

**MAJESCOR RESOURCES INC.**  
**(A development stage Company)**  
**Consolidated Financial Statements**  
**February 28, 2007 and 2006**

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## Management Responsibility for Financial Statements

To the Shareholders and Directors of Majescor Resources Inc.

The consolidated financial statements, the notes thereto and other financial information contained in the annual report are the responsibility of the management of Majescor Resources Inc. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate.

Management has developed and maintained a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities to the Directors who approve the consolidated financial statements.

The consolidated financial statements have been audited by Raymond Chabot Grant Thornton LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards, on the behalf of the shareholders.

The auditors have full and unrestricted access to the Audit Committee.

(signed) Marc-André Bernier  
Marc-André Bernier, CEO

(signed) Marc Carbonneau  
Marc Carbonneau, CFO

## Auditors' Report

To the Shareholders of  
Majescor Resources Inc.

We have audited the consolidated balance sheet of Majescor Resources Inc. as at February 28, 2007 and the consolidated statements of operations, mineral properties and deferred exploration expenses, deficit and cash flows for the year 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 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 28, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at February 28, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated May 5, 2006.

*Raymond Chabot Grant Thornton LLP*

Chartered Accountants,  
Licensed Public Accountants

Ottawa, Canada  
June 1, 2007

**Majescor Resources Inc.**  
(A development stage Company)  
Consolidated Balance Sheets  
As at February 28

	2007	2006
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	2,564,011	1,149,157
Marketable securities (Note 5)	-	9,500
Accounts receivable	78,041	51,754
Amount due from related parties (Note 6)	377,071	521,312
Tax credits and mining duties receivable	273,247	879,983
Advances to operators	101,630	-
Prepaid expenses	118,340	8,162
	<u>3,512,340</u>	<u>2,619,868</u>
Long term investment (Note 7)	100,000	-
Property, plant and equipment (Note 8)	9,448	11,223
Mineral exploration properties (Note 9)	1,028,848	514,166
Deferred exploration expenses (Note 9)	5,172,144	4,144,232
	<u>9,822,780</u>	<u>7,289,489</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	438,267	705,192
Amount due to related parties (Note 6)	71,488	132,460
Amount due to operators	-	22,279
	<u>509,755</u>	<u>859,931</u>
Long term liabilities		
Liability component of debenture (Note 10)	112,776	-
	<u>622,531</u>	<u>859,931</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	19,958,235	16,622,838
Warrants (Note 11)	867,941	538,916
Contributed surplus (Note 12)	1,021,608	466,889
Equity component of debenture (Note 10)	39,525	-
Deficit	(12,687,060)	(11,199,085)
	<u>9,200,249</u>	<u>6,429,558</u>
	<u>9,822,780</u>	<u>7,289,489</u>

*The accompanying notes are an integral part of these consolidated financial statements*

On behalf of the Board  
(signed) "Marc-André Bernier"  
Marc-André Bernier, Director

On behalf of the Board  
(signed) "André Audet"  
André Audet, Director

**Majescor Resources Inc.**  
(A development stage Company)  
Consolidated Statements of Operations  
For the Years Ended February 28

	<u>2007</u>	<u>2006</u>
	\$	\$
Administrative expenses		
Management and consulting fees	197,307	124,700
Salaries and benefits	172,660	29,769
Travel and promotion	72,947	99,510
Report to shareholders	18,996	32,661
Conferences and subscription	17,695	27,237
Stationery and office supplies	14,214	2,993
Professional fees	80,826	168,649
Insurance	12,537	5,369
Bank charges and interest	5,555	2,508
General expenses	91,168	60,633
Loss (gain) on foreign exchange	(3,318)	1,205
Amortization of property, plant and equipment	7,866	3,399
	<u>688,453</u>	<u>558,633</u>
Other expenses (income)		
Interest and other income	(1,225)	(15,168)
Loss (gain) on sale of marketable securities	65	(19,066)
Gain on sale of property, plant and equipment	-	(380)
Gain on sale of mining properties	-	(153,608)
Part XII.6 tax and tax on expenses deemed incurred in Quebec	77,187	18,247
Write-down of mining properties and deferred exploration expenses (Note 9)	1,434,495	3,514,328
	<u>1,510,522</u>	<u>3,344,353</u>
Loss before income taxes	2,198,975	3,902,986
Recovery of future income taxes (Note 14)	(711,000)	(433,000)
Net loss	<u>1,487,975</u>	<u>3,469,986</u>
Basic and diluted net loss per common share	<u>0.02</u>	<u>0.07</u>
Basic and diluted weighted average number of common shares outstanding	<u>72,422,568</u>	<u>50,761,646</u>

*The accompanying notes are an integral part of these consolidated financial statements*

