



(A development-stage company)

## **Annual Audited Financial Statements**

Years ended:

December 31, 2007 and 2006

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## AUDITORS' REPORT

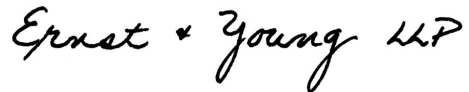
To the Shareholders of  
**GFM Resources Limited**

We have audited the consolidated balance sheets of **GFM Resources Limited** as at December 31, 2007 and 2006 and the consolidated statements of loss, comprehensive 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,  
April 25, 2008.



Chartered Accountants

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**GFM RESOURCES LIMITED**

(a development-stage company)

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

(Expressed in Canadian Dollars)

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<b>As at December 31</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	<b>29,444</b>	6,419
Accounts receivable	<b>14,257</b>	6,977
Prepaid expenses and deposits [Note 4]	<b>1,250</b>	1,250
	<b>44,951</b>	14,646
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<b>23,381</b>	39,966
Due to related parties [Note 8]	<b>104,897</b>	27,961
Liability component of convertible loan [Note 5]	<b>273,640</b>	48,390
	<b>401,918</b>	116,317
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital [Note 6]	<b>2,468,666</b>	2,468,666
Contributed surplus [Note 6]	<b>445,681</b>	445,681
Equity component of convertible loan [Note 5]	<b>47,143</b>	-
Deficit	<b>(3,318,457)</b>	(3,016,018)
	<b>(356,967)</b>	(101,671)
	<b>44,951</b>	14,646

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*See accompanying notes***On behalf of the Board:**"Roman Friedrich"

Director

"James Robertson"

Director

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**GFM RESOURCES LIMITED**

(a development-stage company)

**CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**

(Expressed in Canadian Dollars)

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<b>Years Ended December 31</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>EXPENSES</b>		
Administration and accounting [Note 8]	<b>59,328</b>	59,872
Amortization expense	-	78
Accretion of convertible loan [Note 5]	<b>5,960</b>	-
Audit and legal [Note 8]	<b>45,979</b>	54,594
Consulting [Note 8]	<b>144,030</b>	100,865
Filing and transfer agent fees	<b>13,963</b>	15,661
Foreign exchange (gain) loss	<b>(5,829)</b>	1,484
Office and sundry	<b>12,200</b>	19,587
Stock-based compensation	-	146,731
News dissemination	<b>850</b>	30,865
Travel	<b>13,295</b>	15,707
Training and Development	<b>1,230</b>	188
Write-off of mineral property	-	362,068
Write-off of equipment	-	599
<b>Loss before other income and expenses</b>	<b>(291,006)</b>	(808,299)
<b>Other income and expenses</b>		
Interest income	-	716
Interest expense [Note 5]	<b>(11,433)</b>	(135)
<b>Loss and comprehensive loss for the year</b>	<b>(302,439)</b>	(807,718)
<b>Deficit, beginning of year</b>	<b>(3,016,018)</b>	(2,208,300)
<b>Deficit, end of year</b>	<b>(3,318,457)</b>	(3,016,018)
<b>Loss per share (basic and diluted)</b>	<b>(0.02)</b>	(0.07)
<b>Weighted average number of shares outstanding (basic and diluted)</b>	<b>12,794,746</b>	12,237,868

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*See accompanying notes*

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**GFM RESOURCES LIMITED**

(a development-stage company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in Canadian Dollars)

