



(A development-stage company)

Annual Audited Financial Statements

Years ended:

December 31, 2006 and 2005

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Auditors' Report

To the Shareholders of GFM Resources Limited

We have audited the consolidated balance sheets of GFM Resources Limited as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Vancouver, Canada
February 14, 2007

Chartered Accountants

GFM RESOURCES LIMITED

(a development-stage company)

CONSOLIDATED BALANCE SHEETS*[Note 1 - Nature of operations and basis of presentation]*

(Expressed in Canadian Dollars)

	December 31	
	2006	2005
	\$	\$
<hr/> ASSETS		
Current		
Cash and cash equivalents	6,419	181,374
Accounts receivable	6,977	3,627
Prepaid expenses and deposits [Note 3]	1,250	1,800
	14,646	186,801
Equipment [Notes 4]	-	777
Investment in mineral properties [note 5]	-	8,585
	14,646	196,163
<hr/> <hr/>		
LIABILITIES		
Current		
Accounts payable and accrued liabilities [Note 9]	49,012	39,385
Due to related parties	18,915	493
Due to Grupo Ferrominero [Note 6]	48,390	-
	116,317	39,878
<hr/> <hr/>		
SHAREHOLDERS' DEFICIENCY		
Share capital [Note 7(b)]	2,468,666	2,006,202
Contributed surplus [Note 7(f)]	445,681	358,383
Deficit	(3,016,018)	(2,208,300)
	(101,671)	156,285
	14,646	196,163
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See accompanying notes

On behalf of the Board:

"Roman Friedrich"
Director

"James Robertson"
Director

GFM RESOURCES LIMITED

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CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Expressed in Canadian Dollars)

Years ended December 31	2006	2005
	\$	\$
EXPENSES		
Administration and accounting [Note 9]	59,872	43,524
Amortization expense [Note 4]	78	194
Audit and legal [Note 9]	54,594	21,543
Consulting [Note 9]	100,865	7,600
Filing and transfer agent fees	15,661	13,913
Foreign exchange loss	1,484	12,423
General prospecting	-	5,454
Office and sundry	19,587	10,205
Stock-based compensation [Note 7(e)]	146,731	197,920
News dissemination	30,865	972
Travel	15,707	12,642
Training and development	188	75
Write-off of mineral property [Note 5]	362,068	-
Write-off of equipment [Note 4]	599	-
Loss before other income and expenses	(808,299)	(326,465)
Other income and expenses		
Interest income	716	174
Interest expense	(135)	-
Loss for the year	(807,718)	(326,291)
Deficit, beginning of year	(2,208,300)	(1,882,009)
Deficit, end of year	(3,016,018)	(2,208,300)
Loss per share (basic and diluted)	(0.07)	(0.04)
Weighted average number of shares outstanding (basic and diluted)	12,237,868	8,698,622

See accompanying notes

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

Years ended December 31	2006 \$	2005 \$
Operating activities		
Loss for the year	(807,718)	(326,291)
Adjustments for items not involving cash:		
- Amortization	78	194
- Write-off of equipment [Note 4]	599	-
- Write-off of mineral property [Note 5]	362,068	-
- Stock-based compensation	146,731	197,920
	(298,242)	(128,177)
Changes in non-cash working capital items:		
- Increase in accounts receivable	(3,350)	(2,328)
- Increase in prepaid expenses and deposits	550	(1,250)
- Decrease in accounts payable and accrued liabilities	9,627	21,614
- Increase in interest due to Grupo Ferrominero [Note 6]	135	-
	(291,280)	(110,141)
Cash flows from investing activities		
Sale of equipment	100	-
Deferred exploration costs	(353,483)	(8,585)
	(353,383)	(8,585)
Cash flows from financing activities		
Proceeds from private placement	170,000	239,700
Proceeds from warrants exercised	239,700	-
Share issuance costs	(6,669)	(5,441)
Loan from Grupo Ferrominero [Note 6]	48,255	-
Increase in amount due to related party	18,422	47,317
	469,708	281,576
Unrealized foreign exchange loss (gain)		12,423
Net (decrease) increase in cash position	(174,955)	175,273
Cash position, beginning of year	181,374	6,101
Cash position, end of year	6,419	181,374
Supplementary information:		
Income taxes paid in cash	-	-
Interest paid in cash	(135)	-
Issuance of common shares in settlement of debt to related party	-	258,923

GFM RESOURCES LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

1. Nature of Operations and Basis of Presentation

The Company was incorporated under the laws of British Columbia, Canada, on September 3, 1987. During the year ended December 31, 2000, the Company continued its operation into Yukon under the Business Corporation Act of Yukon and registered as an extra-provincial company in British Columbia under the laws of British Columbia.