**Majescor Resources Inc.**

(A development stage Company)

## Consolidated Statements of Mineral Properties and Deferred Exploration Expenses

For the Years Ended February 28

	2007	2006
	\$	\$
Balance, beginning of the year	4,658,398	6,211,943
Additions		
Drilling	671,626	1,574,263
Project consulting	87,322	119,190
Geophysical survey - ground	132,285	398,284
Geophysical survey - airborne	1,322,805	5,099
Geological survey	435,221	2,509
Geochemical survey	31,264	48,997
Sampling	858,273	1,041,634
Assaying	24,133	62,822
Line cutting	-	11,156
Staking	-	250
Report preparation	69,102	37,616
Property evaluation	23,007	689
Renewal of licences and permits	235,398	265,004
General field expenses	233,783	122,000
	4,124,219	3,689,513
Contribution of partners	(1,761,485)	(1,335,997)
Cost of shares acquired from partner	(100,000)	-
	2,262,734	2,353,516
Write-down of mining properties and deferred exploration expenses	(1,434,495)	(3,513,407)
Acquisition of mining properties	693,545	21,851
Cost of mining properties sold	-	(348,892)
Tax credits and mining duties	20,810	(66,613)
	1,542,594	(1,553,545)
Balance, end of the year	6,200,992	4,658,398

*The accompanying notes are an integral part of these consolidated financial statements*

**Majescor Resources Inc.**  
(A development stage Company)  
Consolidated Statements of Deficit  
For the Years Ended February 28

	<u>2007</u>	<u>2006</u>
	\$	\$
Deficit, beginning of year	11,199,085	7,729,099
Net loss	<u>1,487,975</u>	<u>3,469,986</u>
Deficit, end of year	<u><u>12,687,060</u></u>	<u><u>11,199,085</u></u>

*The accompanying notes are an integral part of these consolidated financial statements*

**Majescor Resources Inc.**

(A development stage Company)

## Consolidated Statements of Cash Flows

For the Years Ended February 28

	2007	2006
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,487,975)	(3,469,986)
Non-cash items		
Amortization of property, plant and equipment	7,866	3,399
Stock based compensation	69,622	25,314
Interest accrued on debenture	2,301	-
Write-down of mineral properties and deferred exploration expenses	1,434,495	3,514,328
Loss (gain) on sale of marketable securities	65	(19,066)
Gain on disposal of mineral properties	-	(153,608)
Gain on mining duties	-	(4,256)
Gain on disposal of property, plant and equipment	-	(380)
Recovery of future income taxes	(711,000)	(433,000)
Changes in non-cash working capital items (Note 13)	(268,702)	(274,417)
Cash flows used in operating activities	<u>(953,328)</u>	<u>(811,672)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	-	1,500
Acquisition of property, plant and equipment	(6,091)	(6,698)
Proceeds from sale of mineral properties	-	75,000
Proceeds from sale of marketable securities	9,435	146,566
Mineral properties and deferred exploration expenses	(2,842,454)	(2,336,581)
Tax credits and mining duties received	585,926	114,065
Cash flows used in investing activities	<u>(2,253,184)</u>	<u>(2,006,148)</u>
<b>FINANCING ACTIVITIES</b>		
Common shares issued	4,741,650	1,440,420
Share issue costs	(270,284)	(159,157)
Convertible debenture	150,000	-
Cash flows from financing activities	<u>4,621,366</u>	<u>1,281,263</u>
Increase (decrease) in cash and cash equivalents	<u>1,414,854</u>	<u>(1,536,557)</u>
Cash and cash equivalents, beginning of year	<u>1,149,157</u>	<u>2,685,714</u>
Cash and cash equivalents, end of year	<u><u>2,564,011</u></u>	<u><u>1,149,157</u></u>
Non-cash supplemental information:		
Change in deferred exploration expense included in accounts payable	175,328	(38,786)
Common shares issued to increase interest in mineral properties	389,153	-
Long term investment in exchange of mineral properties	(100,000)	-

*The accompanying notes are an integral part of these consolidated financial statement*

## **Majescor Resources Inc.**

(A development stage Company)

Notes to Consolidated Financial Statements

February 28, 2007 and 2006

### **1. Governing statutes and nature of operations**

Majescor Resources Inc. (the "Company" or "Majescor") was incorporated under the Canada Business Corporations Act (Alberta) on February 23, 1996. The current nature of operations involves acquisition, exploration and development of mineral resource properties. The Company is in the exploration stage and does not derive any revenue from the development of its properties.