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<b>Years ended December 31</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Loss for the year	<b>(302,439)</b>	(807,718)
Adjustments for items not involving cash:		
- Amortization	-	78
- Accretion expense [Note 5]	<b>5,960</b>	-
- Write-off of equipment	-	599
- Write-off of mineral property	-	362,068
- Stock-based compensation	-	146,731
	<b>(296,479)</b>	(298,242)
Changes in non-cash working capital items:		
- (Increase) in accounts receivable	<b>(7,280)</b>	(3,350)
- Decrease in prepaid expenses and deposits	-	550
- Increase (decrease) in accounts payable and accrued liabilities	<b>(16,585)</b>	9,627
- Increase in amounts due to related parties	<b>79,936</b>	-
- Increase in interest due to loan from Grupo Ferrominero	<b>11,433</b>	135
<b>Cash flows used in operating activities</b>	<b>(231,975)</b>	(291,280)
<b>Cash flows from investing activities</b>		
Disposal of equipment	-	100
Deferred exploration costs	-	(353,483)
<b>Cash flows used in investing activities</b>	-	(353,383)
<b>Cash flows from financing activities</b>		
Proceeds from private placement	-	170,000
Proceeds from warrants exercised	-	239,700
Share issuance costs	-	(6,669)
Convertible loan from Grupo Ferrominero [Note5]	<b>255,000</b>	48,255
Increase in amount due to related party	-	18,422
<b>Cash flows provided by financing activities</b>	<b>255,000</b>	469,708
<b>Net increase (decrease) in cash</b>	<b>23,025</b>	(174,955)
<b>Cash and cash equivalents, beginning of year</b>	<b>6,419</b>	181,374
<b>Cash and cash equivalents, end of year</b>	<b>29,444</b>	6,419
<b>Supplementary information:</b>		
Income taxes paid in cash	-	-
Interest paid in cash	-	-

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*See accompanying notes*

# GFM RESOURCES LIMITED

(a development-stage company)

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars)

	Common shares		Contributed	Equity portion		
	Amount	Value	surplus	of	Deficit	Total
		\$	\$	convertible loan	\$	\$
Balance, December 31, 2005	11,171,246	2,006,202	358,383	-	(2,208,300)	156,285
Private placement of shares	425,000	170,000	-	-	-	170,000
Exercise of share purchase warrants	1,198,500	299,132	(59,433)	-	-	239,699
Cost of issuance	-	(6,668)	-	-	-	(6,668)
Grant of stock options	-	-	146,731	-	-	146,731
Net loss for the year	-	-	-	-	(807,718)	(807,718)
Balance, December 31, 2006	12,794,746	2,468,666	445,681	-	(3,016,018)	101,671
Convertible loan with related party	-	-	-	47,143	-	47,143
Net loss and comprehensive loss for the year	-	-	-	-	(302,439)	(302,439)
Balance, December 31, 2007	12,794,746	2,468,666	445,681	47,143	(3,318,457)	356,967

See accompanying notes

**GFM RESOURCES LIMITED**  
(A development-stage company)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**1. Nature of Operations and Basis of Presentation**

GFM Resources Limited (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 consolidated 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 has 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 is substantial doubt as to whether or not the Company will be successful in achieving these goals.

These consolidated 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.

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements

**2. Significant Accounting Policies**

These consolidated 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 consolidated 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.

**GFM RESOURCES LIMITED**  
(A development-stage company)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

**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 rate:

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 share 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 ("CICA")*. 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 of 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.

**GFM RESOURCES LIMITED**  
(A development-stage company)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**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 assets 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. As at December 31, 2006 and 2007, the Company does not have any asset retirement obligations.

(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 vesting period is determined by the board of directors at granting.

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.

**GFM RESOURCES LIMITED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**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. Changes in accounting policies.**

(a) Financial Instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

**GFM RESOURCES LIMITED**  
(A development-stage company)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

**3. Changes in accounting policies (cont'd...)**

(a) Financial Instruments (cont'd...)

As a result of the adoption of these new standards, the Company has classified its cash equivalents as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost. The Company has elected to measure all derivatives and embedded derivatives at fair value and the Company has maintained its policy not to use hedge accounting.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

There are no effects to opening balances as at January 31, 2007 as a result of the application of this policy.

(b) Recent accounting pronouncements

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2008. The Company will adopt the requirements commencing in the interim period ending March 31, 2008 and is currently considering the impact this will have on the Company's consolidated financial statements.

Section 1400 – Assessing Going Concern

This Section was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

The Company does not believe that the amendment to Section 1400 will have a significant impact on its consolidated financial statements.

