

**YOUNG-SHANNON GOLD MINES, LIMITED**  
**(A Development Stage Entity)**

**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying financial statements of Young-Shannon Gold Mines, Limited were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 2 to the consolidated financial statements.

Management has established processes, which are in place to provide them with sufficient knowledge to support the representations that management has exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and (ii) the financial statements present fairly in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committee are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.



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**KRAFT BERGER LLP** CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

To the Shareholders of  
**YOUNG-SHANNON GOLD MINES, LIMITED**

We have audited the balance sheets of **YOUNG-SHANNON GOLD MINES, LIMITED (A Development Stage Entity)** as at December 31, 2007 and 2006 and the statements of operations, comprehensive loss and deficit, shareholders' equity 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 its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Kraft Berger LLP*

**KRAFT BERGER LLP**  
Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
April 3, 2008

**Young-Shannon Gold Mines, Limited**  
**(A Development Stage Entity)**

**BALANCE SHEETS**

**(EXPRESSED IN CANADIAN DOLLARS)**

<b>DECEMBER 31</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
Current		
Cash	\$ 2,163,768	\$ 521,135
Sundry receivables	3,863	10,458
Prepaid expenses	19,886	19,883
	<b>2,187,517</b>	551,476
Equipment (Note 3)	1,805	2,471
Other assets		
Deferred mineral property expenditures (Note 4)	3,233,489	3,134,252
Mineral property acquisitions (Note 5)	699,902	688,147
Amount received for earn-in percentage	(125,000)	(125,000)
	<b>3,808,391</b>	3,697,399
	<b>\$ 5,997,713</b>	<b>\$ 4,251,346</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 60,166	\$ 169,348
Future income tax liability (Note 10)	244,700	368,500
	<b>304,866</b>	537,848
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 6)	5,950,804	4,679,580
Warrants (Note 7)	1,011,975	206,475
Stock options (Note 8)	138,611	125,726
Contributed surplus	95,150	72,650
Deficit	(1,503,693)	(1,370,933)
	<b>5,692,847</b>	3,713,498
	<b>\$ 5,997,713</b>	<b>\$ 4,251,346</b>

**Approved on Behalf of the Board:**

"Greg Lipton"  
**Director**

"Kevin Bullock"  
**Director**

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

**Young-Shannon Gold Mines, Limited  
(A Development Stage Entity)**

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT  
(EXPRESSED IN CANADIAN DOLLARS)**

<b>FOR THE YEARS ENDED DECEMBER 31</b>	<b>2007</b>	<b>2006</b>
<b>REVENUE</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXPENSES</b>		
Consulting fees	92,000	90,244
Stock-based compensation	32,929	38,826
Stock maintenance and exchange fees	23,223	20,975
Professional fees	62,897	56,034
Office and administration	7,487	9,380
Insurance	14,824	10,817
Rent	9,000	9,000
Conference	4,462	10,511
Travel	4,814	2,415
Amortization	666	923
Advertising and promotion	4,266	4,527
	<b>256,568</b>	<b>253,652</b>
Less: interest income	<b>(8)</b>	<b>(25)</b>
<b>LOSS AND COMPREHENSIVE LOSS, before income taxes</b>	<b>(256,560)</b>	<b>(253,627)</b>
Income taxes - future (recovery) expense (Note 10)	<b>(123,800)</b>	59,282
<b>NET LOSS AND COMPREHENSIVE LOSS for the year</b>	<b>(132,760)</b>	<b>(312,909)</b>
DEFICIT, beginning of year	<b>(1,370,933)</b>	<b>(1,058,024)</b>
<b>DEFICIT, end of year</b>	<b>\$ (1,503,693)</b>	<b>\$ (1,370,933)</b>
<b>Basic and diluted loss per share (Note 9)</b>	<b>\$ 0.00</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>32,919,783</b>	<b>26,417,705</b>

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

**Young-Shannon Gold Mines, Limited**  
**(A Development Stage Entity)**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**(EXPRESSED IN CANADIAN DOLLARS)**