Until it is determined that the Company's properties contain mineral reserves or resources that can be economically mined, they are classified as mineral exploration properties. The recoverability of deferred exploration expenses is dependent upon: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

### **2. Going concern assumption**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis of a going concern assumption meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

For the year ended February 28, 2007, the Company reported a loss of approximately \$1.5 million and an accumulated deficit of approximately \$12.7 million at that date. In addition to ongoing working capital requirements, the Company must secure sufficient funding for its existing commitments for exploration and development programs and general and administration costs. These circumstances lend substantial doubt as to the ability of the Company to continue as a going concern.

In recognition of these circumstances, the Company has secured funding in the amount of \$4.6 million, net of issue costs to fund operations and advance the Company's Canadian exploration program (Note 9). From March 2007 through to May 2007, the Company issued more common shares following the exercise of warrants by shareholders, for net proceeds of approximately \$0.6 million. Also, in March 2007, the Company sold its 40% interest in Brauna property and its 100% interest in the Tres Marias property for gross proceeds of \$2.25 million. These undertakings are sufficient to enable the Company to fund all aspects of its operations for the next two years.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the balance sheet classifications have not been adjusted as would be required if the going concern assumption was not appropriate.

### **3. Accounting policies**

#### **a) Basis of presentation**

These financial statements, which are expressed in Canadian dollars, have been prepared by management in accordance with accounting principles generally accepted in Canada and include all of the assets, liabilities and expenses of the Company, its 97% owned Madagascar subsidiaries: Ampanihy Resources S.A.R.L and Daraina Exploration S.A.R.L., and its wholly-owned Brazilian subsidiary: Tropic Diamonds Brasil Mineração Ltd.. All inter-company balances and transactions have been eliminated upon consolidation. The three subsidiaries, Ambilobe Exploration S.A.R.L, Craton Exploration S.A.R.L and Vohibory Exploration S.A.R.L, where the Company had 97% interest were dissolved (Ambilobe Exploration S.A.R.L and Craton Exploration S.A.R.L. on June 1, 2006, and Vohibory Exploration S.A.R.L on October 8, 2005). Majescor Resources Inc. and its subsidiaries are collectively referred to herein as the "Company" or "Majescor".

## **Majescor Resources Inc.**

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Notes to Consolidated Financial Statements

February 28, 2007 and 2006

### **b) Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes thereto.

The most significant items requiring the use of management estimates and valuation assumptions are related to the recoverable value of mining assets (mineral exploration properties and deferred exploration expenses) and the ability to continue as a going concern. These estimates and valuation assumptions were made by management using careful judgment, based on the most current geological information available and its planned course of action, as well as on assumptions about future business, economic and capital market conditions. Actual results could differ from estimates used in preparing these financial statements and such differences could be material.

### **c) Cash and cash equivalents**

Cash and cash equivalents include investments with maturities at the date of acquisition of three months or less and which are readily convertible into cash.

### **d) Marketable securities**

Marketable securities are valued at the lower of cost and market value.

### **e) Property, plant and equipment**

Property, plant and equipment are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of a long-lived asset over its fair value.

The Company provides for amortization on property, plant and equipment at the following rates:

- Office furniture and equipment – 20% declining balance
- Computer equipment – 30% declining balance
- Computer software – 100% declining balance
- Analysis equipment – 30% declining balance
- Web site development expenses – 30% declining balance

### **f) Mineral exploration properties and deferred exploration expenses**

The Company records its interest in mining properties and areas of geological interest at cost less option payments and other recoveries.

Exploration costs relating to the Company's interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they are related are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any write downs are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

## **Majescor Resources Inc.**

(A development stage Company)

Notes to Consolidated Financial Statements

February 28, 2007 and 2006

### **g) Environmental and reclamation costs**

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by the application of technically proven and economically feasible measures.

An estimate for the future costs of site restoration is made based upon estimates that consider the anticipated method and extent of site reclamation required to meet legal standards. If required, a provision for the estimated costs is recognized by increasing the carrying amount of the related long-lived asset by the same amount as the liability. Since the Company is not at the production stage yet, no such provision is to be estimated.

Reclamation costs incurred are charged against this provision. The effects of changes in regulations and cost assumptions are recognized when determined.

### **h) Loss per share**

Basic loss per share is computed by dividing the net loss for the year available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by application of the treasury stock method.

### **i) Share capital**

The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value reduced by an estimate of transaction costs normally incurred when issuing shares for cash, as determined by management.

Share issue expenses are recorded as a reduction of share capital when the related shares are issued.

### **j) Stock-based compensation**

The Company measures the compensation cost of stock options issued under employee and non-employee compensation plans using a fair value-based method. Compensation costs are measured at the grant date based on the fair value of the award using Black-Scholes pricing model and are recognized over the related service period as an expense with a corresponding increase to contributed surplus.