**GFM RESOURCES LIMITED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**3. Changes in accounting policies (cont'd...)**

(b) Recent accounting pronouncements (cont'd...)

Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Company will be required to disclose the following, based on the information provided internally to the entity's key management personnel:

- (i) qualitative information about its objectives, policies and processes for managing capital,
- (ii) summary quantitative data about what it manages as capital,
- (iii) whether during the period it complied with any externally imposed capital requirements to which it is subject,
- (iv) when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The Company does not believe that Section 1535 will have a significant impact on its consolidated financial statements.

Section 3031 - Inventories

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

The Company does not believe that Section 3031 will have a significant impact on its consolidated financial statements.

Section 3064 – Goodwill and Intangible Assets

This new standard replaces the current standard for goodwill and intangible assets, Section 3062, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

The Company does not believe that Section 3064 will have a significant impact on its consolidated financial statements.

**GFM RESOURCES LIMITED**  
(A development-stage company)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**3. Changes in accounting policies (cont'd...)**

(b) Recent accounting pronouncements (cont'd...)

Section 3862 – Financial Instruments - Disclosures

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities will be required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

The Section requires specific disclosures to be made, including the criteria for:

- (i) designating financial assets and liabilities as held for trading;
- (ii) designating financial assets as available-for-sale; and
- (iii) determining when impairment is recorded against the related financial asset or when an allowance account is used.

The Company does not believe that Section 3862 will have a significant impact on its consolidated financial statements.

Section 3863 – Financial Instruments - Presentation

This Section was issued to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The Company does not believe that Section 3863 will have a significant impact on its consolidated financial statements.

**GFM RESOURCES LIMITED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**4. Prepaid expenses and deposits**

Prepaid expenses and deposits of \$1,250 (December 31, 2006: \$1,250) include \$1,250 advanced to the TSX Venture Exchange to cover sustaining fees corresponding to the first quarter of 2008.

**5. Due to Grupo Ferrominero**

On March 1, 2007, the Company entered into a convertible Loan Agreement (the "Loan Agreement") with Grupo. Under the terms of the Loan Agreement, Grupo will fund amounts from time to time to a maximum of \$500,000 per year. Each advance will bear interest, commencing on the date of the advance, at the Prime Rate offered by the Company's bank on such date. The loan is repayable on demand.

Under the terms of the Loan Agreement and an Amending Agreement dated September 30, 2007, Grupo has the right to convert the principal amount of each advance into units of the Company at the closing price of the Company's common shares on the TSX Venture Exchange on the day before the advance (the "Conversion Price"). Each unit will consist of one common share and one common share purchase warrant. Each warrant will be exercisable for a period of one year from the date of issuance at the Conversion Price.

On September 30, 2007, an Amending Agreement was entered into whereby, should Grupo exercise its conversion right after one year from the date of the advance, then the principal amount of the advance will be converted only into common shares of the Company at the Conversion Price, instead of into units consisting of one common share and one share purchase warrant. Furthermore, the convertibility provision will be restricted to a maximum of five years from the date of each advance.

During the year ended December 31, 2007, the Company received from Grupo an aggregate of \$255,000 (2006: \$48,255) in various advances to fund the Company's operations.

The Company has accounted for the convertible loan in accordance with its substance following the guidance of EIC 164. The Company has identified that there is an equity element representing the conversion feature and a liability element representing the debt host.

The liability element has been calculated as the present value of the stream of interest and principal payments discounted at a rate approximate to the interest for a similar liability without a conversion feature. The difference between the principal owing and the liability element of \$256,112 has been recorded as equity in the amount of \$47,143.

The debt discount is accreted on term to maturity by changes to income for the period. As at December 31, 2007, \$11,568 has been accrued as interest on the convertible debt.