<b>FOR THE YEARS ENDED DECEMBER 31</b>	<b>2007</b>	<b>2006</b>
<b>Capital Stock</b>		
Balance at beginning of year	\$ 4,679,580	\$ 4,163,408
Private placement	2,180,000	613,250
Cost of issue - cash and shares	(202,614)	(43,709)
Private placement finders fees	67,969	27,088
Issuance of warrants - valuation	(828,000)	(183,975)
Exercise of warrants	-	36,000
Exercise of warrants - valuation	-	16,560
Exercise of stock options -cash	33,825	-
Exercise of stock options - valuation	20,044	-
Issued for McMillan property option	-	19,500
Issued on settlement of financial obligation	-	31,458
<b>Balance, end of year</b>	<b>\$ 5,950,804</b>	<b>\$ 4,679,580</b>
<b>Warrants</b>		
Balance at beginning of year	\$ 206,475	\$ 75,910
Issued	828,000	183,975
Exercise of warrants - valuation	-	(16,560)
Warrants expired	(22,500)	(36,850)
<b>Balance, end of year</b>	<b>\$ 1,011,975</b>	<b>\$ 206,475</b>
<b>Stock Options</b>		
Balance at beginning of year	\$ 125,726	\$ 86,900
Stock options granted	32,929	38,826
Stock options exercised	(20,044)	-
<b>Balance, end of year</b>	<b>\$ 138,611</b>	<b>\$ 125,726</b>
<b>Contributed Surplus</b>		
Balance at beginning of year	\$ 72,650	\$ 35,800
Warrants expired	22,500	36,850
<b>Balance, end of year</b>	<b>\$ 95,150</b>	<b>\$ 72,650</b>
<b>Deficit</b>		
Balance at beginning of year	\$ (1,370,933)	\$ (1,058,024)
Net loss for the year	(132,760)	(312,909)
<b>Balance, end of year</b>	<b>\$ (1,503,693)</b>	<b>\$ (1,370,933)</b>
<b>Total Shareholders' Equity, End of Year</b>	<b>\$ 5,692,847</b>	<b>\$ 3,713,498</b>

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

**Young-Shannon Gold Mines, Limited**  
**(A Development Stage Entity)**

**STATEMENTS OF CASH FLOWS**

**(EXPRESSED IN CANADIAN DOLLARS)**

<b>FOR THE YEARS ENDED DECEMBER 31</b>	<b>2007</b>	<b>2006</b>
<b>CASH (USED IN) PROVIDED BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (132,760)	\$ (312,909)
Amortization	666	923
Stock-based compensation	32,929	38,826
Future income taxes (recovery)	(123,800)	59,282
Net change in non-cash working capital:		
Sundry receivables	6,595	(2,920)
Prepaid expenses	(3)	(9,983)
Accounts payable and accrued liabilities	(109,182)	67,802
	<b>(325,555)</b>	<b>(158,979)</b>
<b>INVESTING ACTIVITIES</b>		
Deferred mineral property expenditures	(99,237)	(200,040)
Mineral property acquisitions	(11,755)	(20,000)
Non-refundable deposit on property	-	25,000
	<b>(110,992)</b>	<b>(195,040)</b>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from issuance of common shares	2,079,180	632,629
<b>INCREASE IN CASH</b>	<b>1,642,633</b>	<b>278,610</b>
<b>CASH, beginning of year</b>	<b>521,135</b>	<b>242,525</b>
<b>CASH, end of year</b>	<b>\$ 2,163,768</b>	<b>\$ 521,135</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Common shares issued for option to acquire mineral property	\$ -	\$ 19,500
Common shares issued on settlement of financial obligation	\$ -	\$ 31,458
Common shares issued for private placement finder's fee	\$ 67,969	\$ 27,088

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

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

**December 31, 2007 and 2006**

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Young-Shannon Gold Mines, Limited (the "Company" or "Young-Shannon") carries on business in one segment, being the acquisition, exploration and development of properties for the mining of precious and base metals. The Company holds a group of 92.5% of 11 patented and 18 unpatented claims within Chester Township located west of Highway 144 midway between Sudbury and Timmins, Ontario. It also has an option to earn a 60% interest in the McMillan Gold Mine property, located 75 kilometres southwest of the Greater City of Sudbury, and an option to earn a 70% interest in a gold and silver property in the province of Chubut, Argentina.

The accompanying financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not earned significant revenue, has an accumulated deficit of \$1,503,693 and is considered to be in the development stage. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Company are summarized as follows:

#### **Use of Estimates**

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Significant areas where management's judgment is applied include the carrying value of mineral properties, fair value estimates for stock options and warrants, and estimated lives of depreciable assets. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly from these estimates.

