

BOLERO RESOURCES CORP.
(formerly “UNITED BOLERO DEVELOPMENT CORP.”)

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
BOLERO RESOURCES CORP.
(formerly "UNITED BOLERO DEVELOPMENT CORP.")
(A Development Stage Company)

We have audited the consolidated balance sheets of Bolero Resources Corp. (formerly "United Bolero Development Corp.") (A Development Stage Company) as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years in the two-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the for each of the years in the two-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in black ink that reads "McGovern, Hurley, Cunningham, LLP".

**Chartered Accountants
Licensed Public Accountants**

TORONTO, Canada
April 4, 2008

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

	2007	2006
ASSETS		
Current		
Cash	\$ 1,387,043	\$ 3,100,663
Receivables (Notes 17(a) and (b))	212,066	70,763
Prepaid expenses	11,892	34,390
Marketable securities (Note 3)	<u>-</u>	<u>5,251</u>
	1,611,001	3,211,067
Equipment (Note 4)	23,776	19,849
Oil and gas properties	2	2
Mineral properties (Note 5)	6,858,381	3,784,064
Drilling and Reclamation deposits (Note 6)	103,050	144,398
Future income tax asset (Note 13(b))	<u>-</u>	<u>170,600</u>
	<u>\$ 8,596,210</u>	<u>\$ 7,329,980</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 349,824	\$ 307,543
Asset retirement obligation (Note 7)	<u>168,811</u>	<u>145,663</u>
	<u>518,635</u>	<u>453,206</u>
Shareholders' equity		
Capital stock (Note 9)	14,079,392	11,390,672
Warrants (Note 9)	1,175,654	1,438,995
Contributed surplus (Note 9)	1,385,673	851,380
Deficit	<u>(8,563,144)</u>	<u>(6,804,273)</u>
	<u>8,077,575</u>	<u>6,876,774</u>
	<u>\$ 8,596,210</u>	<u>\$ 7,329,980</u>

Nature and continuance of operations (Note 1)

Commitments (Note 16)

Subsequent events (Note 17)

On behalf of the Board:

Signed "R. Bruce Duncan", Director

Signed "Glenn Laing", Director

See accompanying notes to the consolidated financial statements.

BOLERO RESOURCES CORP.**(A Development Stage Company)****CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31**

	2007	2006
EXPENSES		
Amortization	\$ 7,257	\$ 8,805
Consulting fees	3,221	13,293
Management and administration fees	244,500	264,755
Office, rent, and miscellaneous	95,668	81,102
Professional fees	184,263	218,726
Shareholder communications and promotion	174,769	199,146
Stock-based compensation (Note 10)	714,171	456,154
Transfer agent and filing fees	31,990	40,973
Travel and accommodation	<u>19,268</u>	<u>44,847</u>
Loss before other items	<u>1,475,107</u>	<u>1,327,801</u>
OTHER ITEMS		
Foreign exchange (gain) loss	(5,174)	22,768
Interest (income)	(78,805)	(30,264)
Write-down of mineral properties (Note 5)	-	413,200
Write-down of property investigation costs (Note 17(a))	401,878	-
(Gain) on sale of marketable securities (Note 3)	<u>(34,135)</u>	<u>-</u>
	<u>283,764</u>	<u>405,704</u>
Loss from operations	1,758,871	1,733,505
Future income tax (recovery) (Note 13(a))	<u>-</u>	<u>(251,600)</u>
Net loss and comprehensive loss for the year	1,758,871	1,481,905
Deficit, beginning of year	<u>6,804,273</u>	<u>5,322,368</u>
Deficit, end of year	<u>\$ 8,563,144</u>	<u>\$ 6,804,273</u>
Basic and diluted loss per common share	<u>\$ 0.03</u>	<u>\$ 0.03</u>
Weighted average number of common shares outstanding	<u>67,602,841</u>	<u>50,605,517</u>

See accompanying notes to the consolidated financial statements.

