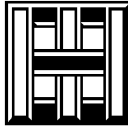

**WESTSTAR RESOURCES CORP.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006**



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Weststar Resources Corp.

We have audited the balance sheets of Weststar Resources Corp. as at December 31, 2007 and 2006, and the 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 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 cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

April 23, 2008

WESTSTAR RESOURCES CORP.**BALANCE SHEETS****AS AT DECEMBER 31, 2007 AND 2006**

	2007	2006
ASSETS		
CURRENT		
Cash	\$ 181,346	\$ 237,294
GST receivable	27,893	30,114
Prepaid expenses and deposits	—	10,000
	209,239	277,408
MINERAL PROPERTY (Note 4)	263,500	17,500
DEFERRED EXPLORATION COSTS (Note 4)	1,142,299	388,050
	\$ 1,615,038	\$ 682,958
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 19,878	\$ 57,167
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6(b))	1,996,554	734,413
CONTRIBUTED SURPLUS (Note 6(d))	242,282	18,900
DEFICIT	(643,676)	(127,522)
	1,595,160	625,791
	\$ 1,615,038	\$ 682,958

NATURE OF OPERATIONS (Note 1)

COMMITMENTS (Note 9)

SUBSEQUENT EVENT (Note 11)

Approved on behalf of the Board:

/s/ "Jerry Minni"

Jerry Minni, Director

/s/ "Christopher Dyakowski"

Christopher Dyakowski, Director

The accompanying notes are an integral part of these financial statements.

WESTSTAR RESOURCES CORP.**STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
EXPENSES		
Filing fees	\$ 34,950	\$ 875
Interest and bank charges	595	2,068
Investor communications	198,985	13,513
Management and administration fees	60,000	46,500
Office and miscellaneous	23,223	2,116
Professional fees	48,658	15,570
Rent	30,000	16,000
Stock-based compensation – Director's fees	190,331	–
Telephone	12,105	2,118
Transfer agent	11,030	5,030
Travel	4,909	–
Net loss for the year before interest income and income taxes	(614,786)	(103,790)
Interest income	13,332	3,083
Net loss for the year before income taxes	(601,454)	(100,707)
Future income tax recovery	85,300	13,307
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(516,154)	(87,400)
DEFICIT, BEGINNING OF YEAR	(127,522)	(40,122)
DEFICIT, END OF YEAR	\$ (643,676)	\$ (127,522)
LOSS PER SHARE – BASIC AND DILUTED	\$ (0.02)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	20,744,693	9,406,400

The accompanying notes are an integral part of these financial statements.

WESTSTAR RESOURCES CORP.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
OPERATING ACTIVITIES		
Net loss for the year	\$ (516,154)	\$ (87,400)
Items not involving cash		
Future income tax recovery	(85,300)	(13,307)
Stock-based compensation	242,282	—
	<hr/> (359,172)	<hr/> (100,707)
Changes in non-cash working capital items:		
Other receivables	—	1,624
GST receivable	2,221	(18,695)
Prepaid expenses and deposits	10,000	(10,000)
Accounts payable and accrued liabilities	(37,289)	54,760
Due to related party	—	(1,500)
	<hr/> (384,240)	<hr/> (74,518)
FINANCING ACTIVITY		
Issuance of shares, net of costs	1,097,541	556,561
INVESTING ACTIVITIES		
Deferred exploration expenditures	(754,249)	(285,919)
Acquisition of mineral properties	(15,000)	—
	<hr/> (769,249)	<hr/> (285,919)
INCREASE (DECREASE) IN CASH	(55,948)	196,124
CASH, BEGINNING OF YEAR	237,294	41,170
CASH, END OF YEAR	<hr/> \$ 181,346	<hr/> \$ 237,294
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ —	\$ —
Cash paid for income taxes	\$ —	\$ —
NON-CASH FINANCING ACTIVITIES		
Shares issued for mineral property (Note 6(b)(ii))	\$ 231,000	\$ —

The accompanying notes are an integral part of these financial statements.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

1. NATURE OF OPERATIONS

The Company was incorporated on October 27, 2004 in British Columbia. During the year ended December 31, 2006 the Company completed its initial public offering on the TSX Venture Exchange, and the Company's shares were listed for trading on September 22, 2006.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production.