#### **Mineral Interests**

The Company considers its exploration costs to have the characteristics of property and equipment. As such, the Company defers all exploration costs, including acquisition costs, field exploration and field supervisory costs relating to the specific properties until those properties are brought into production, at which time, they will be amortized on a unit-of-production basis based on proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

The recoverability of the amounts shown for deferred mineral property expenditures and mineral property acquisitions is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet its obligations under various agreements and the success of future operations or dispositions.

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

**December 31, 2007 and 2006**

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Equipment

Equipment is recorded at cost. Depreciable assets are amortized over their estimated useful lives utilizing the following rates and methods:

Computer	30%	Declining balance
Furniture and fixtures	20%	Declining balance

#### Stock Based Compensation

The Company has a stock-based compensation plan, which is described in Note 8. The Company accounts for all stock-based payments using the fair value based method. Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized on a straight line basis over the vesting period. No compensation cost is recognized for options that are forfeited if the individual fails to satisfy the service requirement for vesting.

#### Flow Through Shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to mining and resource properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

#### Future Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

#### Net Loss per Share

Basic loss per share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the year greater than their exercise price are exercised and the proceeds used to repurchase common shares.

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

**December 31, 2007 and 2006**

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Impairment of Long-Lived Assets

Canadian GAAP requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, undiscounted future cash flows expected to result from the use of the asset and its disposition must be estimated and compared with the carrying value of those assets.

Where the undiscounted future cash flows are less than the carrying amount of the asset, the assets are written down to their estimated fair values. Management has not identified circumstances indicating possible impairment of the Company's long-lived assets as at December 31, 2007.

#### Asset Retirement Obligations

The Company recognizes the liability arising from legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Upon settlement of the liability, a gain or loss is recorded. The liability is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flow underlying the obligation.

#### Financial Instruments

##### Financial Instruments, Comprehensive Income (Loss), and Hedges

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", 3861 "Financial Instruments - Disclosure and Presentation" and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis; accordingly, comparative amounts for prior periods have not been restated. The Corporation has adopted these new standards effective January 1, 2007.

##### (a) Financial Instruments - Recognition and Measurement

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

**December 31, 2007 and 2006**

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial Instruments (Continued)

##### (a) Financial Instruments - Recognition and Measurement (Continued)

The standard requires the Company to make certain elections, upon initial adoption of the new rules, regarding the accounting model to be used to account for each financial instrument. This new section also requires that transaction costs incurred in connection with the 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.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding as at January 1, 2007:

Cash and cash equivalents	Held-for-trading
Sundry receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

##### (b) Comprehensive Income (Loss)

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

##### (c) Hedges

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

##### (d) Financial Instruments - Disclosure and Presentation

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. 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 except for the requirement to restate currency translation adjustment as part of other comprehensive income. Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

# **Young-Shannon Gold Mines, Limited (A Development Stage Entity)**

## **NOTES TO FINANCIAL STATEMENTS**

**(EXPRESSED IN CANADIAN DOLLARS)**

**December 31, 2007 and 2006**

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial Instruments (Continued)**

##### **(e) Section 3251 - Equity**

Section 3251 - Equity, replaces Section 3250. This section establishes standards for the presentation of equity and changes in equity during the reporting period.

##### **(f) Impact Upon Adoption of Sections 1530, 3251, 3855, 3861, and 3865**

The Corporation has evaluated the impact of sections 1530, 3251, 3855, 3861, and 3865 on its financial statements and determined that no adjustments are currently required.

#### **Accounting Policy Choice for Transaction Costs**

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments- Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

#### **Accounting Changes**

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

December 31, 2007 and 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Future Accounting Changes

##### Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual financial statements for the Corporation's reporting period beginning on January 1, 2008.

Section 1535 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 any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

##### International Financial Reporting Standards ["IFRS"]

In January 2006, the CICA's Accounting Standards Board ["AcSB"] formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability ["PAEs"]. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter 2011 filing, comparative financial statements in accordance with IFRS for the three months ended March 31, 2010.

##### Going Concern Disclosure

Section 1400, General standards of financial statement presentation, has been amended to include going concern requirements. The amendments require management to make an assessment of the Company's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern. These amendments are required to be adopted by the Company effective January 1, 2008.

The Corporation is currently assessing the impact of these new accounting standards on its financial statements.