### **k) Foreign currency translation**

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities denominated in currencies other than the Canadian dollar and integrated foreign operations are translated using the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Expenses are translated at exchange rates in effect during the period with the exception of expenses relating to non-monetary assets and liabilities which are translated at the historical rate. Translation gains or losses are included in the determination of income or loss in the statement of operations in the period in which they arise. All of the subsidiaries are integrated foreign operations.

## **Majescor Resources Inc.**

(A development stage Company)

Notes to Consolidated Financial Statements

February 28, 2007 and 2006

### **l) Income taxes**

The Company accounts for income taxes under the asset and liability method that requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company provides a valuation allowance on net future tax assets when it is more likely than not, that such assets will not be realized.

### **m) Tax credits and mining duties**

The Government of Québec provides a non-taxable refundable credit for losses to help operators meet exploration, mineral deposit evaluation and mine development costs by refunding part of eligible expenditures incurred. The credit is equal to 12% of the lesser of:

- the amount of the annual loss; and
- the exploration, mineral deposit evaluation and mine development expenses.

The Government of Québec also offers businesses having establishments and that carry on activities in Québec a refundable tax credit for mineral exploration activities, covering up to 45% of exploration expenses.

Tax credits and mining duties which are earned as a result of qualifying mineral exploration expenses, are recognized when the exploration expenses are incurred. They are applied to reduce related mineral exploration expenses in the period recognized.

## **4. Fair value of financial instruments**

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, amount due from related parties, accounts payable and accrued liabilities, amount due to related parties and convertible debenture. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments.

## **5. Marketable securities**

During the year, the Company sold 20,000 shares of Superior Diamonds Inc. for net proceeds of \$9,435.

## **6. Related party transactions**

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

Under an agreement between the Company and Everton Resources Inc., the Company reimburses the cost of shared salaries & benefits, rent and office expenses paid by Everton Resources Inc. (which shares a common CFO and Directors). During the year, the cost of shared salaries and benefits was \$ 211,688 (2006 - \$158,918) and rent and office expenses were \$16,560 (2006 - Nil). Included in Amount due to related parties is \$71,488 due to Everton Resources Inc. (\$132,460 as at February 28, 2006). Also, the Company invoiced, at cost, Everton Resources Inc. for the exploration expenses incurred on Mirabelli project for the gold aspect. Included in amount due from related parties is \$60,308 due from Everton Resources Inc. (Nil as at February 28, 2006).

## Majescor Resources Inc.

(A development stage Company)

Notes to Consolidated Financial Statements

February 28, 2007 and 2006

Under an agreement between the Company and its joint venture partner Forest Gate Resources Inc. (which share a common Director), the Company is the operator for Portage project. All exploration expenditures incurred on the project and paid by the Company are recovered from Forest Gate Resources Inc. in addition to 5%-10% management fees on these expenditures. Included in amount due from related parties is \$82,831 due from Forest Gate Resources Inc. (\$521,312 as at February 28, 2006).

Under a joint venture agreement between the Company and Uranium World Energy Inc (in which the Company detains a participation and shares a common Director), the Company is the operator for Uranium project. All exploration expenditures incurred on the project and paid by the Company are recovered in addition to 10% management fees from Uranium World Energy Inc. Included in amount due from related parties is \$233,932 due from Uranium World Energy Inc. ( Nil as at February 28, 2006).

Under an agreement between the Company and one of its Directors, the Company paid \$10,750 (2006–\$5,000) in consulting fees.

### 7. Long term investment

On August 31, 2006, the Company acquired 1,000,000 common shares of Uranium World Energy Inc. at a deemed price of \$0.10 per share subsequent to the execution of an option agreement between the Company and Uranium World Energy Inc. whereby Uranium World Energy Inc. can acquire an 80% interest in the Company's Baker Lake property uranium rights. As at February 28, 2007, the common shares were valued at \$100,000. The investment is accounted for at cost.

### 8. Property, plant and equipment

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
	\$	\$	\$	\$
Office furniture and equipment	1,346	897	449	562
Computer equipment	9,899	6,382	3,517	5,024
Computer software	8,628	5,583	3,045	2,157
Analysis equipment	6,700	5,333	1,367	1,954
Web site development expenses	7,485	6,415	1,070	1,526
	<u>34,058</u>	<u>24,610</u>	<u>9,448</u>	<u>11,223</u>

**Majescor Resources Inc.**

(A development stage Company)

Notes to Consolidated Financial Statements

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**9. Mineral properties and deferred exploration expenses**