The Company incurred a loss of \$516,154 (2006: \$87,400) for the year ended December 31, 2007, and had an accumulated deficit of \$643,676 at December 31, 2007 (2006: \$127,522) which has been funded primarily by the issuance of equity. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a) Basis of presentation**

The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles.

b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the related notes to the financial statements. Significant areas requiring the use of management estimates include the recoverability of mineral properties, asset retirement obligations, future income tax valuation allowances and assumptions used in valuing options and warrants. Actual results could differ from those estimates.

c) Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized to income using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contains economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**c) Mineral properties (continued)**

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

d) Long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of mineral property and deferred exploration costs may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

e) Asset retirement obligations

The Company follows the recommendations of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2007, the Company has not incurred any asset retirement obligations related to the exploration and development of its mineral properties.

f) Government assistance

B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C. are treated as a reduction of the exploration and development costs of the respective mineral property.

g) Flow-through shares

The Company follows the recommendations of Emerging Issues Committee Abstract ("EIC") -146 for all flow-through share transactions. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced.

If the Company has sufficient unused tax loss carry forwards or other future income tax assets to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these items, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that would otherwise be recognized.

h) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences which arise between the accounting basis and the tax basis of various assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is provided for any future income tax assets if it is more likely than not that the asset will not be realized.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**i) Stock-based compensation**

The Company applies the fair value method to stock-based payments to all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital.

j) Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

k) Financial instruments

As at December 31, 2007, the Company's financial instruments consist of cash and accounts payable. The Company is not exposed to derivative financial instruments. It is management's opinion that the Company is not exposed to significant interest and currency risks arising from its financial instruments and their fair values approximate their carrying values.

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places these instruments with high credit quality financial institutions.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530 ("CICA 1530"), "Comprehensive Income" and Section 3855 ("CICA 3855"), "Financial Instruments - Recognition and Measurement". These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and derivatives financial instruments. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

CICA 1530 provides standards for the reporting and presentation of comprehensive income, which represents the net income and other comprehensive income for the period from transactions and other events and circumstances from non-owner sources. Other comprehensive income includes changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale assets and changes in the fair value of derivatives designated as cash flow hedges to the extent they are effective and are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. The adoption of CICA 1530 did not result in any significant adjustments to the carrying values of the Company's previously recognized financial assets and liabilities at January 1, 2007 and had no impact on opening deficit.

Under CICA 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for sale financial assets or other financial liabilities.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

3. CHANGES IN ACCOUNTING POLICIES (continued)

All financial instruments, including derivatives, are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with CICA Handbook Section 3840, "Related Party Transactions". Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is impaired at which time the amounts will be recorded in net income; financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for trading are measured at amortized cost, using the effective interest method of amortization. CICA 3855 also requires that transaction costs incurred in connection with issuance of financial instruments either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. CICA 3855 does not permit the restatement of financial statements of prior periods.

The Company designated its financial instruments as follows:

Cash	held-for-trading
Accounts payable	other financial liabilities

In addition, the Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments. The Company did not have any available for sale financial assets, held-to-maturity instruments and outstanding contracts with embedded derivatives at January 1, 2007.

The adoption of CICA 3855 did not result in any significant adjustments to the carrying values of the Company's previously recognized financial assets and liabilities at January 1, 2007 and had no impact on opening deficit.

Effective January 1, 2007, the Company adopted the CICA Handbook Section 1506 ("CICA 1506"), "Accounting Changes". CICA 1506 permits accounting policy changes only in the event a change is made within a primary source of Canadian generally accepted accounting principles, or a change is warranted to provide more relevant and reliable information. All accounting policy changes are to be applied retroactively, unless impracticable. Any prior period errors identified also require retroactive application. The adoption of the section did not have any material impact on the Company's financial statements.

New accounting pronouncements not yet adopted

In February 2008, the Accounting Standards Board issued CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaces CICA Handbook Section 3062, "Goodwill and Intangible Assets", and CICA Handbook Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is currently assessing the impact of the new standard and has not yet determined its effect on the Company's financial statements.