**Young-Shannon Gold Mines, Limited**  
**(A Development Stage Entity)**

**NOTES TO FINANCIAL STATEMENTS**

**(EXPRESSED IN CANADIAN DOLLARS)**

**December 31, 2007 and 2006**

**3. EQUIPMENT**

	Cost	Accumulated Amortization	Total December 31, 2007	Total December 31, 2006
Computer	\$ 6,389	\$ (5,190)	\$ 1,199	\$ 1,713
Furniture and fixtures	1,572	(966)	606	758
	\$ 7,961	\$ (6,156)	\$ 1,805	\$ 2,471

**4. DEFERRED MINERAL PROPERTY EXPENDITURES**

Deferred mineral property expenditures consist of :

	December 31, 2007	December 31, 2006
Drilling	\$ 1,541,859	\$ 1,541,859
Drilling - Phase 1	126,896	126,896
Drilling - Phase 2	681,181	622,194
Engineering and consulting	471,364	438,656
Laboratory	212,801	211,674
Surveying and sampling	50,741	50,724
Site preparation	33,363	33,363
Dewatering	29,482	29,482
Supplies	25,817	24,819
Travel	51,071	45,671
Maintenance	8,914	8,914
	\$ 3,233,489	\$ 3,134,252

The tax attributes of deferred mineral property expenditures in the amount of \$2,290,000 as at December 31, 2007 (2006 - \$2,290,000) have been renounced to shareholders pursuant to flow-through share agreements. The corresponding future tax costs of the Company of renouncing tax benefits to shareholders have been recorded accordingly.

**Young-Shannon Gold Mines, Limited  
(A Development Stage Entity)**

**NOTES TO FINANCIAL STATEMENTS**

**(EXPRESSED IN CANADIAN DOLLARS)**

**December 31, 2007 and 2006**

**4. DEFERRED MINERAL PROPERTY EXPENDITURES (Continued)**

The following represents a breakdown of the annual activity on each of the Company's properties:

	2007	2006
<b>Chester Township, Ontario</b>		
Balance, beginning of year	\$ 2,566,537	\$ 2,586,057
Engineering and consulting	4,500	4,500
Travel	309	-
Non-recoverable deposits (Note 5)	(15,000)	(25,000)
Other	998	980
	<b>(9,193)</b>	<b>(19,520)</b>
<b>Balance, end of year</b>	<b>\$ 2,557,344</b>	<b>\$ 2,566,537</b>
<b>McMillan Property Option, Ontario</b>		
Balance, beginning of year	\$ 567,715	\$ 373,155
Drilling	73,986	181,998
Engineering and consulting	20,495	9,780
Laboratory	1,144	1,449
Travel	-	1,333
	<b>95,625</b>	<b>194,560</b>
<b>Balance, end of year</b>	<b>\$ 663,340</b>	<b>\$ 567,715</b>
<b>M-18 Property Option, Argentina</b>		
Balance, beginning of year	\$ -	\$ -
Engineering and consulting	7,713	-
Travel	5,092	-
	<b>12,805</b>	<b>-</b>
<b>Balance, end of year</b>	<b>\$ 12,805</b>	<b>\$ -</b>
<b>TOTAL MINERAL PROPERTY EXPENDITURES</b>	<b>\$ 3,233,489</b>	<b>\$ 3,134,252</b>

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

**December 31, 2007 and 2006**

### 5. MINERAL PROPERTY ACQUISITIONS

Mineral property acquisitions consist of:

	December 31, 2007	December 31, 2006
<b>Chester Township, Ontario</b>		
92.5% of eleven patented gold mining claims	\$ 399,790	\$ 399,790
<b>Chester Township, Ontario</b>		
92.5% of eighteen unpatented mining claims	192,357	192,357
<b>McMillan Property Option, Ontario</b>	96,000	96,000
<b>M-18 Property Option, Argentina</b>	11,755	-
	<b>\$ 699,902</b>	<b>\$ 688,147</b>

#### Chester Township, Ontario

The Chester gold property in Chester Township, Ontario, is situated some 121 kilometres south-southwest of Timmins, and 162 kilometres north-northwest of Sudbury. The Chester project is composed of 92.5% of eleven patented, contiguous mining claims, and eighteen unpatented mining claims.

Pursuant to an agreement dated March 27, 1987, the Company must pay a royalty of 3% of net smelter returns, once production begins on any of the eleven patented gold mining claims in Chester Township. The Company must pay a royalty of 3% of net smelter returns, once production begins on two of the unpatented mining claims. The eighteen unpatented mining claims in Chester Township were acquired from related parties in 1997 under an option agreement requiring payment of 200,000 common shares and \$50,000 in cash. The Company issued the shares and paid the vendors \$5,000 before the option period expired. An agreement dated May 15, 2002 revived the option and the Company paid the vendors \$15,000 in cash on July 31, 2002. The \$30,000 unpaid balance was settled by the issuance of 200,000 common shares on January 7, 2003.

