,000	0.20	February 27, 2009
100,000	0.24	March 16, 2009
91,667	0.32	March 24, 2009
200,000	0.17	December 21, 2010
300,000	0.32	February 17, 2011
<u>3,900,000</u>	0.25	September 19, 2011
<u>5,088,337</u>		

Stock option transactions and the number of share options outstanding are summarized as follows:

	Number Of Options	Weighted Average Exercise Price
Balance, December 31, 2004	2,702,000	\$ 0.17
Options granted	2,350,000	0.14
Options cancelled	(633,867)	0.14
Options exercised	<u>(577,165)</u>	0.13
Balance, December 31, 2005	3,840,968	\$ 0.16
Options granted	4,200,000	0.26
Options cancelled	(1,412,793)	0.18
Options exercised	<u>(1,539,848)</u>	0.13
Balance, December 31, 2006	5,088,327	\$ 0.24
Number of options currently exercisable	<u>1,593,336</u>	<u>\$ 0.22</u>

The weighted average fair value of options granted during fiscal 2006 was \$0.17 (2005 - \$0.10).

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**11. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock-based compensation**

During the year ended December 31, 2006, the Company granted 4,200,000 (2005 – 2,350,000) stock options to directors, consultants and employees, resulting in a value of \$725,984 (2005 - \$238,569). Compensation costs expensed in the year totalled \$456,154 (2005 - \$192,030) for the options that vested which was recorded as contributed surplus on the balance sheet.

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

	2006	2005
Risk-free interest rate	3.98%	3.11%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	114%	117%
Expected option life in years	5.00 years	2.25 years

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

Significant non-cash transactions for the year ended December 31, 2006 consisted of:

- a) The issuance of 66,666 common shares of the Company (2005 – 388,625) valued at \$16,666 (2005 - \$64,660) as finder's fee related to mineral property acquisitions.
- b) The issuance of 520,000 (2005 – 220,000) common shares of the Company valued at \$191,250 (2005 - \$40,425) pursuant to mineral property option agreements.
- c) The issuance of agents' warrants valued at \$243,425 (2005 - \$87,573) recorded as issue costs.
- d) The reduction of the asset retirement obligation on the Bald Butte Project by \$137,675 during the year ended December 31, 2006. The Company recorded an asset retirement obligation on the Bald Butte Project of \$283,338 during the year ended December 31, 2005.
- e) The change in accrued mineral property expenditures of \$233,241 (2005 - \$43,808) for the year ended December 31, 2006.
- f) Subscriptions receivable of \$29,033 from the exercise of options and warrants as at December 31, 2006 (2005 - \$Nil).

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**13. FINANCIAL INSTRUMENTS**

**Fair value**

The carrying amounts of cash, receivables, and accounts payable and accrued liabilities approximate fair market value because of the limited term of these instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

**Foreign currency risk**

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**Commodity price risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

**14. INCOME TAXES**

a) A reconciliation of income taxes at the statutory rate of 34% (2005 – 38%) is as follows:

	2006	2005
Loss for the year	\$ (1,733,505)	\$ (1,370,199)
Expected income tax (recovery)	\$ (589,400)	\$ (531,400)
Expiry of non-capital loss carry-forwards	105,800	103,200
Other	10,800	-
Change in tax rate	54,100	-
Expenses not deductible for income tax purposes	195,500	167,600
Write-down of mineral and oil and gas properties	38,500	89,900
Items deductible for income tax purposes	(163,300)	(276,800)
Change in valuation allowance	<u>96,400</u>	<u>447,500</u>
Total future income tax (recovery)	\$ (251,600)	\$ -

b) The significant components of the Company's future income tax assets are as follows:

	2006	2005
Future income tax assets:		
Resource properties	\$ 472,000	\$ 436,000
Non-capital loss carry-forwards	720,000	595,000
Other assets	<u>185,000</u>	<u>79,000</u>
	1,377,000	1,110,000
Valuation allowance	<u>(1,206,400)</u>	<u>(1,110,000)</u>
Net future income tax assets	\$ 170,600	\$ -

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**14. INCOME TAXES (cont'd...)**

During the year ended December 31, 2006, the Company issued 1,000,000 (2005 – 850,000) common shares on a flow-through basis for gross proceeds of \$500,000 (2005 – \$170,000). 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 December 31, 2006, the Company renounced exploration expenditures of \$230,000 (2005 - \$ Nil). Subsequent to year-end, the Company renounced exploration expenditures of \$500,000 with an effective date of December 31, 2006.

