

CORTEZ RESOURCES CORP.

FINANCIAL STATEMENTS

February 29, 2008

(Stated in Canadian Dollars)



BDO Dunwoody LLP
Chartered Accountants

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AUDITORS' REPORT

To the Shareholders,
Cortez Resources Corp.

We have audited the balance sheet of Cortez Resources Corp. as at February 29, 2008 and the statements of operations and deficit and cash flows for the period March 29, 2007 (Date of Incorporation) to February 29, 2008. 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the 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 February 29, 2008 and the results of its operations and its cash flows for the period March 29, 2007 (Date of Incorporation) to February 29, 2008 in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada
June 19, 2008

CORTEZ RESOURCES CORP.
BALANCE SHEET
FEBRUARY 29, 2008
(Stated in Canadian Dollars)

ASSETS

Current		
Cash – Note 3	\$	462,454
GST recoverable		1,592
		<hr/>
		\$ 464,046
		<hr/> <hr/>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$	13,448
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SHAREHOLDERS' EQUITY

Share capital – Note 3	517,166
Contributed surplus – Note 3	65,989
Deficit	(132,557)
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450,598	
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\$ 464,046	
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Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Note 3

APPROVED ON BEHALF OF THE BOARD:

<u>“Robert Eadie”</u>	Director	<u>“Gary Arca”</u>	Director
Robert Eadie		Gary Arca	

SEE ACCOMPANYING NOTES

CORTEZ RESOURCES CORP.
STATEMENT OF OPERATIONS AND DEFICIT
For the period March 29, 2007 (Date of Incorporation) to February 29, 2008
(Stated in Canadian Dollars)

Expenses		
Accounting and audit fees	\$	12,978
Bank charges and interest		434
Consulting fees		900
Legal and corporate services		23,138
Office and administration– Note 4		17,872
Rent-Note 4		16,590
Stock-based compensation – Note 3		52,657
Transfer agent and filing fees		16,195
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Loss before other item		(140,764)
Other item		
Interest income		8,207
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Net loss and comprehensive loss for the period and deficit, end of period	\$	(132,557)
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Basic and diluted loss per share	\$	(0.11)
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Weighted average number of shares outstanding – Note 2		1,193,788
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SEE ACCOMPANYING NOTES

CORTEZ RESOURCES CORP.
STATEMENT OF CASH FLOWS
For the period March 29, 2007 (Date of Incorporation) to February 29, 2008
(Stated in Canadian Dollars)

Operating Activities	
Net loss for the period	\$ (132,557)
Non-cash item:	
Stock-based compensation	52,657
	(79,900)
Changes in non-cash working capital items:	
Accounts payable and accrued liabilities	13,448
GST recoverable	(1,592)
	(68,044)
Cash used in operating activities	
Financing Activities	
Issuance of common shares	610,000
Share issue costs	(79,502)
	530,498
Cash provided by financing activities	
Increase in cash during the period and cash, end of period	
	462,454
Supplementary disclosure of cash flow information:	
Cash paid for:	
Interest	\$ -
	-
Income taxes	\$ -
	-

Non-cash Transaction – Note 6

SEE ACCOMPANYING NOTES

CORTEZ RESOURCES CORP.
NOTES TO THE FINANCIAL STATEMENTS
February 29, 2008
(Stated in Canadian Dollars)

Note 1 **Nature of Operations and Ability to Continue as a Going Concern**

The Company was incorporated in the Province of British Columbia on March 29, 2007 under the Business Corporations Act of British Columbia as 0786996 BC Ltd. and changed its name to Cortez Resources Corp. on April 13, 2007. The Company is classified as a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (the “Exchange”) Policy 2.4.

The Company’s continued operations are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in, or an investment of an interest in a Qualifying Transaction (as defined). The Company is required to complete its Qualifying Transaction within 24 months of August 20, 2007, the “Listing Date”. The acquisition will be subject to shareholder and regulatory approval.

The Company has determined that the last day of February will be the fiscal year end and February 29, 2008 was the first complete fiscal year. As the Company was incorporated on March 29, 2007 there is no comparative balance sheet as at February 28, 2007 or comparative statement of operations or cash flows for the year ended February 28, 2007.