During 2006, the Company entered into an agreement with a private company for a 46.25% undivided interest in the Company's Chester Gold Property. On July 17, 2006, the Company announced that the June 30, 2006 deadline for payment of \$2,000,000, less the \$25,000 non-refundable deposit stipulated under the terms of the agreement had passed and the offer to purchase had expired. An extension of two weeks was granted by the Company, however, the private company failed to raise the cash requirement.

On October 23, 2007, the Company announced that the Company had signed a definitive Option and Joint Venture Agreement (the "Agreement") with a private Canadian company, whereby the private company can earn a 46.25% interest in the Company's gold property in Chester Township, Ontario. Pursuant to the signing of the Agreement, the private company paid the Company \$10,000. A previous non-refundable cash payment of \$5,000 was paid to the Company upon signing of the Letter of Intent for this Agreement, earlier this year. (Note 4)

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

**December 31, 2007 and 2006**

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### 5. MINERAL PROPERTY ACQUISITIONS (Continued)

#### Chester Township, Ontario (Continued)

The private company will be required to spend a total of \$2,250,000 in exploration costs to earn its 46.25% interest including \$100,000 by December 31, 2007, \$150,000 by March 31, 2008, and \$500,000 in each twelve month period ending on March 31, until March 31, 2012. Also, cash payments of \$15,000 will be made by the private company to the Company on each of the first four anniversaries of the effective date of the Agreement.

The private company will undertake a strategy to go public and become listed on the TSX Venture Exchange, or other equivalent stock exchange, by Initial Public Offering, merger, or other financial transaction ("Public Transaction") within nine months following the execution date of the Agreement. Upon completing a Public Transaction, the private company will cause the resulting issuer, subject to regulatory approval, to issue the following shares to the Company:

- (i) shares of the resulting issuer on closing of the Public Transaction having a value of \$100,000; and
- (ii) 50% of the number of shares issued under (i) above on each anniversary of the closing of the Public Transaction for each year that the Agreement is in force until exercise of the option.

Upon satisfying these obligations the private company will then have the option to acquire an additional 28.75% interest in the property by paying the Company \$300,000 cash and issuing the Company five times the number of shares in the resulting issuer which were issued per (i), above.

#### McMillan Property Option, Ontario

Effective October 7, 2004, the Company optioned 26 mining claims including the former McMillan gold mine located southwest of Sudbury, Ontario. The terms of the option to earn a 50% interest are as follows:

	Cash	Common Shares	Work Commitment
Upon signing (paid)	\$ 10,000	150,000	\$ -
First anniversary (paid)	15,000	150,000	200,000
Second anniversary (paid)	20,000	150,000	300,000
Third anniversary	30,000	200,000	400,000
	<b>\$ 75,000</b>	<b>650,000</b>	<b>\$ 900,000</b>

The Company may increase its interest to 60% by spending an additional \$400,000 on the McMillan property and issuing 250,000 common shares to the vendor.

# **Young-Shannon Gold Mines, Limited (A Development Stage Entity)**

## **NOTES TO FINANCIAL STATEMENTS**

**(EXPRESSED IN CANADIAN DOLLARS)**

**December 31, 2007 and 2006**

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### **5. MINERAL PROPERTY ACQUISITIONS (Continued)**

#### **McMillan Property Option, Ontario (Continued)**

During 2007, the Company requested a six month extension to the third anniversary date of the McMillan Gold property Option and Joint Venture Agreement with Garson Resources Ltd. ("Garson") on October 25, 2007 in consideration of its interest in continuing with the evaluation of the gold potential of the property. Cumulative exploration expenditures required by the third anniversary date by the Company was \$900,000, however, expenditures to date are \$663,340. Garson granted the six month extension to the Company in return for an additional \$50,000 to be spent on exploration on the property. The Company anticipates expenditures of approximately \$300,000 to be utilized on a diamond drilling program on the McMillan Gold Property over the next few months to further evaluate the gold zone that it has defined on previous drilling campaigns. Upon fulfillment of the cumulative \$950,000 in exploration expenditures the Company will have completed its work commitment required to exercise its option and to have earned its 50% carried interest in the property. As at December 31, 2007, the Company has spent a total amount of \$663,340 (2006 - \$567,715) on this property.