BOLERO RESOURCES CORP.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,758,871)	\$ (1,481,905)
Items not affecting cash:		
Future income tax (recovery)	-	(251,600)
Amortization	7,257	8,805
Accrued interest income	-	(3,038)
Stock-based compensation	714,171	456,154
Write-down of mineral properties	-	413,200
Write-down of property investigation costs	401,878	-
(Gain) on sale of marketable securities	<u>(34,135)</u>	<u>-</u>
	(669,700)	(858,384)
Changes in non-cash working capital items:		
(Increase) in receivables	(170,336)	(8,802)
Decrease in prepaid expenses	22,498	598
Increase (decrease) in accounts payable and accrued liabilities	<u>154,593</u>	<u>(91,711)</u>
Cash flows from operating activities	<u>(662,945)</u>	<u>(958,299)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of private placement units	-	4,190,000
Exercise of options and warrants	2,315,601	2,090,867
Subscriptions receivable	29,033	-
Share issue costs	<u>-</u>	<u>(480,308)</u>
Cash flows from financing activities	<u>2,344,634</u>	<u>5,800,559</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	-	(5,251)
Proceeds on sale of marketable securities	39,386	-
Proceeds on sale of equipment	-	4,461
Purchase of equipment	(11,184)	(4,463)
Drilling and reclamation deposits	41,348	-
Property investigation costs	(347,161)	-
Mineral property expenditures	<u>(3,117,698)</u>	<u>(2,570,018)</u>
Cash flows from investing activities	<u>(3,395,309)</u>	<u>(2,575,271)</u>
(Decrease) increase in cash during the year	(1,713,620)	2,266,989
Cash, beginning of year	<u>3,100,663</u>	<u>833,674</u>
Cash, end of year	<u>\$ 1,387,043</u>	<u>\$ 3,100,663</u>
Cash paid for interest during the year	\$ 449	\$ 920
Cash paid for income taxes during the year	-	-

Supplemental disclosure with respect to cash flows (Note 11)

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 development stage as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11 "Enterprises in the Development 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.

The Company's exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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. As at December 31, 2007, the Company had working capital of \$1,261,177 (2006 - \$2,903,524) and an accumulated deficit of \$8,563,144 (2006 - \$6,804,273). Management believes it has sufficient funds to carry out planned exploration programs and operating activities for the next fiscal year; however, 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.

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, except as disclosed below. 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 Bolero Resources Corp. and its subsidiary.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and equivalents

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

Marketable securities

The Company held equity securities in public companies as marketable securities. As at December 31, 2006, the market value of the securities was \$7,877. The marketable securities were sold during the year ended December 31, 2007.

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%
Vehicles	30%
Computer equipment	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 in 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New accounting pronouncements

Effective January 1, 2007, the Company adopted the following new accounting standards, issued by the Canadian Institute of Chartered Accountants (“CICA”) relating to financial instruments. The new standard has been adopted on a prospective basis with no restatement of prior period financial statements.

(i) Financial instruments

CICA Handbook Section 3855 – *Financial Instruments – Recognition and Measurement*

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets and financial liabilities considered held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Effective January 1, 2007, the Company’s investments in marketable securities have been classified as available for sale and are recorded at their fair values on the consolidated balance sheet with unrealized gains and losses recognized in other comprehensive income. Fair values are determined directly by reference to published price quotations in an active market. The fair value of the Company’s marketable securities at December 31, 2006 was \$7,877 and accordingly, the Company recorded an increase in accumulated other comprehensive income of \$2,626 on January 1, 2007 representing the fair value adjustment of the marketable securities. The marketable securities were sold during the year ended December 31, 2007 and the realized gain was reflected in the consolidated statement of operations and the Company recorded a decrease in accumulated other comprehensive income of \$2,626. As at December 31, 2007, the Company had a balance in accumulated other comprehensive income of \$Nil.

(ii) Comprehensive income (loss)

CICA Handbook Section 1530 – *Comprehensive Income or (Loss)*

Comprehensive income or (loss) is the change in shareholders’ equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in “accumulated other comprehensive income or (loss)” until it is considered appropriate to recognize into net earnings. The adoption of this standard has had no material impact on the Company’s consolidated financial statements and as such, a statement of comprehensive income (loss) has not been presented.

(iii) Hedging

CICA Handbook Section 3865 – *Hedges*

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and during the year ended December 31, 2007, the Company had no hedges.