Note 2 **Significant Accounting Policies**

Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements have been prepared within the framework of the significant accounting policies summarized below.

a) **Basic and Diluted Loss per Share**

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

Potentially dilutive common shares (relating to options and warrants outstanding at year-end) totalling 550,000 were not included in the computation of loss per share because their effect was anti-dilutive. 2,000,001 common shares held in escrow are also excluded in the computation of loss per share. As all of the escrow shares are considered contingently issuable until the Company completes the Qualifying Transaction, they are not considered to be outstanding shares for purposes of loss per share calculations.

Note 2 **Significant Accounting Policies** – (cont'd)

b) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the tax and accounting basis of assets and liabilities. The future tax assets or liabilities are calculated using the tax rates for the period in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

c) Share-based Compensation

The Company has adopted the recommendations of CICA Handbook section 3870, “Stock-Based Compensation and Other Stock-Based Payments.” This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company’s shares, the expected lives of awards of stock-based compensation, the fair value of the Company’s stock and the risk-free interest rate, as determined at the grant date. The estimated fair value of awards of stock-based compensation are charged to expense over their vesting period, with offsetting amounts recognized as contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s share purchase options.

d) Share issue costs

Share issue costs, which include commissions, professional and regulatory fees are charged directly to share capital.

Note 2 Significant Accounting Policies – (cont'd)

e) Financial Instruments

The Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These sections apply to fiscal years beginning on or after October 1, 2006 and provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity, from transactions and other events and circumstances 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 generally accepted accounting principles. A statement of comprehensive income has not been presented as no components of comprehensive income have been identified and therefore have not affected the current period balances on the financial statements. Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to debt financings will be expensed in the period incurred.

The Company’s financial instruments consist of cash, which is classified as held-for-trading and accounts payable, which is classified as other financial liabilities. It is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

f) Recently Released Canadian Accounting Standards

Recent CICA Handbook revisions include Section 1506, Accounting changes, Section 1400, Assessing Going Concern, Section 1540, Cash Flow Statements, Section 3064, Goodwill and Intangible Assets, Sections 3862 and 3863, Disclosure and Presentation on Financial Instruments and Section 1535, Capital Disclosures. Also effective for year-ends commencing on or after January 1, 2011, all public companies will be required to adopt International Financial Reporting Standards.

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Note 2 Significant Accounting Policies – (cont'd)

f) Recently Released Canadian Accounting Standards

The Company does not expect the adoption of these new Sections to result in any significant change in the disclosure within the current financial statements except for the capital disclosure requirements of Section 1535 which are applicable for periods commencing March 1, 2008. This section specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new section relates to disclosures and will not have an impact on the Company's financial results.

Note 3 Share Capital and Contributed Surplus

a) Authorized

Unlimited common shares without par value

b) Shares issued

		Number	Amount
Issued for cash pursuant to:			
Incorporation	- at \$0.01	1	\$ -
Private placement	- at \$0.10	2,000,000	200,000
Public offering ("IPO")	- at \$0.20	2,000,000	400,000
Share issue costs		-	(97,278)
Exercise of agent's warrants	- at \$0.20	50,000	10,000
Transfer from contributed surplus on exercise of agent's warrants		-	4,444
Balance, February 29, 2008		4,050,001	\$ 517,166

- i) The Company issued 2,000,001 common shares for proceeds of \$200,000. These shares are subject to an escrow agreement to be released in accordance with CPC policy guidelines.
- ii) During the period ended February 29, 2008, the Company completed its initial public offering ("IPO") and issued 2,000,000 common shares at \$0.20 per share for gross proceeds of \$400,000. The Company paid a commission of \$40,000 to the agent and issued the agent warrants to acquire up to 200,000 shares at \$0.20 per share until August 20, 2009. The Company also paid an administration fee of \$10,000 and incurred expenses of \$29,502. Share issue costs include \$17,776 for the fair value of the agent's warrants. Their fair value was determined using the Black-Scholes model with the following assumptions:

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Note 3 Share Capital and Contributed Surplus – (cont'd)

b) Shares issued – (cont'd)

ii) – (cont'd)

Dividend rate	0%
Risk-free interest rate	4.23%
Expected life	2 years
Expected annual volatility	78.27%

The net proceeds from all of the Company's financings have certain limitations on them until completion of the Qualifying Transaction.

iii) During the period ended February 29, 2008, The Company issued 50,000 common shares at \$0.20 for proceeds of \$10,000 pursuant to the exercise of agent's warrants.

c) Stock-based Compensation

The Company, in accordance with the policies of the Exchange, is authorized to grant options to directors, officers, and employees to acquire up to 10% of common stock outstanding. Options may be granted for a maximum term of 5 years. Optioned shares will vest when granted except where granted for investor relations activities which vest and may be exercised in accordance with the vesting provisions as to ¼ of the options each 3 months.