In May 2007, the Accounting Standards Board issued CICA Handbook Section 3031, "Inventories". CICA 3031 introduces changes to the measurement and disclosure of inventory and converges with international financial reporting standards and is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

3. CHANGES IN ACCOUNTING POLICIES (continued)

New accounting pronouncements not yet adopted (continued)

In December 2006, the Accounting Standards Board issued CICA Handbook Section 3862, "Financial Instruments - Disclosure" and Section 3863, "Financial Instruments - Presentation" which replace CICA 3861, "Financial Instruments - Disclosure and Presentation". CICA 3862 increases the emphasis on recognition and management of the risks associated with recognized and unrecognized financial instruments. This section carries forward the former presentation requirements and is effective for fiscal years beginning on or after October 1, 2007. The Company is currently assessing the impact of the new disclosure standard and has not yet determined its impact on the Company's financial statements.

In October 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. This standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company is currently assessing the impact of the new standard and has not yet determined its effect on the Company's financial statements.

4. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS

	2007	2006
AXE PROJECT		
ACQUISITION COSTS, BEGINNING OF YEAR	\$ 17,500	\$ 5,000
Additions for the year	246,000	12,500
ACQUISITION COSTS, END OF YEAR	\$ 263,500	\$ 17,500
DEFERRED EXPLORATION COSTS, BEGINNING OF YEAR	\$ 388,050	\$ 102,131
Core expenses	-	19,236
Drilling	600,974	138,848
Equipment rental	-	1,550
Geological surveys, mapping, consulting and reports	79,744	16,948
Line cutting	-	16,575
Other	-	36,237
Essay	28,099	16,312
Transporting	-	23,946
Travel, supplies and field expenses	45,432	16,267
DEFERRED EXPLORATION COSTS, END OF THE YEAR	\$ 1,142,299	\$ 388,050

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

4. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS (continued)**Axe Project**

Pursuant to an option agreement dated July 19, 2005, the Company was granted an option to acquire up to a 66% interest in the Axe claims comprised of 21 claims situated in the Similkameen Mining District, British Columbia.

To earn the 66% interest, the Company agreed to pay \$5,000 in cash, issue 300,000 common shares and spend \$500,000 in exploration expenses as follows:

	Cash	Exploration	Shares
Upon signing (paid)	\$ 5,000	\$ –	–
December 31, 2005 (completed)	–	100,000	–
September 15, 2006 (issued)	–	–	50,000
December 31, 2006 (completed)	–	200,000	–
September 15, 2007 (issued)	–	–	50,000
December 31, 2007 (completed, issued)	–	200,000	100,000
September 15, 2008 (issued in 2007)	–	–	50,000
September 15, 2009 (issued in 2007)	–	–	50,000
	<u>\$ 5,000</u>	<u>\$ 500,000</u>	<u>300,000</u>

During the year ended December 31, 2007, the Company issued 250,000 common shares (2006: 50,000 common shares) to the optionor at estimated fair value totalling \$231,000 (2006: \$12,500) and incurred exploration expenses of \$754,249 (2006: \$285,919). At December 31, 2007, the Company had earned the 66% interest in the Axe claims.

Pursuant to an agreement dated March 23, 2007, the Company acquired a 100% interest in four claims situated in the New Westminster Mining Division, British Columbia, increasing the Axe project to 25 claims. The Company paid \$15,000 as consideration for the claims. The claims are subject to a 2% net smelter royalty (“NSR”). The Company has the right to purchase one half of the 2% NSR for \$1,000,000 and the remaining half for \$2,000,000.

5. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following related party transactions in the normal course of operations and were measured at the exchange amount, which is the amount agreed upon by the transacting parties and were on terms and conditions similar to non-related entities:

- Incurred \$42,000 (2006: \$34,500) for management fees and \$18,000 (2006: \$12,000) for administration expenses from a company controlled by a director.
- Incurred \$15,100 (2006: \$8,200) in accounting and administrative services from an entity controlled by two directors.
- Incurred \$30,000 (2006: \$13,000) in rent from a company related to a director.
- Incurred \$78,796 (2006: \$285,919) for reimbursement of costs and deferred exploration costs from a company controlled by a director.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

6. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value.