The Company is in the business of acquisition, exploration and development of mineral properties.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption 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 Company incurred significant losses since inception. Continued operations of the Company are dependent on the Company's ability to obtain public equity financing, receive continued financial support from its controlling shareholder, Grupo Ferrominero S.A. de C.V. ("Grupo"), or generate profitable operations in the future. There are no assurances that the Company will be successful in achieving these goals.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

These financial statements have been prepared within the framework of the significant accounting policies provided as follows:

(a) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenues and expenses reported during the period. Actual results may differ from those estimates.

(b) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned Mexican subsidiary GFM Resources de Mexico, S.A. de C.V. ("GFM-Mex"). Inter-company accounts and transactions have been eliminated.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

2. Significant Accounting Policies (cont'd...)

(c) Foreign Currency Translations

Assets and liabilities denominated in foreign currencies, including those of the Company's foreign integrated subsidiary, are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the period. Gain and losses on translations are included in income for the period.

(d) Equipment

Equipment is recorded at historical cost. Amortization is provided on a declining balance basis at the following annual rates:

Furniture and equipment	20%
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One half year of amortization is recorded in the year of acquisition.

(e) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are calculated in accordance with the treasury stock method which assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the prevailing market rate. Under the treasury stock method, the basic and diluted loss per shares are the same, as the effect of common shares issuable upon the exercise of warrants and stock options of the Company would be anti-dilutive.

(f) Income Taxes

Income taxes are accounted for using the liability method pursuant to Section 3465, Income Taxes, of *The Handbook of the Canadian Institute of Chartered Accountants*. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

2. Significant Accounting Policies (cont'd...)

(g) Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred by increasing the carrying amount of the related asset by the same amount as the liability. The Company applies the expected cash flow approach to estimate the fair value of the liability in which multiple cash flow scenarios that reflect the range of possible outcomes and a credit-adjusted risk-free rate are used. When a reasonable estimate of a value of the liability cannot be made in the period the asset retirement obligation is incurred, the liability is recognized in the period whenever a reasonable estimate of the liability can be made. The asset retirement cost is amortized over the asset's useful life and charged to operations.

(h) Stock-based compensation

The Company adopted the standard for the accounting of *Stock-based compensation and other stock-based payments*, as recommended by the Canadian Institute of Chartered Accountants. Under the standard, all stock option awards granted to directors, officers, employees and consultants of the Company require the application of the fair value method.

The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

(i) Cash and cash equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into cash with maturity dates of less than 90 days from the date of purchase.

(j) Mineral properties

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

2. Significant Accounting Policies (cont'd...)

(k) Property Option Agreement

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

3. Prepaid expenses and deposits

Prepaid expenses and deposits include \$1,250 (2005: \$1,800) advanced to the TSX Venture Exchange to cover sustaining fees corresponding to the first quarter of 2007.

4. Equipment

As at December 31, 2006 the equipment has been written off in full. Prior year equipment consists of the following:

	Furniture and equipment \$		
	Cost	Accumulated Amortization	Book Value
Balance, December 31, 2004	4,860	3,889	971
Amortization during year	-	194	(194)
Balance, December 31, 2005	4,860	4,083	777
Amortization during year	-	78	(78)
Amount paid in cash	(100)	-	(100)
Amount written off	(599)	-	(599)
Balance, December 31, 2006	4,161	4,161	-

5. Investment in Mineral Property

On November 18, 2005, the Company signed an option agreement with Grupo to earn an interest in Grupo's Atexcaco volcanogenic massive sulphide (VMS) project in the State of Puebla, in central Mexico ("Atexcaco"). Under the terms of the agreement, the Company would have earned a 60% interest in Atexcaco by expending \$750,000 in exploration expenses with the following investment schedule:

- \$200,000 by June 30, 2006 (\$347,505 had been spent to that date)
- An additional \$550,000 by June 30, 2007 (a total of \$362,068 spent to December 31, 2006).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

5. Investment in Mineral Property (cont'd...)

Once the 60% interest had been earned, the Company would have entered into a second option to earn the remaining 40% interest in Atexcaco by paying Grupo US \$1,000,000 in the following manner:

- US \$500,000 in cash
- US \$500,000 in cash or issue to Grupo such number of common shares of the Company as is equal to US \$500,000 divided by the Discounted Market Price, being the greater of \$0.05 and the closing price of the Company's common shares on the day the Company publicly announces that it will exercise the second option, less applicable discounts based on closing price.

The drilling program that took place during fiscal 2006 yielded inconclusive results, and the Company decided not to pursue the option on this property any further. Therefore, the total cost incurred of \$362,068 was charged to operations at December 31, 2006.