In conjunction with its public listing, the Company granted 400,000 share purchase options (390,000 to directors and 10,000 to a registered charity). Each director's option allows the holder to acquire an additional common share of the Company at \$0.20 per share for a period of five years until August 20, 2012. The registered charity options are exercisable at \$0.20 per share and expire on the earlier of August 20, 2017, or the 90th day following the date the charity ceases to be an eligible charitable organization.

The fair value of the 400,000 options granted and included in stock-based compensation was estimated to be \$52,657 using the Black-Scholes option-pricing model with the following weighted average assumptions at date of grant:

	<u>2008</u>
Dividend rate	0%
Risk-free interest rate	4.30%
Expected life	5 Years
Expected annual volatility	78.27%

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Note 3 **Share Capital and Contributed Surplus** – (cont'd)

c) Stock-based Compensation – (cont'd)

A summary of the Company's outstanding stock options as of February 29, 2008 and the changes during the period then ended is presented below:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Options granted during the period and outstanding and exercisable at February 29, 2008	<u>400,000</u>	<u>\$0.20</u>

At February 29, 2008, there were 400,000 stock options outstanding entitling the holders thereof to purchase one common share for each option held as follows:

<u>Number of Shares</u>	<u>Number Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Contractual Life Remaining</u>
390,000	390,000	\$0.20	August 20, 2012	4.50 years
<u>10,000</u>	<u>10,000</u>	\$0.20	August 20, 2017	9.50 years
<u>400,000</u>	<u>400,000</u>			

d) Warrants Outstanding

A summary of the Company's outstanding share purchase warrants at February 29, 2008 and the changes during the period then ended is presented below:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Issued	200,000	\$0.20
Exercised	<u>(50,000)</u>	<u>\$0.20</u>
Outstanding at February 29, 2008	<u>150,000</u>	<u>\$0.20</u>

The warrants are exercisable until August 20, 2009.

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Note 3 Share Capital and Contributed Surplus – (cont'd)

e) Contributed Surplus

	<u>2008</u>
Stock-based compensation	\$ 52,657
Agent's warrants granted	17,776
Transferred to share capital on exercise of warrants	<u>(4,444)</u>
Balance, end of period	<u>\$ 65,989</u>

Note 4 Related Party Transactions

During the period ended February 29, 2008, the Company paid rent of \$16,590 and office and administration fees of \$16,590 to a company controlled by a director.

These charges were measured at the exchange amount which is the amount agreed upon by the transacting parties.

Note 5 Income taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<u>2008</u>
Basic statutory and provincial income tax rate	<u>33.68%</u>
Loss before income taxes	\$ (132,557)
Expected tax recovery on net loss, before income tax	(44,600)
Differences due to recognition of items for tax purposes:	
Permanent differences	17,700
Effect of reduction in statutory rate	6,100
Increase in valuation allowance	<u>20,800</u>
Future income tax recovery	<u>\$ -</u>

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Note 5 **Income taxes – (cont'd)**

Significant components of the Company's future tax assets and liabilities are as follows:

	<u>2008</u>
Future income tax assets	
Non-capital losses carried forward	\$ 25,000
Undeducted financing cost	<u>17,000</u>
	42,000
Less: valuation allowance	<u>(42,000)</u>
Future income tax assets	<u>\$ -</u>

At February 29, 2008, the Company has accumulated non-capital losses totalling \$96,000, which may be applied against future years' taxable income. The non-capital losses expire in 2028.

Note 6 **Non-cash Transaction**

Investing and financing activities that do not have a direct impact on current cash flows are excluded from cash flows. The statement of cash flows excludes the issue of warrants issued to the agent and valued at \$17,776 in connection with the Company's public offering.