	2007		2006	
	Acquisition Cost \$	Deferred Exploration Expenses \$	Acquisition Cost \$	Deferred Exploration Expenses \$
Canada				
Québec				
a) Portage	234,884	1,701,822	234,884	1,692,964
b) Mirabelli	-	509,308	-	-
c) Lac Laparre	44,408	82,802	44,408	56,542
d) Nottaway	598	48,926	1,073	76,945
e) South Rae	100,000	754	-	-
f) Mistassini	1,011	8,039	3,323	7,795
g) Wemindji	-	-	2,075	-
g) Crater Quebec	-	-	-	27,479
Ontario				
g) Crater Ontario	-	-	-	1,967
North West Territories				
g) Hardy Lake	-	-	174,000	922,704
g) Upper Carp Lake	-	-	-	91,665
h) Banks	-	435,551	30,000	337,489
Nunavut				
i) Baker Lake	-	408,255	-	9,682
International				
j) Brauna/Brazil	2,552	920,897	2,552	333,686
j) Tres Marias Area/Brazil	164,895	73,536	21,351	-
k) Madagascar	480,500	982,253	500	585,314
	<u>1,028,848</u>	<u>5,172,144</u>	<u>514,166</u>	<u>4,144,232</u>

**a) Portage**

On July 6, 2005, the Company signed a memorandum of understanding with Forest Gate Resources Inc. ("Forest Gate"), by which Forest Gate Resources Inc. can earn up to 55% interest in Portage. Under the terms of the agreement, Forest Gate must spend \$500,000 on claim renewals and exploration in 2005, \$800,000 in 2006, \$1,000,000 in 2007, \$1,200,000 in 2008 and \$1,500,000 in 2009 for a total of 5 million dollars in 5 years. As of February 28, 2007, Forest Gate had spent \$245,488 in claim renewals and \$1,936,473 in exploration expenditures.

## **Majescor Resources Inc.**

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### **b) Mirabelli**

In September 2006, the Company entered into an option agreement with De Beers Canada Exploration Inc. ("De Beers") on Mirabelli property in Northern Quebec. Under the terms of the agreement De Beers and the Company will form a 51:49 Joint Venture upon the Company spending \$3.0 million on diamond exploration by December 2009. For gold and base metals on the same project, the Company must spend \$1.2 million in exploration by March 2009 to earn a 50% interest. Subsequent to this, the Company can increase its interest to 80% in the gold and base metals by spending an additional \$700,000 on exploration. The Company will be the operator of both the diamond and gold/base metals exploration while earning its respective interest.

### **c) Lac Laparre**

On October 14, 2003, the Company granted Peregrine Diamonds Ltd (formerly Dunsmuir Ventures LTD) the option to earn a 50% interest in the Lac Laparre property in consideration for \$750,000 in exploration work to be carried out no later than November 1, 2006. On November 1, 2006, the agreement between the Company and Peregrine Diamonds Ltd ended and Peregrine Diamonds Ltd did not earn the 50% interest as it failed to fulfill the exploration work commitment.

On February 19, 2007, the Company entered into an agreement to option up to a 66 2/3% interest in the uranium rights on its Lac Laparre property to a Uranium Joint Venture comprised of Santoy Resources Inc. and its 50% partner Melkior Resources Inc. The Company will retain exclusive rights for diamonds. The terms of the Option Agreement, which is subject to regulatory approval, call for an exploration work commitment of \$2.5 million over five years (with a guaranteed minimum of \$300,000 in year one), an up-front cash payment of \$50,000, the issuance of 200,000 shares of Melkior and 60,000 shares of Santoy in tranches over a one year period, and the reservation of a 1.5% Net Smelter Return royalty interest, one half of which is purchasable at any time prior to commercial production for \$1 million.

### **d) Nottaway**

On October 11, 2002, the Company entered into a non-binding letter of intent with BHP Diamonds Inc. with respect to the mineral claims of Nottaway. The Company completed the initial work program of at least \$25 000 on the Nottaway claims and therefore earned a 100% interest in such claims.

### **e) South Rae**

On January 31, 2007, the Company signed a letter of intent with Azimut Exploration Inc. regarding South Rae Uranium property, located in the Ungava Region of Northern Quebec. Majescor can acquire a 50% interest by spending \$4.6 million in exploration over a 5-year period and may acquire an additional 15% interest upon delivery of a bankable feasibility study. A cash payment of \$100,000 was paid on signing, \$83,000 is due on the first anniversary and \$50,000 on the three subsequent anniversaries for a total of \$333,000. Majescor has to issue 710,000 common shares in March 2007 and an additional 710,000 common shares are due on the first anniversary (subject to a 4 month hold period).

### **f) Mistassini**

The Company owns 50% interest in the Mistassini project, jointly with its joint venture partner Superior Diamonds Inc.