**GFM RESOURCES LIMITED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**5. Due to Grupo Ferrominero (Cont'd...)**

The balances on the convertible loan as at December 31, 2007 are as follows:

Amounts advanced	\$ 303,255
Less equity portion	(47,143)
Add accrued interest	11,568
Add accretion expense	5,960
	\$ 273,640

**6. Share Capital**

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

b) Issued and outstanding:

	Shares	Amount
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 and 2007	12,794,746	\$ 2,468,666

c) Escrow shares:

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, 2008	75,000 *
August 20, 2008	75,000
February 20, 2009	75,000
August 20, 2009	75,000
	300,000

\* Released subsequent to December 31, 2007

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**6. Share Capital** (cont'd...)

d) Warrants

	Warrants	Weighted average exercise price \$	Expiry date
Balance, December 31, 2005	1,198,500	0.20	
Exercised, May 11, 2006	(1,198,500)	0.20	
Balance, December 31, 2006 and 2007	-	-	-

e) Stock Options

On May 23, 2006 the Board of Directors 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.

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 with immediate vesting 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 of 0%, volatility of 109.49% and expected life of five years

Stock options outstanding and exercisable as at December 31, 2007:

	Options	Weighted average exercise price \$	Expiry date
Outstanding, December 31, 2005	618,500	0.10	June 20, 2010
Cancelled on September 29, 2006	(80,000)	0.10	
Granted, October 25, 2006	366,500	0.50	October 25, 2011
Balance, December 31, 2006 and 2007	905,000	0.26	

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**6. Share Capital** (cont'd...)

e) Stock Options (cont'd)

As at December 31, 2007, the 905,000 outstanding stock options are all exercisable at a weighted average exercise price of \$0.26 each with remaining contractual life of 3.03 years. Each stock option entitles the holder to acquire one common share of the Company. Pursuant to the provisions of the Company's 2006 plan, 90 days after the optionee ceased to be a Director of the Company 80,000 fully vested options were cancelled on September 29, 2006.

f) Contributed Surplus

	\$
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 and 2007	445,681

**7. 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% [2006 – 34.12%] statutory tax rate, at December 31 is as follows:

	2007 \$	2006 \$
Loss for the year	(302,439)	(807,718)
Tax recovery at statutory tax rate	(103,000)	(254,000)
Permanent differences:		
Stock-based compensation	-	41,000
Amortization	-	-
Prospecting expense	-	-
Write-down of equipment	-	-
Write-down of mineral property	-	117,000
Meals and entertainment	-	1,000
Temporary differences:		
Share issuance costs	(1,000)	(1,000)
Terminal loss on disposal of equipment	-	(1,000)
Unrecognized benefit of losses carried forward	56,000	(97,000)
Other changes in valuation allowance	48,000	-
Income tax expense	-	-

**GFM RESOURCES LIMITED**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**7. Income taxes (cont'd...)**

The Company has \$949,459 (2006 - \$794,745) of non-capital losses available for income tax purposes to reduce taxable income of future years. These non-capital losses will expire commencing in 2008 to 2027.

The Company has undepreciated capital costs in excess of the net book value of equipment of \$Nil (2006 - \$4,495) 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 (2006 - \$509,734) 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 consolidated financial statements as their realization is uncertain. The significant components of the Company's future income tax assets are as follows:

	2007	2006
	\$	\$
Non-capital losses carried forward	327,000	271,000
Share issuance costs	2,000	3,000
Exploration and depletion expenditures carried forward	147,000	234,000
Tax over book value of equipment	-	2,000
	476,000	510,000
Valuation allowance	(476,000)	(510,000)
	-	-

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.

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**8. Related party transactions**

During the year ended December 31, 2007, the Company:

- Paid \$90,000 (2006: \$22,500) in consulting fees to a company controlled by the President of the Company
- Paid \$Nil (2006: \$78,365) in consulting fees to the former President of the Company.
- Paid \$54,000 (2006: \$39,625) in administration fees and \$7,200 (2006: \$4,800) in office rent to a company controlled by the Chief Financial Officer of the Company.
- Paid legal expenses of \$18,586 (2006: \$37,211), including share issue costs, to a law firm where the Company's Secretary is managing partner of the law firm.
- Paid \$70,304 (2006: \$18,155) to Grupo or companies controlled by Grupo for administration services and office expenses incurred by the Company's Mexican subsidiary.
- Received \$255,000 (2006: \$48,255) from Grupo in loan advances to fund operations and accrued interest thereof of \$11,382 (2006: \$135).
- Received \$Nil (2006 - \$239,700) from Grupo from the exercise of share purchase warrants.