b) Issued and fully paid

	Number of Shares	Amount
Balance, December 31, 2005	3,000,000	\$ 15,000
Special warrants exercised	1,760,000	182,559
Issued for cash	1,000,000	5,000
Issued for mineral property	50,000	12,500
Issued for initial public offering	3,000,000	750,000
Share issuance costs	–	(230,646)
Balance, December 31, 2006	8,810,000	734,413
Agent warrants exercised	88,080	22,020
Transfer from contributed surplus on warrants exercised	–	7,927
Issued for mineral property	250,000	231,000
Issued for private placement	1,644,345	1,068,825
Share issuance costs	–	(23,784)
	10,792,425	2,040,401
Stock-split at 2 shares for each existing share	10,792,425	–
Agents warrants exercised	243,840	30,480
Transfer from contributed surplus on warrants exercised	–	10,973
Reduction from renunciation of flow-through shares	–	(85,300)
Balance, December 31, 2007	21,828,690	\$ 1,996,554

- (i) During the year ended December 31, 2006, the Company issued 1,000,000 common shares at a price of \$0.005 per share for total proceeds of \$5,000.

In addition the Company issued 50,000 common shares related to the mineral property agreement described in Note 4.

The Company also completed an initial public offering of 3,000,000 common shares at a price of \$0.25 per share for total proceeds of \$750,000.

In relation to these financings the Company incurred share issuance costs of \$230,646.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

6. SHARE CAPITAL (continued)

b) Issued and fully paid (continued)

- (ii) On March 31, 2007, pursuant to a non-brokered private placement, the Company issued 1,216,424 flow-through and 427,921 non flow-through units at \$0.65 per unit for gross proceeds of \$790,676 and \$278,149 respectively. Each flow-through unit consisted of 1 flow-through share and one-half of a non flow-through non-transferable share purchase warrants. Each non flow-through unit consisted of 1 non flow-through share and one-half of a non-transferable share purchase warrants. Each whole warrant can be exercised to purchase 1 common share at a price of \$0.80 per share until March 23, 2008. The Company incurred issue costs of \$23,784 in connection with the private placement.

On April 17, 2007 and May 10, 2007, the Company issued 150,000 and 100,000 common shares related to the mineral property agreement described in Note 4.

On May 29, 2007, pursuant to a stock-split of 2 shares to 1 existing share, the Company issued 10,792,425 common shares to the existing shareholders.

During the year ended December 31, 2007, the Company issued 420,000 common shares (post stock-split shares) in exercise of 420,000 warrants (post stock-split warrants) for proceeds totalling \$52,500.

c) Warrants

A summary of the changes in the Company's warrants for the years ended December 31, 2007 and 2006 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2005	–	–
Issued to agents on initial public offering	210,000	\$0.250
Balance, December 31, 2006	210,000	\$0.250
Issued on private placement	822,171	\$0.800
Issued on stock-split (see Note 6(b)(ii))	1,032,171	–
Exercised	(420,000)	\$0.125
Balance, December 31, 2007	1,644,342	\$0.400

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

6. SHARE CAPITAL (continued)

c) Warrants (continued)

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

Number of Warrants	Exercise Price	Expiry Date
1,644,342	\$0.40	March 23, 2008 (Note 11)

The Company uses the Black-Scholes option pricing model to calculate the fair value of agent's warrants issued. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following weighted-average assumptions were used:

	2006
Volatility percentage	87%
Risk-free interest rate	3.91%
Dividend yield	—
Expected life of options	1 year

The stock-based compensation in respect of agent's warrants issued in 2006 was \$18,900 and the weighted average fair value was \$0.09 per warrant. There were no agent's warrants issued in 2007.

d) Contributed Surplus

A summary of the changes in the Company's contributed surplus for the years ended December 31, 2007 and 2006 is presented below:

	2007	2006
Balance, beginning of year	\$ 18,900	\$ —
Warrants exercised	(18,900)	—
Stock-based compensation – agent's warrants (Note 6(c))	—	18,900
Stock-based compensation – options (Note 7)	242,282	—
Balance, end of year	\$ 242,282	\$ 18,900

e) Escrow Shares

At December 31, 2007, a total of 5,184,000 shares (2006: 7,776,000 shares) issued and outstanding were held in escrow subject to release only with regulatory approval.