## Majescor Resources Inc.

(A development stage Company)

Notes to Consolidated Financial Statements

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### g) Abandoned properties: Wemindji, Crater Quebec, Crater Ontario, Hardy Lake and Upper Carp Lake

During the year, the Company abandoned the five following projects as they no longer fit the Company's development strategy: Wemindji, Crater Quebec, Crater Ontario, Hardy Lake and Upper Carp Lake. Hardy Lake and Upper Carp Lake properties revert back to the owner, De Beers Canada Inc. and the Company has no further commitments related to the properties. Mineral exploration properties and deferred exploration expenses were reduced as follows: Wemindji (\$2,075 in Mineral properties, and \$112 in exploration expenses), Crater Quebec (\$27,479 in exploration expenses), Crater Ontario (\$1,967 in exploration expenses), Hardy Lake (\$174,000 in mineral properties and \$1,022,853 in exploration expenses) and Upper Carp Lake (\$142,605 in mineral properties) with an offsetting charge to operations under the caption "write-down of mining properties and deferred exploration expenses".

### h) Banks

In November 2003, the Company formed a 50:50 joint venture with its partner Diamonds North Resources Ltd., to jointly fund Banks project. Diamonds North Resources Ltd. is the operator of the project.

### i) Baker Lake

In August 2006, the Company entered into an option agreement with Uranium World Energy Inc. whereby Uranium World Energy Inc. can acquire an 80% interest in the Company's Baker Lake property uranium rights which had previously been optioned by the Company from De Beers Canada Inc. The property consists of two continuous claim blocks totaling 19 permits which are still held by De Beers Canada Exploration Inc. To earn its 80% interest, Uranium World Energy Inc. must incur exploration expenses and issue common shares as follows:

	Exploration Expenses \$	Common Shares \$
Upon execution of the agreement	-	1,000,000 (1)
To earn a 50% interest in the Uranium Project	400,000 (2)	1,000,000
To earn an 80% interest in the Uranium Project	240,000 (2)	1,000,000
	<u>640,000</u>	<u>3,000,000</u>

(1) These common shares were issued to Majescor Resources Inc. before year end

(2) These exploration expenses were incurred by Uranium World Energy Inc. before year end.

### j) Brauna and Tres Marias Area/Brazil

In August 2005, the Company formed a joint venture with Vaaldiam Resources Ltd. whereby Vaaldiam Resources Ltd. can acquire 60% interest in the Brauna project. In February 2007, the Company signed an agreement with Vaaldiam Resources Ltd for the sale of the Company's 40% interest in the Brauna diamond deposit and for the Company's 100% interest in the Tres Marias property, both of which are located in Brazil. Under the terms of the agreement for the Brauna and Tres Marias interest, Majescor received \$2,250,000 cash payment on March 1, 2007, 1,733,102 common shares of Vaaldiam valued at \$1,500,000; and 1% Gross Sales Royalty right on diamond production from the property.

### k) Madagascar

On October 12, 2006 the Company entered into an agreement with Calibra Resources and Engineers Madagascar S.A.R.L. to acquire a 100% interest in four gold and base metal properties: Daraina-extension, Analalava, Ankaramy et Besakoa for cash consideration of \$200,000 and issuance of 2,000,000 common shares. As at February 28, 2007, these conditions were satisfied and the Company acquired the four properties.

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### 10. Convertible debenture

On January 25, 2007, the Company completed a private placement of unsecured convertible debenture of \$150,000 to fund its Mirabelli project. The debenture matures on January 25, 2010 and bears interest at the rate of 12% per annum, payable semi-annually either in cash or in shares. The principal is convertible at the option of the holder into common shares of the Company at \$0.17 per unit. Each unit consists of one common share and one share subscription warrant entitling the owner to subscribe to one common share of the Company for 24 months at a price of \$0.20.

The debenture is accounted for in accordance with its substance and is presented in the financial statements in its component parts, measured at their respective fair values at the time of issue. The liability component has been calculated as the present value of the required principal and interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued.

	\$
Liability component	110,475
Equity component	<u>39,525</u>
	<u>150,000</u>
Convertible debenture	110,475
Interest accrual	<u>2,301</u>
Total liability component at February 28, 2007	<u>112,776</u>

Interest expense on the liability component is \$2,301, of which \$801 represents accretion of liability component.

### 11. Share capital

#### a) Authorized

Unlimited number of common shares without par value.