(iv) Accounting changes

CICA Handbook Section 1506 – *Accounting Changes*

This section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors. Under this new standard, when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity shall disclose this fact and information relevant to assessing the potential impact that application of the new primary source of GAAP will have on the entity’s financial statements in the period of initial application, where this information is known or reasonably estimable.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual financial statements for the Company's reporting periods beginning on January 1, 2008.

(i) Financial instruments – disclosures and presentation

CICA Handbook Section 3862 – *Financial Instruments – Disclosures*

Section 3862 describes the required disclosure of the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, "Financial Instruments – Presentation" replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

CICA Handbook Section 3863 – *Financial Instruments – Presentation*

This section establishes standards for presentation of financial instruments and non-financial derivatives.

(ii) Capital disclosures

CICA Handbook Section 1535 – *Capital Disclosures*

This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, then consequences of such non-compliance.

(iii) General standards of financial statement presentation

The Accounting Standards Board (AcSB) has amended CICA Handbook section 1400 to include requirements to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

(iv) International financial reporting standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

3. MARKETABLE SECURITIES

During the year ended December 31, 2006, the Company acquired 52,515 common shares of Ontex Resources Ltd. In November 2007, the Company disposed of the shares for net proceeds of \$39,386 resulting in a gain of \$34,135.

4. EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 5,329	\$ 2,138	\$ 3,191	\$ 4,023	\$ 1,504	\$ 2,519
Machinery and other equipment	9,887	3,856	6,031	7,186	2,289	4,897
Vehicles	3,125	1,625	1,500	3,125	625	2,500
Computer equipment	<u>31,151</u>	<u>18,097</u>	<u>13,054</u>	<u>23,974</u>	<u>14,041</u>	<u>9,933</u>
	\$ 49,492	\$ 25,716	\$ 23,776	\$ 38,308	\$ 18,459	\$ 19,849

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BOLERO RESOURCES CORP.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

5. MINERAL PROPERTIES

At December 31, 2007, expenditures incurred on mineral properties were as follows:

	Cannivan Gulch Project, Montana	Bald Butte Project, Montana	Copper Star, Montana	Arcadia Bay, Nunavut	Total
Acquisition costs:					
Balance, beginning of year	\$ 311,292	\$ 440,353	-	-	\$ 751,645
Claim staking	-	4,645	-	-	4,645
Additions during the year	99,647	272,900	-	49,500	422,047
Balance, end of year	410,939	717,898	-	49,500	1,178,337
Deferred exploration costs:					
Balance, beginning of year	68,045	2,964,374	-	-	3,032,419
Assays	-	20,404	-	-	20,404
Excavation, drilling and transportation	55,228	1,610,116	-	-	1,665,344
Field supplies	1,836	15,398	-	-	17,234
Geologists and other labour	87,053	239,255	-	-	326,308
Licences, permits and maintenance fees	9,119	13,320	7,792	-	30,231
Reports, drafting, maps	26,844	1,086	-	-	27,930
Travel and accommodation	8,116	40,805	-	-	48,921
Admin and Other expenses	77	9,824	-	-	9,901
Advances	-	1,352	-	500,000	501,352
Balance, end of year	256,318	4,915,934	7,792	500,000	5,680,044
Total, December 31, 2007	\$ 667,257	\$ 5,633,832	\$ 7,792	\$ 549,500	\$ 6,858,381

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

	Cannivan Gulch Project, Montana	Bald Butte Project, Montana	South Baird Project, Ontario	Chong Project, Ontario	Total
Acquisition costs:					
Balance, beginning of year	\$ 125,125	\$ 429,231	\$ 29,000	\$ 11,120	\$ 594,476
Additions during the year	186,167	11,122	100,000	18,250	315,539
Balance, end of year	311,292	440,353	129,000	29,370	910,015
Deferred exploration costs:					
Balance, beginning of year	65,485	590,709	44,801	28,293	729,288
Assays	-	41,269	-	1,169	42,438
Excavation, drilling and transportation	-	1,111,433	183,144	-	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
Advances	-	17,480	-	-	17,480
	68,045	2,964,374	227,945	29,785	3,290,149
Less: recovery of costs	-	-	(2,900)	-	(2,900)
Balance, end of year	68,045	2,964,374	225,045	29,785	3,287,249
	379,337	3,404,727	354,045	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

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BOLERO RESOURCES CORP.**(A Development Stage Company)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

5. MINERAL PROPERTIES (Continued)**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. The Company issued 333,332 common shares valued at \$58,916 as finders' fees.