7. STOCK OPTION PLAN

The Company has established a stock option plan for directors, employees and consultants which is administered by the board of directors with full and final authority with respect to the granting of all options. The exercise prices shall be determined by the board, but shall, in no event, be less than the closing market price of the Company's shares on the grant date, less the maximum discount permitted under the TSX Venture Exchange's policies. The number of common shares issuable under the plan may not exceed 20% of the issued and outstanding common shares. In addition, the number of common shares which may be reserved for issuance to any one individual may not exceed 5% of the issued common shares on a yearly basis.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

7. STOCK OPTION PLAN (continued)

A summary of the changes in the Company's stock options for the years ended December 31, 2007 and 2006 is presented below:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2005	—	—
Granted	925,000	\$0.250
Balance, December 31, 2006	925,000	\$0.250
Granted	629,200	\$0.650
Granted on stock-split (see Note 6(b)(iii))	1,554,200	—
Cancelled	(358,400)	\$0.325
Balance, December 31, 2007	2,750,000	\$0.190

At December 31, 2007, after adjusting the effect of the stock-split, the Company had 2,750,000 options outstanding with a weighted average contract life remaining of 3.5 years, of which 2,483,520 were exercisable:

Number of Options	Exercise Price	Expiry Date
100,000*	\$0.125	June 8, 2008
1,750,000*	\$0.125	June 1, 2011
100,000*	\$0.325	February 2, 2009
800,000**	\$0.325	March 15, 2012
2,750,000		

* These options vested on the grant date.

** These options vest quarterly over eighteen months.

The fair value of the 629,200 (1,258,400 post stock-split) options granted during the year ended December 31, 2007 has been estimated using the Black-Scholes model to be \$242,282 and was expensed to operations as stock-based compensation to directors of \$190,331 and investor communications of \$51,951. Total stock-based compensation was included in contributed surplus (Note 6(d)). For purposes of the calculation, the following weighted average assumptions were used under the Black Scholes option pricing model:

	2007
Risk free interest rate	4.34%
Expected dividend yield	0%
Expected stock price volatility	82%
Expected life of options	3 years

The weighted average fair value of options granted during the year ended December 31, 2007 was \$0.24 per exercisable option.

The stock option of 925,000 (1,850,000 post stock-split) granted during the year ended December 31, 2006 occurred prior to the Company's initial public offering. In estimating the assumptions under the Black-Scholes model, the Company applied the minimum value method for volatility, which is an allowable alternative for private companies. The fair value of options granted during the year was estimated to be \$Nil.

WESTSTAR RESOURCES CORP.**NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

8. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2007	2006
Combined statutory tax rate	34.12%	34.12%
Income tax recovery at combined statutory rate	\$ 205,216	\$ 34,361
Non-deductible stock-based compensation expenses	(82,667)	–
Reduction in tax rates	(5,165)	–
Valuation allowance	(32,084)	(21,054)
Future income tax recovery	\$ 85,300	\$ 13,307

Significant components of the Company's future income tax assets (liabilities) are shown below:

	2007	2006
Combined statutory tax rate	30.50%	34.12%
Non-capital losses carry forwards	\$ 167,112	\$ 69,249
Mineral properties	(177,815)	(34,802)
Share issue costs	54,223	54,166
Valuation allowance	(43,520)	(88,613)
Net future income tax assets	\$ –	\$ –

As at December 31, 2007, the Company has approximately \$548,000 (2006: \$203,000) of non-capital losses carry forwards available to reduce taxable income for future years. These losses expire as follows:

2015	\$ 52,000
2026	92,000
2027	404,000
	<u>\$ 548,000</u>

The Company also has certain allowances in respect of resource development and exploration costs of approximately \$823,000 (2006: \$303,550), which, subject to certain restrictions, are available to be offset against future taxable income.

The application of non-capital losses and resource development costs against future taxable income is subject to final determination of the respective amounts by the Canada Revenue Agency.

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

WESTSTAR RESOURCES CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

9. COMMITMENTS

The Company leases its premises under a lease agreement for a term of three years expiring July 31, 2009, with an option to renew for an additional three years. The minimum lease payment in 2009 is \$17,500.

The Company is obligated to make certain payments, issue shares and incur exploration expenditures as described in Note 4 in connection with the acquisition of its mineral property interests.

10. SEGMENTED INFORMATION

The Company's operations are limited to a single industry segment being the acquisition, exploration and development of mineral properties. The mineral properties are located in Canada in the Province of British Columbia.

11. SUBSEQUENT EVENT

On March 31, 2008, 1,644,342 warrants expired unexercised.