6. Due to Grupo Ferrominero

On December 14, 2006, the Company received from Grupo \$48,390 (US \$42,000) (2005: \$Nil) to fund the Company's operations. To December 31, 2006, the Company accrued interest of \$135. The advance bears interest at the rate of 6% per annum and is without specified terms of repayment. See Note 12, Subsequent Events.

7. Share Capital

a) Authorized: unlimited number of common shares without par value.

b) Issued and outstanding:

	Shares	Amount
Balance, December 31, 2004	6,185,016	\$ 1,572,452
Issued June 30, 2005 pursuant to settlement of debt of \$285,923 due to Grupo at \$0.10 per share.	2,589,230	258,923
Issued June 30, 2005 pursuant to a private placement with Grupo at \$0.10 per unit	2,397,000	174,827
Balance, December 31, 2005	11,171,246	2,006,202
Issued March 16, 2006 pursuant to a non-brokered private placement at \$0.40 per share.	425,000	170,000
Cost of issuance	-	(6,668)
Issued by exercise of warrants on May 11, 2006	1,198,500	299,132
Balance, December 31, 2006	12,794,746	\$ 2,468,666

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

7. Share Capital (cont'd...)

c) Escrow shares:

450,000 of the common shares are held in escrow.

On August 20, 2003, the TSX Venture Exchange approved conversion of the Company's escrow shares to a time-released agreement as follows:

Release dates	Total number of escrowed securities to be released
February 20, 2007	75,000
August 20, 2007	75,000
February 20, 2008	75,000
August 20, 2008	75,000
February 20, 2009	75,000
August 20, 2009	75,000
	450,000

d) Warrants

	Warrants	Weighted average exercise price \$	Expiry date
Balance, December 31, 2004	-	-	-
Issued June 30, 2005 pursuant to a private placement with Grupo at \$0.10 per unit	1,198,500	0.20	June 30, 2006
Balance, December 31, 2005	1,198,500	0.20	
Exercised, May 11, 2006	(1,198,500)	0.20	
Balance, December 31, 2006	-	-	-

e) Stock Options

On May 23, 2006 the Board terminated the 1997 Plan and approved the adoption of a new incentive stock option plan (the "2006 Plan"), which was approved by the shareholders on June 29, 2006. Options granted under the 1997 Plan were rolled into the new 2006 Plan. The 2006 plan is of the "10% rolling type", allowing the granting of options to a maximum of 10% of the issued and outstanding shares of the Company at any time.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

7. Share Capital (cont'd...)

e) Stock Options (cont'd...)

The Company uses the fair-value method for stock options granted to directors, officers and consultants. During the fiscal year ended December 31, 2006, the Company granted an aggregate of 366,500 stock options to its directors, officers and consultants with an exercise price of \$0.50 per option until October 25, 2011, and charged \$146,731 of stock-based compensation expense to operations and contributed surplus.

The weighted-average fair value of the options granted during the fiscal year ended December 31, 2006 was \$0.40 per option using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 4.08%, dividend yield 0%, volatility 109.49% and expected life of five years

Stock options outstanding and exercisable as at December 31, 2006:

	Options	Weighted average exercise price \$	Expiry date
Balance, December 31, 2004	270,000	0.25	June 25, 2005
Expired June 25, 2005	(270,000)	0.25	
Granted June 30, 2005	618,500	0.10	June 20, 2010
Outstanding, December 31, 2005	618,500	0.10	
Cancelled on September 29, 2006	(80,000)	0.10	
Granted, October 25, 2006	366,500	0.50	October 25, 2011
Balance, September 30, 2006	905,000	0.26	

As at December 31, 2006, the 905,000 outstanding stock options are all exercisable at a weighted average exercise price of \$0.26 each with remaining contractual life of 4.03 years. Each stock option entitles the holder to acquire one common share of the Company. Pursuant to the provisions of the Company's stock option plan, 90 days after the optionee ceased to be a Director of the Company 80,000 fully vested options were cancelled.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

7. Share Capital (cont'd...)

f) Contributed surplus:

	Contributed Surplus \$
Balance, December 31, 2004	101,031
Pursuant to the issuance of 1,198,500 share purchase warrants with an exercise price of \$0.20 per warrant with an expiry date of June 30, 2006.	59,432
Pursuant to the granting of 618,500 stock options with an exercise price of \$0.10 per option expiring June 10, 2010	197,920
Balance, December 31, 2005	358,383
Pursuant to the exercise of 1,198,500 share purchase warrants with an exercise price of \$0.20 per warrant	(59,433)
Pursuant to the granting of 366,500 stock options with an exercise price of \$0.50 per option with an expiry date of October 25, 2006.	146,731
Balance, December 31, 2006	445,681

8. Income taxes

The reconciliation of income tax attributable to operations computed at the statutory tax rate to income tax expense (recovery), using a 34.12% [2005 – 34.87%] statutory tax rate, at December 31 is as follows:

	2006 \$	2005 \$
Loss for the year	(782,118)	(326,291)
Tax recovery at statutory tax rate	(253,690)	(113,502)
Permanent differences:		
Stock-based compensation	41,330	69,015
Amortization	27	68
Prospecting expense	-	1,902
Write-down of equipment	204	-
Write-down of mineral property	116,665	-
Meals and entertainment	1,035	51
Temporary differences:		
Share issuance costs	(986)	(565)
Terminal loss on disposal of equipment	(1,624)	-
Unrecognized benefit of losses carried forward	(97,038)	(43,032)
Valuation allowance	97,038	43,032
Future income tax asset	-	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

8. Income taxes (Cont'd...)

The Company has \$794,745 (2005 - \$552,440) of non-capital losses available for income tax purposes to reduce taxable income of future years. These non-capital losses will expire commencing in 2007 to 2016.

The Company has undepreciated capital costs in excess of the net book value of equipment of \$4,495 (2005 - \$9,355) which may be carried forward indefinitely and used to reduce future taxable income.

The Company also has available unclaimed foreign exploration and development expenditures of approximately \$509,734 (2005 - \$317,324) which may be carried forward indefinitely and used to reduce future taxable income.

Future income tax benefits which may arise as a result of non-capital losses, undepreciated capital costs in excess of the net book value of equipment and unclaimed foreign exploration and development expenditures have not been recognized in these financial statements as their realization is uncertain. The significant components of the Company's future income tax assets are as follows:

	2006	2005
	\$	\$
Non-capital losses carried forward	271,167	192,636
Share issuance costs	2,934	1,681
Exploration and depletion expenditures carried forward	234,100	120,016
Tax over book value of capital assets	1,534	2,991
	509,734	317,324
Valuation allowance	(509,734)	(317,324)
	-	-

The income tax benefits relating to these future income tax assets have not been recognized in these consolidated financial statements as their realization did not meet the requirements of the "more likely than not" criterion.

9. Related party transactions

During the fiscal year ended December 31, 2006, the Company:

- Paid \$22,500 (2005: \$Nil) in consulting fees to the President of the Company
- Paid \$78,365 (2005: \$Nil) in consulting fees to the former President of the Company.
- Paid \$39,625 (2005: \$32,000) in administration fees and \$4,800 (2005: \$5,400) in office rent to the Chief Financial Officer of the Company.
- Paid legal expenses of \$28,106 (2005: \$13,578) in legal fees and share issue costs of \$6,668 (2005: \$5,441) to a firm where the Company's Secretary is managing partner of the law firm.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

9. Related party transactions (Cont'd)

- Received \$239,700 (2005: \$239,700) from Grupo on exercise of 1,198,500 share purchase warrants with an exercise price of \$0.20 per warrant
- Received \$48,255 (2005: \$47,317) from Grupo as a loan to fund operations

Included in accounts payable and accrued liabilities as at December 31, 2006 are \$5,029 (2005: \$5,738) owed to the Chief Financial Officer of the Company in administration fees and reimbursable expenses; \$4,017 (2005: \$1,071) in legal fees owed to a law firm where the Company's Secretary is a partner, and \$18,915 (2005: \$Nil) to Grupo in administrative services and reimbursable expenses related to the Company's subsidiary in Mexico.

Management is of the opinion that these transactions have occurred in the normal course of operations and are measured at the exchange amount, being the amount of consideration established and agreed to by the transacting parties.

10. Financial instruments

The carrying value of cash, accounts receivable, prepaid expenses and deposits, accounts payable, amounts due to related parties approximate their fair value due to the short-term nature of these instruments. It is management's opinion that Company is not subject to significant interest and credit risks arising from these financial instruments.

11. Segmented information

The Company has a mineral property interest in Mexico. All mineral property acquisition costs relate to this physical location.

12. Subsequent events

Subsequent to December 31, 2006, the Company:

- a) Entered into a convertible Loan Agreement (the "Agreement") with Grupo on March 1, 2007. Under the terms of the Agreement, Grupo will fund amounts from time to time to a maximum of \$500,000, which is the limit established by NEX Policies, and will bear an interest rate equal to the Company's bank's Prime rate, measured from the date of the advance. Grupo has the right to convert the principal amount of each advance into units of the Company at the most recent closing price of the Company's common shares on the TSX Venture Exchange at the time of the advance. Each unit will consist of one common share and one share purchase warrant. Each warrant to be exercisable for a period of one year from the date of issuance at the conversion price.

The loan is repayable on demand, and is subject to approval by the TSX Venture Exchange.

- b) Has received an additional funding in the amount of \$100,000 from Grupo, which, together with prior advances, will be considered under the terms of the above-mentioned Agreement once TSX Venture Exchange approval is received.