Included in amounts due to related parties as at December 31, 2007 are \$5,518 (2006: \$5,029) owed to a company controlled by an officer of the Company in administration and reimbursable expenses, \$2,282 (2006: \$4,017) due to the law firm where an officer of the Company is managing partner, and \$88,458 (2006: \$27,961) owed to Grupo or companies controlled by Grupo for services provided to the Company's Mexican subsidiary.

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.

**9. Financial instruments**

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

**10. Change of majority shareholder**

On July 9, 2007, Compañía Minera Autlán, S.A.B. de C.V. ("Autlan"), a Mexican public company controlled by Grupo acquired 9,672,390 common shares of the Company from Grupo in a private transaction, thus becoming the new controlling shareholder of the Company. As Grupo controls approximately 80% of Autlan, there is no effective change of control for the Company.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**11. Subsequent events**

a) La Casita project option

On January 10, 2008, the Company entered into a Letter of Intent (the "LOI") to acquire from Grupo the "La Casita" mineral property, formerly known as El Rodeo property ("the Acquisition") in the State of Durango, Mexico, and to option the property to Geologix Explorations Inc. (TSXV: GIX "Geologix").

The Company will pay Grupo a consideration of 150,000 common shares for the acquisition of 100% of the rights to the claims integrating the La Casita property. The Company will also pay Grupo 10% of the cash amounts received from Geologix, following the same payment calendar as stipulated hereunder.

In order to acquire a 60% interest in La Casita, Geologix will:

(i) Pay the Company US \$650,000 in cash over a period of up to four years as follows

a.	On signature of a definitive agreement	US \$50,000
b.	On or before the first anniversary thereof	US \$100,000
c.	On or before the second anniversary thereof	US \$125,000
d.	On or before the third anniversary thereof	US \$150,000
e.	On or before the fourth anniversary thereof	US \$225,000
	Total	<u>US \$650,000</u>

(ii) Fund 100% of an exploration program totalling US \$1,875,000, as follows:

a.	On or before the first anniversary	US \$125,000
b.	On or before the second anniversary	US \$250,000
c.	On or before the third anniversary	US \$500,000
d.	On or before the fourth anniversary	US \$1,000,000
	Total	<u>US \$1,875,000</u>

Geologix will maintain the mineral concessions in good standing over the term of the option, and will have the right to accelerate the schedule of payments and work expenditures to earn its 60% interest.

Once Geologix has earned its 60% interest in La Casita, a joint venture between Geologix and the Company will be formed. The initial operator will be Geologix (the "Operator"). The Operator will have three years to carry out further exploration, with a minimum annual expenditure budget of US \$625,000. Both parties may elect to contribute to the proposed budget or have their interest diluted.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**11. Subsequent events** (cont'd...)

a) La Casita project option (cont'd...)

A feasibility study may be proposed by the Operator, or by the other party if the Operator fails to do so, within three months of the end of the three-year joint venture period. If one of the parties elects not to participate in the funding of the feasibility study, the other party will earn an additional 11% interest in the joint venture by the completion of a positive feasibility study. If the feasibility study recommends taking the property into production and one of the parties does not elect to participate, the other party will earn a further 9% interest.

b) Grant of stock options

On March 11, 2008, the Company granted an aggregate of 330,000 stock options to its directors, officers and one employee. Each option entitles its owner to purchase one common share of the Company at an exercise price of \$0.25 until March 11, 2013. The options have a hold period expiring on July 12, 2008.

c) Loan advances

The Company has received \$70,000 in advances pursuant to the convertible loan agreement with Grupo (Note 5).