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

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 (paid - Cdn\$73,647)	100,000 (issued, valued at \$26,000)
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. 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:

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 18, 2010	US\$200,000 (paid - Cdn\$232,900) for 2007	120,000 (issued, valued at \$34,800) for 2007
	US\$200,000 (paid - Note 17(c)) for 2008	120,000 issued (20,000 issued prior to December 31, 2007) for 2008. (See Note 17(c))
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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5. MINERAL PROPERTIES (Continued)

Copper Star, Montana, USA

During 2006, the Company staked six claims in the Silver Star mining district in Madison County, Montana. The Company's claims are adjacent to, and on strike with, a property with reported significant copper assay results currently being developed by another mining company. During 2007, the Company incurred expenditures to maintain its claims.

Arcadia Bay, Nunavut, Canada

In August 2007, the Company entered into an option agreement to purchase 50% of the Arcadia Property, a 1,280 hectare area of Inuit-owned land located in Canada's Nunavut territory from Alix Resources Corp. The property represents an Archean lode-gold deposit. Under the terms of the option agreement, the Company will pay \$15,000 (paid), issue 75,000 common shares of the Company (issued and valued at \$34,500), and complete \$600,000 worth of exploration work over the next two years. The transaction has received regulatory approval.

Other Properties

During the year ended December 31, 2006, the Company wrote off the carrying value of its investments in the South Baird and Chong properties in Ontario.

6. DRILLING AND RECLAMATION DEPOSITS

The Company has issued bonds in the amount of \$103,050 (US\$104,938) to the Department of Environmental Quality (DEQ) for the exploration and drilling programs of the Bald Butte and Cannivan Gulch properties and reclamation of Bald Butte. (See Note 7).

7. ASSET RETIREMENT OBLIGATION

The Company estimates its asset retirement obligations at the Bald Butte and Cannivan Gulch properties, based on its understanding of its requirements to reclaim the currently disturbed areas as \$168,811 (US\$172,000) (2006-\$145,663; US\$125,000). The Company has assigned certain certificates of deposit to the DEQ for the restoration in these areas. (See Note 6). Management is not able to estimate the timing of payments related to the asset retirement obligations and accordingly, the value of the asset retirement obligation has not been discounted.

The following is an analysis of the asset retirement obligation:

Balance, December 31, 2005	\$ 283,338
Reductions	<u>(137,675)</u>
Balance, December 31, 2006	145,663
Additions	<u>23,148</u>
Balance, December 31, 2007	<u>\$ 168,811</u>

Continued...

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$210,000 (2006 - \$215,282) to a former director who was also an officer of the Company and a corporation controlled by a director who is also an officer of the Company.
- b) Paid or accrued consulting fees of \$Nil (2006 - \$5,000) to a former director of the Company.
- c) Paid or accrued professional fees of \$40,000 (2006 - \$52,750) to a current officer of the Company.
- e) Paid or accrued geologist consulting fees included in deferred development costs of \$Nil (2005 - \$56,926) to a former director of the Company.

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.

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 9(ii).

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9. CAPITAL STOCK

	Number of Shares	Capital Stock	Warrants	Contributed Surplus
Authorized				
Unlimited common shares without par value				
Common shares				
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 (Note 5)	520,000	191,250	-	-
Finders' fees for mineral properties	66,666	16,666	-	-
Stock-based compensation (Note 10)	-	-	-	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
Exercise of warrants	7,865,240	2,155,563	-	-
Fair value of warrants exercised	-	324,571	(263,341)	(61,230)
Exercise of stock options	812,659	160,038	-	-
Fair value of stock options exercised	-	118,648	-	(118,648)
Acquisition of mineral properties (Note 5)	315,000	100,500	-	-
Stock-based compensation (Note 10)	-	-	-	714,171
Flow-through share renunciation	-	(170,600)	-	-
Balance as at December 31, 2007	71,568,141	\$ 14,079,392	\$ 1,175,654	\$ 1,385,673

- (i) During the year ended December 31, 2007, the Company issued 812,659 common shares (2006 –1,539,848) of the Company for \$160,038 (2006 - \$203,839) pursuant to the exercise of stock options and 7,865,240 common shares (2006 – 11,250,810) for \$2,155,563 (2006 - \$1,916,061) 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.
- (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 13)
- (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.