#### Issued

	Number of shares	\$
Balance - February 28, 2005	47,938,483	15,823,693
Shares issued for cash (net of issue costs)	11,080,156	1,232,145
Tax effect of flow-through shares	-	(433,000)
Balance - February 28, 2006	59,018,639	16,622,838
Shares issued for cash (net of issue costs)	29,586,156	3,094,684
Shares issued on the exercise of warrants	2,127,000	558,026
Shares issued on the exercise of options	20,000	4,534
Shares issued to increase participation in mineral properties	2,992,300	389,153
Tax effect of flow-through shares	-	(711,000)
Balance - February 28, 2007	<u>93,744,095</u>	<u>19,958,235</u>

**Majescor Resources Inc.**

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**b) Warrants**

	2007		2006	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance – Beginning of year	7,730,166	0.35	6,689,666	0.38
Granted	16,195,206	0.21	1,040,500	0.15
Expired	(6,639,666)	0.38	-	-
Exercised	(2,127,000)	0.20	-	-
Balance – End of year	15,158,706	0.21	7,730,166	0.35

As at February 28, 2007 the following warrants were outstanding and exercisable:

Number	Exercise Price	Black-Scholes Value	Expiry Date
	\$	\$	
1,040,500	0.15	49,118	November 28, 2007
50,000	0.45	3,166	January 23, 2008
2,340,000	0.20	100,668	April 4, 2008
177,800	0.15	9,781	April 4, 2008
10,090,310	0.20	649,413	August 31, 2008
306,250	0.16	12,354	November 10, 2008
1,153,846	0.20	43,441	December 4, 2008
<u>15,158,706</u>		<u>867,941</u>	

Warrants issued are measured and recognized at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	2007	2006
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	71%	71%
Risk-free interest rate	4.01%	3.72%
Expected life of warrants	2 years	2 years
Weighted average fair value	\$0.06	\$0.05

## Majescor Resources Inc.

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### c) Stock option plan

The Company has a stock option plan approved by its shareholders. At the 2006 annual general meeting, the shareholders approved a resolution to increase the number of shares reserved for issuance under its stock option plan, subject to regulatory approval, from 4,793,848 options to 9,374,409 options, representing 10% of the outstanding shares as at February 28, 2007. A maximum of 9,374,409 stock options (maximum of 5% of the number of common shares outstanding in favour of one person) may be granted. These options may be granted to the Company's employees, officers, directors, and non-employees, subject to regulatory terms and approval. The exercise price of each option can be set equal to or greater than the closing market price, less allowable discounts, of the common shares on the TSX Venture Exchange on the day prior to the date of the grant of the option. Options have a maximum term of ten years and terminate 60 days following the termination of the optionee's employment, except in cases of retirement or death. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted.

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance – beginning of year	3,778,162	0.15 (1)	3,288,662	0.56
Granted	500,000	0.15	660,000	0.15
Expired / forfeited	(655,000)	0.15	(170,500)	0.46
Exercised	(20,000)	0.15	-	-
Balance – end of year	<u>3,603,162</u>	<u>0.15</u>	<u>3,778,162</u>	<u>0.49</u>

(1) A repricing of options at a price of \$0.15 was performed in August 2006. An adjustment to stock based compensation was recorded as at February 28, 2007 for the amount of \$17,280.

The fair value of each option granted is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	70%	72%
Risk-free interest rate	4.11%	3.94%
Expected life of options	5 years	5 years
Weighted average fair value	\$0.07	\$0.08

**Majescor Resources Inc.**

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The Company has recorded the following amounts as stock based compensation:

	2007	2006
	\$	\$
Salaries and benefits	22,900	6,137
Management and consulting fees	46,722	19,177
Total stock based compensation	<u>69,622</u>	<u>25,314</u>

**12. Contributed surplus**

Contributed surplus consists of the following components:

	2007	2006
	\$	\$
Balance – beginning of year	466,889	441,575
Stock options granted	52,342	25,314
Stock options exercised	(1,534)	
Adjustment - repriced options	17,280	-
Black-Scholes value of expired warrants	486,631	-
Balance – end of year	<u>1,021,608</u>	<u>466,889</u>

**13. Changes in non-cash working capital items**

Changes in the non-cash working capital consists of the following items:

	2007	2006
	\$	\$
Accounts receivable	(26,287)	72,985
Amount due from related parties	144,241	(521,312)
Advances to operators	(101,630)	-
Prepaid expenses	(110,178)	(3,162)
Accounts payable and accrued liabilities	(266,925)	610,877
Amount due to related parties	(60,972)	74,819
Amount due to operators	(22,279)	(469,838)
Change in deferred exploration expenses included in accounts payable	175,328	(38,786)
	<u>(268,702)</u>	<u>(274,417)</u>

## Majescor Resources Inc.

(A development stage Company)

Notes to Consolidated Financial Statements

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### 14. Income taxes

A reconciliation of the combined Canadian federal and provincial income tax rate with the Company's effective tax rate is as follows:

	2007	2006
	\$	\$
Loss before income taxes	<u>(2,198,975)</u>	<u>(3,902,986)</u>
Expected statutory rate (Federal 22.12%, Quebec 9.9%)	32.02%	32.02%
Expected recovery of income tax	(704,112)	(1,249,736)
Permanent differences	49,320	(27,479)
Temporary differences	5,372	(1,584)
Write down of mining properties and deferred exploration expenses	459,325	1,125,288
Share issue costs	(65,867)	(73,184)
Resource loss	14,535	26,020
Renounced expenditures	(711,000)	(433,000)
Effect of changes in valuation allowance, tax estimates and rate changes	<u>241,427</u>	<u>200,675</u>
Recovery of income taxes	<u>(711,000)</u>	<u>(433,000)</u>

The Canadian statutory income tax rate of 32.02% is comprised of federal income tax at approximately 22.12% and provincial tax rate at approximately 9.9%.

The primary temporary differences which give rise to future income taxes (recovery) at February 28, 2007 and 2006 are as follows:

	2007	2006
	\$	\$
Future tax assets		
Income tax loss carry forwards	1,245,968	1,025,921
Share issue costs	151,134	146,203
Financing fees	1,970	-
Resource properties	69,381	488,548
Fixed and tangible assets	8,577	-
	<u>1,477,030</u>	<u>1,660,672</u>
Less: Valuation Allowance	<u>(766,030)</u>	<u>(1,227,672)</u>
Net future tax assets	<u>711,000</u>	<u>433,000</u>
Future tax liabilities		
Tax effect of flow-through shares	(711,000)	(433,000)
Resource properties	-	-
Net future tax asset (liability)	<u>-</u>	<u>-</u>

**Majescor Resources Inc.**

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As at February 28, 2007, the Corporation has income tax loss carryforwards as follows:

	Federal \$	Quebec \$
2007	151,000	151,000
2008	339,000	339,000
2009	492,000	492,000
2010	543,000	543,000
2014	423,000	411,000
2015	629,000	592,000
2026	627,000	572,000
2027	754,000	721,000
	<u>3,958,000</u>	<u>3,821,000</u>

**15. Segmented information**

The Company has determined that it only operates in one segment, being acquisition, exploration and development of mineral properties for economically recoverable reserves. Total assets segmented by geographical area are as follows:

	2007 \$	2006 \$
Canada	7,126,112	6,339,049
Brazil	1,229,823	357,589
Madagascar	1,466,845	592,851
Total	<u>9,822,780</u>	<u>7,289,489</u>

**16. Comparative figures**

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

## **Majescor Resources Inc.**

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### **17. Subsequent events**

- a) In February 2007, the Company signed an agreement with Vaaldiam Resources Ltd for the sale of the Company's 40% interest in the Brauna diamond deposit and for the Company's 100% interest in the Tres Marias property, both of which are located in Brazil. Under the terms of the agreement for the Brauna and Tres Marias interest, Majescor received \$2,250,000 cash payment on March 1, 2007, 1,733,102 common shares of Vaaldiam valued at \$1,500,000 and 1% Gross Sales Royalty right on diamond production from the property.
- b) In March 2007, the Company entered into an agreement with its joint-venture partner Superior Diamonds Inc. to acquire 100% of the uranium rights on the Mistassini property located in the Otish Mountains district of Quebec. Superior Diamonds will retain 100% of the diamonds rights on the property. The terms of the Agreement, which is subject to regulatory approval, stipulate that in exchange for providing 100% rights for uranium to Majescor, Superior Diamonds will retain 100% diamonds rights and a 2% Yellow Cake Royalty for uranium. Majescor retains a 2% royalty for diamonds.
- c) In March 2007, the Company signed a letter of intent with Azimut Exploration Inc. regarding West Minto Uranium property, located in the Nunavik District of Northern Quebec. The Company can acquire a 50% interest in the property by spending \$3.8 million in exploration over a 5-year period, including \$500,000 in year-one. The Company can further increase its interest in the project to 65% upon delivery of a bankable feasibility study. A cash payment of \$100,000 is due on signing of a final agreement, and \$50,000 on the four subsequent anniversaries for a total of \$300,000. Majescor will also issue 270,000 common shares on signing and an additional 270,000 common shares on the first anniversary of the agreement (subject to a 4 month hold period). This option agreement remains subject to the approval of the regulatory authorities.
- d) In March 2007, the Company issued 710,000 common shares to Azimut Exploration Inc. and therefore fulfilled its due commitment regarding South Rae property.
- e) On May 15, 2007, the Company received 2,000,000 common shares from Uranium World Energy Inc. Uranium World Energy Inc. completed the committed work program of \$640,000 and issued a total of 3,000,000 common shares to Majescor Resources Inc. and therefore earned its 80% interest in the property Baker Lake.