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately \$2,025,000 and U.S. non-capital losses of approximately \$92,000 (US\$78,000). Subject to certain restrictions, the Company also has resource expenditures of approximately \$5,171,000 available to reduce taxable income in future years.

The non-capital losses if not used, will expire as follows:

<u>Year</u>	<u>Canadian losses Amount</u>	<u>U.S. losses Amount</u>
2008	\$ 7,000	US\$ -
2009	58,000	-
2010	212,000	-
2014	253,000	-
2015	662,000	-
2025	-	24,000
2026	833,000	54,000
	<u>\$ 2,025,000</u>	<u>US\$ 78,000</u>

**15. SEGMENTED INFORMATION**

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of resource properties in Canada and the United States. Segmented information on a geographic basis is as follows:

<u>2006</u>	<u>Total Assets</u>	<u>Mineral Properties</u>	<u>Oil and Gas Properties</u>	<u>Other Assets</u>
Assets				
Canada	\$ 3,393,614	\$ -	\$ -	\$ 3,393,614
United States	<u>3,936,366</u>	<u>3,784,064</u>	<u>2</u>	<u>152,300</u>
	<u>\$ 7,329,980</u>	<u>\$ 3,784,064</u>	<u>\$ 2</u>	<u>\$ 3,545,914</u>

<u>2005</u>	<u>Total Assets</u>	<u>Mineral Properties</u>	<u>Oil and Gas Properties</u>	<u>Other Assets</u>
Assets				
Canada	\$ 823,126	\$ 113,214	\$ -	\$ 709,912
United States	<u>1,572,242</u>	<u>1,210,550</u>	<u>2</u>	<u>361,690</u>
	<u>\$ 2,395,368</u>	<u>\$ 1,323,764</u>	<u>\$ 2</u>	<u>\$ 1,071,602</u>

Substantially all of the Company's operating expenses are incurred in Canada.

**16. CONTINGENT LIABILITIES**

A formal claim has been received by the Company from a trucking supplier to the Company's subsidiary, MT Moly, for alleged breach of contract and has demanded payment of US\$535,000. The Company believes that the action is without merit and plans to vigorously defend this claim. Both parties have agreed to mediate this case in July 2007; however, it is premature to make an estimate of the potential outcome or financial impact of this action.

Another claim has been filed against MT Moly and MT Moly's former president, for alleged breach of a contractual obligation for payment of rental fees equipment in the amount of US\$104,462 plus additional financing charges and interest accruing at the rate of 1.25% per month, 15% per annum. The claimant also seeks attorney's fees and court costs. MT Moly and the claimant are in the process of attempting to resolve this matter.

Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. It is possible that the final resolution of these matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these consolidated financial statements.

**17. COMMITMENTS**

The Company is obligated to spend \$500,000 on exploration costs in Canada by December 31, 2007 pursuant to the flow-through agreement described in Note 10(iii).

**18. COMPARATIVE FIGURES**

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

**19. SUBSEQUENT EVENTS**

Subsequent to the year ended December 31, 2006, the Company:

- a) Entered into a letter of intent to acquire an option to purchase 50% of the Arcadia Property. The property represents an Archean lode-gold deposit in Canada's Nunavut Territory. Under the option agreement, the Company will pay \$15,000, issue 75,000 common shares of the Company, and complete \$600,000 worth of exploration work over the next two years. The transaction is subject to regulatory approval.
- b) Paid US\$200,000 and issued 120,000 common shares of the Company valued at \$34,800 pursuant to the Bald Butte property agreement described in Note 6.
- c) Issued 3,218,271 common shares upon the exercise of 2,807,265 warrants for gross proceeds of \$674,116 and 411,006 options for gross proceeds of \$71,001.
- d) Entered into an investor relations agreement for a 12 month period, with a monthly fee of \$5,000. The investor relations firm may terminate the agreement with 30 days written notice. The Company can terminate the agreement after July 31, 2007 with 30 days notice.
- e) Entered into a communications and media relations agreement for a 12 month period, with a monthly fee of \$2,500. The investor relations firm may terminate the agreement with 30 days written notice. The Company can terminate the agreement after July 31, 2007 with 30 days notice.
- f) Entered into a 3-year lease for office premises with basic rent of \$16,256 per annum.
- g) Granted 300,000 stock options exercisable at a price of \$0.35 per share and 1,000,000 stock options exercisable at a price of \$0.50 per share for a period of 5 years, to directors, employees and consultants of the Company.