Continued...

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9. CAPITAL STOCK (Continued)

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

	2007	2006
Risk-free interest rate	-	4.07%
Expected life of warrants	-	2 years
Annualized volatility	-	116%
Dividend rate	-	0.00%

10. STOCK OPTIONS AND WARRANTS

Share purchase warrants

At December 31, 2007, warrants were outstanding enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
2,525,000	0.25	February 22, 2008 (Notes 17(d) and (e))
25,000	0.20	February 22, 2008 (Note 17(e))
7,338,640	0.45	November 23, 2008
857,142	0.35	November 23, 2008
<u>10,745,782</u>		

	Number of Warrants	Weighted Average Exercise Price
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
Warrants cancelled/expired	(25,000)	0.25
Warrants exercised	<u>(7,865,240)</u>	0.27
As at December 31, 2007	10,745,782	\$ 0.39
Number of warrants currently exercisable	10,745,782	\$ 0.39

Continued...

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10. STOCK OPTIONS AND WARRANTS (Continued)

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, 2007, the following incentive stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
50,000	0.20	February 27, 2009
100,000	0.24	March 16, 2009
200,000	0.17	December 21, 2010
250,000	0.32	February 17, 2011
3,249,998	0.25	September 19, 2011
300,000	0.35	January 24, 2012
1,000,000	0.50	March 29, 2012
<u>5,149,998</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, 2005	3,840,968	\$ 0.16
Options granted	4,200,000	0.26
Options cancelled	(1,412,783)	0.18
Options exercised	<u>(1,539,848)</u>	0.13
Balance, December 31, 2006	5,088,337	\$ 0.24
Options granted	1,300,000	0.47
Options cancelled	(425,680)	0.25
Options exercised	<u>(812,659)</u>	0.20
Balance, December 31, 2007	<u>5,149,998</u>	\$ 0.24
Number of options currently exercisable	<u>3,949,998</u>	\$ 0.28

The weighted average fair value of options granted during fiscal 2007 was \$0.36 (2006 - \$0.17).

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10. STOCK OPTIONS AND WARRANTS (Continued)

Stock-based compensation

During the year ended December 31, 2007, the Company granted 1,300,000 (2006 – 4,200,000) stock options to directors, consultants and employees, resulting in a value of \$468,200 (2006 - \$725,984). Compensation costs expensed in the year totalled \$714,171 (2006 - \$456,154) 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:

	2007	2006
Risk-free interest rate	4.02%	3.98%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	118%	114%
Expected option life in years	5.0 years	5.0 years

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2007 consisted of:

- a) The issuance of 315,000 common shares of the Company valued at \$100,500 pursuant to mineral property option agreements.
- b) The decrease in accrued mineral property expenditures of \$167,031.
- c) The increase in the asset retirement obligation on the Bald Butte Project by \$23,148 during the year ended December 31, 2007.
- d) The increase in accrued property investigation costs of \$54,717.
- e) The decrease in subscriptions receivable of \$29,033.

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

- a) The issuance of 66,666 common shares of the Company valued at \$16,666 as finder's fee related to mineral property acquisitions.
- b) The issuance of 520,000 common shares of the Company valued at \$191,250 pursuant to mineral property option agreements.
- c) The issuance of agents' warrants valued at \$243,425 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 increase in accrued mineral property expenditures of \$233,241.
- f) Subscriptions receivable of \$29,033 from the exercise of options and warrants as at December 31, 2006.

Continued...

BOLERO RESOURCES CORP.
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12. FINANCIAL INSTRUMENTS

Fair value

The carrying amounts of cash, receivables, marketable securities, 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.