#### **M-18 Property Option, Argentina**

On June 4, 2007, the Company signed an Option and Joint Venture Agreement (the "Agreement") to earn a 70% interest in the M-18 gold and silver property in the province of Chubut in Argentina from Silver Standard Resources Inc. ("Silver Standard"). The M-18 Property comprises 6,300 hectares measuring 9 km. east-west by 7 km. north-south.

The Company is required to spend \$US 1,000,000 over four years on exploration on M-18 to earn its 70% interest. Cumulative exploration expenditures on each anniversary date of June 04 will be \$US 250,000 by the first anniversary, \$US 500,000 by the second anniversary, \$US 750,000 by the third anniversary, and \$US 1,000,000 by the fourth anniversary. Likewise, cumulative option payments for the property will occur as follows: \$US 15,000 on the first anniversary date, \$US 25,000 on the second anniversary date, \$35,000 on the third anniversary date, and \$50,000 on the fourth anniversary date.

If a NI 43-101 compliant resource estimate shows that the property is silver dominant, that is, greater than 50% of the value of the resource estimate, Silver Standard will have the option to back-in for a 51% interest in the property by incurring \$US 1,000,000 in exploration costs.

All proposed exploration on the property will be through a management committee comprised of equal representation of the Company and Silver Standard until the Company exercises its option. However, the Company will determine how exploration funds will be spent on the property. If the Company does exercise its option it will then have the majority voting regarding operations on the property unless Silver Standard exercises its back-in right, in which event Silver Standard shall be entitled to majority voting.

**Young-Shannon Gold Mines, Limited**  
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**NOTES TO FINANCIAL STATEMENTS**

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**December 31, 2007 and 2006**

**6. CAPITAL STOCK**

(a) AUTHORIZED

Unlimited number of common shares

(b) ISSUED

	<b>SHARES</b>		<b>AMOUNT</b>
Balance - December 31, 2005	24,538,828	\$	4,163,408
Private placement, October 12, 2006 (i)	5,575,000		613,250
Private placement cost of issue - cash and shares (i)	-		(43,709)
Private Placement finders fees (i)	246,250		27,088
Issuance of warrants - valuation (i)	-		(183,975)
Issued on settlement of financial obligation (ii)	300,000		31,458
Issued for McMillan property option (Note 5)	150,000		19,500
Exercise of warrants -cash	360,000		36,000
Exercise of warrants - valuation	-		16,560
<b>Balance - December 31, 2006</b>	<b>31,170,078</b>	<b>\$</b>	<b>4,679,580</b>
Private placement, December 10, 2007 (iii)	21,800,000		2,180,000
Issuance of warrants - valuation (iii)	-		(828,000)
Costs of Issue - cash and shares (iii)	-		(202,614)
Private placement finders fees (iii)	543,750		67,969
Exercise of options - cash	290,000		33,825
Exercise of options - valuation	-		20,044
<b>Balance - December 31, 2007</b>	<b>53,803,828</b>	<b>\$</b>	<b>5,950,804</b>

- (i) On October 12, 2006, the Company closed a non-brokered private placement of 5,575,000 units at a price of \$0.11 per unit for gross proceeds of \$613,250. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant will entitle the holder thereof to purchase one common share of the Company at a price of \$0.15 per share for a period of 18 months following the closing date of the private placement.

The value assigned to these warrants was calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, expected volatility 142.37%, risk-free rate of return 4.05% and expected maturity of 18 months. The fair value of each warrant issued was \$0.066 per warrant, or \$183,975 in aggregate.

A 5% finder's fee comprising 158,750 common shares of the Company was paid to Trilogy Capital Limited and a 5% finder's fee comprising of 87,500 common shares of the Company was paid to VC Group Investments, S.A. In addition, a 5% cash commission was paid to Brant Securities Limited in the amount of \$1,375 and to Haywood Securities Inc. in the amount of \$2,200.

- (ii) Pursuant to the settlement agreement with MacMillan Gold Corp. on February 14, 2006, the Company issued 300,000 common shares with an assigned value of \$31,458.

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

**December 31, 2007 and 2006**

### 6. CAPITAL STOCK (Continued)

- (iii) On December 10, 2007, the Company closed a non-brokered private placement of 21,800,000 units at a price of \$0.10 per unit for gross proceeds of \$2,180,000. Each unit consisted of one common share of the company and one-half of one common share purchase warrant.

Each whole common share purchase warrant entitles the holder thereof to purchase one common share of the Company at a price of \$0.15 per share for a period of 24 months following the closing date of the private placement. A fair value of \$828,000 was assigned to the warrants, as calculated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%; expected volatility 135.3%; risk free rate of return 3.75%, and an expected life of two years.

In connection to the above, the Company paid costs of issue comprised of cash commissions of \$109,125, and a finder's fee of 543,750 common shares of the Company, with a fair value of \$67,969.

### 7. WARRANTS

The following table reflects the continuity of warrants for the years ended December 31, 2007 and 2006:

	NUMBER OF WARRANTS	AMOUNT
Balance - December 31, 2005	5,172,500	\$ 75,910
Issued (Note 6(b)(i))	2,787,500	183,975
Exercised	(360,000)	(16,560)
Expired (i)	(3,312,500)	(36,850)
Balance - December 31, 2006	4,287,500	206,475
Issued (Note 6(ii))	10,900,000	828,000
Expired (ii)	(1,500,000)	(22,500)
<b>Balance - December 31, 2007</b>	<b>13,687,500</b>	<b>\$ 1,011,975</b>

- (i) On June 22, 2006, a total of 3,312,500 warrants with an exercise price of \$0.25 expired.

- (ii) On May 1, 2007, a total of 1,500,000 warrants with an exercise price of \$0.125 expired.

The following table reflects the actual warrants outstanding as at December 31, 2007:

Expiry Date	Date of Issue	Exercise Price	Warrants Outstanding	Black-Scholes Value
April 12, 2008	October 12, 2006	\$0.15	2,787,500	\$ 183,975
Dec. 10, 2009	Dec. 10, 2007	\$0.15	10,900,000	828,000
			<b>13,687,500</b>	<b>\$ 1,011,975</b>

**Young-Shannon Gold Mines, Limited**  
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**NOTES TO FINANCIAL STATEMENTS**

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**8. STOCK OPTIONS**

The following table reflects the continuity of stock options for the years ended December 31, 2007 and 2006:

	NUMBER OF STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$
Balance - December 31, 2005	1,895,000	0.11
Forfeited	(125,000)	0.10
Balance - December 31, 2006	1,770,000	0.12
Granted	250,000	0.12
Exercised	(290,000)	0.12
<b>Balance - December 31, 2007</b>	<b>1,730,000</b>	<b>0.12</b>

The following table reflects the stock options outstanding as at December 31, 2007:

Expiry Date	Exercise Price (\$)	Weighted Average Life Remaining	Options Outstanding	Black-Scholes Value (\$)
February 27, 2008	0.13	0.17 years	735,000	51,533
November 16, 2009	0.10	1.88 years	250,000	13,999
February 24, 2010	0.105	2.15 years	175,000	9,886
March 16, 2010	0.105	2.21 years	25,000	1,225
April 1, 2010	0.10	2.25 years	295,000	21,240
February 20, 2012	0.135	4.15 years	100,000	11,518
July 27, 2012	0.117	4.58 years	150,000	21,411
		1.61 years	1,730,000	130,812
Add: expired stock options			-	7,799
			<b>1,730,000</b>	<b>138,611</b>

As at December 31, 2007, 1,685,556 of the 1,730,000 issued and outstanding stock options were fully vested and exercisable.

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

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### 8. STOCK OPTIONS (Continued)

On February 20, 2007, the Company granted 100,000 stock options to an officer of the Company at an exercise price of \$0.13. An aggregate fair value of \$13,000 was calculated using the Black-Scholes option pricing model, with the assumptions noted below. These options expire on February 20, 2012 and vest equally over a period of 18 months from the date of grant. Accordingly, the Company has recorded a charge of \$11,518 in relation to the fair value of the options vesting during the year.

On July 27, 2007, the Company granted 150,000 stock options to a director of the Company at an exercise price of \$0.117. These options are subject to immediate vesting and expire on July 27, 2012. An aggregate fair value of \$21,412 was calculated using the Black-Scholes option pricing model, with the assumptions noted below. Accordingly, the Company has recorded a charge of \$21,411 in relation to the fair value of these options vesting during the year.