13. INCOME TAXES

a) A reconciliation of income taxes at the statutory rate of 36% (2006 – 34%) is as follows:

	2007	2006
(Loss) for the year before tax	\$ (1,758,871)	\$ (1,733,505)
Expected income tax (recovery)	\$ (633,200)	\$ (589,400)
Expiry of non-capital loss carry-forwards	-	105,800
Other	(10,200)	10,800
Change in expected tax rate	183,300	54,100
Expenses not deductible for income tax purposes	264,800	195,500
Change in foreign exchange rate	4,700	-
Write-down of mineral and oil and gas properties	-	38,500
Items deductible for income tax purposes	-	(163,300)
Change in valuation allowance	190,600	96,400
Total future income tax (recovery)	\$ -	\$ (251,600)

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

	2007	2006
Future income tax assets:		
Resource properties	\$ 460,500	\$ 472,000
Non-capital loss carry-forwards	820,000	720,000
Other assets	116,500	185,000
	1,397,000	1,377,000
Valuation allowance	(1,397,000)	(1,206,400)
Net future income tax assets	\$ -	\$ 170,600

Continued...

BOLERO RESOURCES CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. INCOME TAXES (Continued)

During the year ended December 31, 2006, the Company issued 1,000,000 common shares on a flow-through basis for gross proceeds of \$500,000. The flow-through agreements required 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, 2007, the Company renounced exploration expenditures of \$500,000.

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately \$2,705,000 and U.S. non-capital losses of approximately \$78,000 (US\$78,000). Subject to certain restrictions, the Company also has resource expenditures of approximately \$8,464,969 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</u> <u>Amount</u>	<u>U.S. losses</u> <u>Amount</u>
2008	\$ 7,000	US\$ -
2009	58,000	-
2010	212,000	-
2014	253,000	-
2015	666,000	-
2025	-	24,000
2026	849,000	54,000
2027	660,000	-
	<u>\$ 2,705,000</u>	<u>US\$ 78,000</u>

14. 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>Total</u> <u>Assets</u>	<u>Mineral</u> <u>Properties</u>	<u>Oil and Gas</u> <u>Properties</u>	<u>Other</u> <u>Assets</u>
2007				
Assets				
Canada	\$ 2,107,554	\$ 549,500	\$ -	\$ 1,558,054
United States	<u>6,488,656</u>	<u>6,308,881</u>	<u>2</u>	<u>179,773</u>
	<u>\$ 8,596,210</u>	<u>\$ 6,858,381</u>	<u>\$ 2</u>	<u>\$ 1,737,827</u>
2006				
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>

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

Continued...

15. COMPARATIVE FIGURES

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

16. COMMITMENTS

During the year ended December 31, 2007, the Company entered into a 3-year lease for office premises expiring January 31, 2010 with basic rent of \$16,256 per annum.

17. SUBSEQUENT EVENTS

- a) On October 15, 2007, the Company announced that it had entered into a Letter Agreement (the "Letter Agreement") with Rico Renaissance LLC, Rico Land and Cattle Company, Rico High Altitude Investments LLC, Rico Properties LLC and Rico Mountain Life LLC (collectively "RR") to acquire certain private surface and mineral rights in Colorado. The purchase price was US\$10,000,000 with an up front US\$100,000 (paid) non-refundable deposit and the remaining payments upon the completion of the due diligence process. The Company's due diligence investigations could not be satisfactorily addressed to permit the entering into of a definitive agreement. On February 27, 2008, the Company announced the termination of the transaction. The carrying cost of the expenditures incurred has been written off. The Company has set up a US\$100,000 (Cdn\$98,201) receivable for the recovery of the deposit pursuant to a Settlement Agreement entered into between the Company and RR. This amount was received subsequent to December 31, 2007.
- b) On November 1, 2007, the Company announced that it had entered into a Term Facility with Auramet Trading ("Auramet") whereby Auramet would upon satisfaction of certain conditions precedent, lend the Company the sum of US\$10 million. The loan proceeds would have been used for the acquisition of the Rico property discussed in Note 17(a). On February 27, 2008, the Company announced that in connection with the termination of the Rico transaction, the term facility was also cancelled. During the year ended December 31, 2007, the Company paid Auramet a US\$100,000 (Cdn\$98,201) bridge loan fee, which was refunded to the Company subsequent to December 31, 2007.
- c) The Company paid US\$200,000 (Cdn\$199,480) and issued 100,000 common shares of the Company valued at \$30,000 pursuant to the Bald Butte property agreement described in Note 5.
- d) 650,000 common shares were issued upon the exercise of warrants for gross proceeds of \$162,500.
- e) 1,875,000 common share purchase warrants exercisable at \$0.25 and 25,000 common share purchase warrants exercisable at \$0.20 expired, unexercised.