The weighted average fair value of 250,000 options granted in 2007 (2006 - nil) was \$0.14 (2006 - \$nil). The cost of the options is amortized over the vesting period, where applicable. The fair value of each of the above noted option grants was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate:	4.01% - 4.53%
Expected dividend yield	0%
Expected share price volatility	167.1% - 181.7%
Expected life of the options	5 years

During 2003, the Company established a Stock Option Plan. Under the Plan, the Company may grant options to directors, officers, employees and consultants of the Company. The maximum number of Company shares that can be reserved under this plan is 5,000,000 (December 31, 2006 - 3,000,000). Unless otherwise noted, the options granted vest according to an eighteen month schedule from the date of the grant at a rate of 16.67% every three months.

### 9. BASIC AND DILUTED LOSS PER SHARE

Year ended December 31	2007	2006
Numerator:		
Net loss for the year	\$ (132,760)	\$ (312,909)
Denominator:		
Weighted average number of common shares outstanding	32,919,783	26,417,705
Basic and diluted loss per share	\$ 0.00	\$ (0.01)

The determination of the weighted average number of shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding warrants and options since they are anti-dilutive.

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**NOTES TO FINANCIAL STATEMENTS**

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**10. INCOME TAXES**

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates to income (loss) before income taxes as follows:

	<b>2007</b>	2006
Income taxes based on combined federal and provincial statutory rate of 36.12% (2006 - 36.12%)	<b>\$ (92,670)</b>	\$ (91,610)
Increase(decrease) in income tax resulting from:		
Stock compensation	<b>11,894</b>	14,024
Future tax benefits not recognized	<b>40,295</b>	27,473
Revaluation of future tax assets previously recognized	-	108,612
Impact of future changes in enacted rates	<b>(83,319)</b>	-
Other	-	783
	<u>                    </u>	<u>                    </u>
Effective income tax provision (recovery)	<b><u>\$ (123,800)</u></b>	<b><u>\$ 59,282</u></b>

The components of income taxes are as follows:

	<b>2007</b>	2006
Current	<b>\$ -</b>	\$ -
Future (recovery)	<b>(123,800)</b>	59,282
	<u>                    </u>	<u>                    </u>
	<b><u>\$ (123,800)</u></b>	<b><u>\$ 59,282</u></b>

Future Tax Liability

A summary of the principal components of future taxes calculated in accordance with Canadian accounting principles as at December 31, 2007 and 2006 is as follows:

	<b>2007</b>	2006
Operating losses carried forward	<b>\$ 123,025</b>	\$ 107,478
Capital losses carried forward	<b>1,823</b>	2,438
Property and equipment	<b>1,300</b>	1,500
Capital stock share issuance cost	<b>47,169</b>	39,963
Deferred mineral property	<b>(246,000)</b>	(370,000)
Valuation allowance	<b>(172,017)</b>	(149,879)
	<u>                    </u>	<u>                    </u>
Net future income tax liability	<b><u>\$ (244,700)</u></b>	<b><u>\$ (368,500)</u></b>

# Young-Shannon Gold Mines, Limited (A Development Stage Entity)

## NOTES TO FINANCIAL STATEMENTS

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December 31, 2007 and 2006

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### 10. INCOME TAXES (Continued)

#### Non-Capital Losses

As at December 31, 2007, the Company had net operating losses \$455,600 (2006 - \$297,600) which were provided with a valuation allowance. The following are the net operating loss carry-forwards by year of expiry:

2014	\$	54,300
2015		123,600
2026		119,700
2027		<u>158,000</u>
	\$	<u>455,600</u>

### 11. SUBSEQUENT EVENTS

On February 22, 2008 the Board of Directors of Young-Shannon agreed to extend the Anniversary Date of the required total exploration expenditures of \$250,000 to be undertaken by the private company on the Chester property for the period October 16, 2007 to March 31, 2008 now to be to September 30, 2008. In exchange for this extension the private company will be required to expend an additional \$15,000 in exploration costs. Therefore the minimum total exploration costs for the period October 16, 2007 to September 30, 2008 will be \$265,000.

On April 2, 2008 Silver Standard Resources Inc. agreed to amend the Option and Joint Venture Agreement (the "Option Agreement") for the M-18 Property in Chubut Province, Argentina dated March 1, 2007 whereby the new "Effective Date" of the Option Agreement is now April 2, 2008.

On April 22, 2008 Young-Shannon signed a contract for a diamond drilling program on the McMillan Gold Property to further evaluate the gold zone that it has defined on previous drilling campaigns. The Company anticipates expenditures of approximately \$300,000 for this program which will bring the total cumulative exploration expenditures for the property to \$950,000, thereby fulfilling its work commitment on the property to exercise its option and to have earned its 50% carried interest in the property.