Karmin Exploration Inc.
(an exploration company)

Consolidated Financial Statements
April 30, 2007
(expressed in Canadian dollars)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
Chartered Accountants
Place de la Cité, Tour Cominar
2640 Laurier Boulevard, Suite 1700
Québec, Quebec
Canada G1V 5C2
Telephone +1 (418) 522 7001
Facsimile +1 (418) 522 5663

Auditors' Report

To the Shareholders of
Karmin Exploration Inc.

We have audited the consolidated balance sheets of **Karmin Exploration Inc.** (an exploration company) as at April 30, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 30, 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
August 27, 2007

Karmin Exploration Inc.

(an exploration company)
Consolidated Balance Sheets
As at April 30,

(expressed in Canadian dollars)

	2007 $	2006 $
Assets		
Current		
Cash and cash equivalents	160,637	11,500
Accounts receivable	2,850	1,860
Investment in a public company (quoted market value: $7,500 in 2006, $22,500 in 2005)	2,500	2,500
	165,987	15,860
Property, plant and equipment (note 3)	101,349	100,125
Mining property (note 4)	884,301	864,301
	1,151,637	980,286
Liabilities		
Current		
Accounts payable and accrued liabilities	276,338	231,230
Due to a shareholder, bearing interest at 9% (note 6)	-	1,141,097
	276,338	1,372,327
Shareholders' Equity (Deficiency)		
Share capital (note 6)	16,159,295	14,659,295
Stock options (note 7)	485,222	112,741
Deficit	(15,769,218)	(15,164,077)
	875,299	(392,041)
	1,151,637	980,286

Nature of business and going concern (note 1)

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

Approved by the Board of Directors

_______________________________ Director _______________________________ Director

Karmin Exploration Inc.

(an exploration company)
Consolidated Statements of Operations and Deficit
For the years ended April 30, 2007 and 2006

(expressed in Canadian dollars)

	2007 $ (note 1)	2006 $
Expenses		
Exploration and prospecting costs	37,011	19,956
General and administrative (note 7)	529,390	141,335
Interest on due to a shareholder	52,541	91,097
Depreciation	4,059	4,059
	623,001	256,447
Interest income	(3,375)	(510)
Loss for the year	619,626	255,937
Deficit – Beginning of year	15,164,077	14,908,140
Stock options cancelled (note 7)	(14,485)	-
Deficit – End of year	15,769,218	15,164,077
Basic and diluted loss per share	(0.0175)	(0.0077)

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

Karmin Exploration Inc.

(an exploration company)
Consolidated Statements of Cash Flows
For the years ended April 30, 2007 and 2006

(expressed in Canadian dollars)

	2007 $ (note 1)	2006 $
Cash flows from operating activities		
Loss for the year	(619,626)	(255,937)
Items not affecting cash and cash equivalents		
Depreciation	4,059	4,059
Stock-based compensation costs	386,966	10,595
Interest capitalized on due to a shareholder	52,541	91,097
	(176,060)	(150,186)
Net change in non-cash working capital items:		
Accounts receivable	(990)	3,767
Accounts payable and accrued liabilities	45,108	56,984
	44,118	60,751
	(131,942)	(89,435)
Cash flows from investing activities		
Variation in the investment in a public company	-	(2,500)
Additions to property, plant and equipment	(5,283)	-
Acquisition of a mining property	(20,000)	-
	(25,283)	(2,500)
Cash flows from financing activities		
Due to a shareholder	306,362	50,000
Net change in cash and cash equivalents	149,137	(41,935)
Cash – Beginning of year	11,500	53,435
Cash and cash equivalents – End of year	160,637	11,500
Additional information		
Income taxes paid	-	-
Interest paid	-	-
Item not affecting cash related to financing activities due to a shareholder paid by the issuance of share capital	1,500,000	-

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

(expressed in Canadian dollars)

1 Nature of business and going concern

The company was incorporated on February 3, 1995 under the Business Corporations Act of Ontario to engage in mineral exploration and development of base metals and gold opportunities in Brazil.

Effective June 14, 1999, the company was continued under the Business Corporations Act of Alberta. Effective August 15, 1999, the company changed its name from Ambrex Mining Corporation (Ambrex) to Karmin Exploration Inc. (Karmin). Effective September 15, 1999, the company also consolidated its common shares on the basis of one new share for every three common shares previously issued and outstanding. Karmin's common shares trade publicly on the TSX Venture exchange under the symbol "KAR" (formerly YKA).

Karmin directly and through an agreement as described below, is in the process of exploring its mining properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of costs incurred on exploration and development is dependent upon the discovery of economically recoverable reserves, the securing and maintenance of the interests in the properties, future production or proceeds from the disposition thereof, and the ability of the company to obtain the necessary financing to continue these operations. As at April 30, 2007 and for the year then ended, the company reported a loss of $619,626 and an accumulated deficit of $15,783,703. The cash position as at April 30, 2007 of $160,637 is not sufficient to continue exploration of the mining property. This condition casts significant doubt as to the ability of the company to continue as a going concern and meet its obligations as they come due.

Management intends to secure new capital from related parties and to reduce expenses by joint venture in order to continue its operations. While it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without such funding being available, the company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify title to mining properties in which the company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenue and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

(expressed in Canadian dollars)

2 Summary of significant accounting policies

Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Karmin, Karmin Holdings Ltda., a wholly owned Brazilian holding company, and its 95% owned subsidiary, Mineracao Rio Aripuana Ltda. All significant intercompany accounts and transactions have been eliminated.

The company primarily operates in one operating segment as all its property and equipment are located in Brazil, and may be subject to government regulations relating to mining, currency fluctuations, inflation and other economic and political risks, any of which may result in impairment of the company's net assets. The Company's corporate headquarters in Canada serve administrative functions and are not a reportable segment.

Foreign currency translation

Foreign subsidiary

As the company considers all of its foreign operations to be fully integrated, all items denominated in foreign currencies have been translated using the temporal method. Under this method, monetary assets and liabilities and non-monetary items carried at market values are translated into Canadian dollars at exchange rates prevailing at the balance sheet dates. Other non-monetary assets and liabilities are translated at historical exchange rates applicable at the transaction date. Revenues and expenses are translated at the average exchange rate for the year.

Foreign currency exchange

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts are reflected in the statement of operations.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

(expressed in Canadian dollars)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and all highly liquid short-term investments with original maturities of three months or less at the acquisition date.

Investment in a public company

The investment in a public company is valued at the lower of cost and market value.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated economic lives mentioned in note 3.

Mining property

Exploration and prospecting costs are expensed as incurred. When a property is determined to have development potential, development and exploration costs related to that property are capitalized. These assets will be amortized on a unit of production basis once the property is brought into production. The company assesses annually whether an impairment condition may exist.

All administrative costs that do not directly relate to and are not necessary for development activity are expensed as incurred.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating shares during the year.

(expressed in Canadian dollars)

Share capital

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares over a reasonable period of time before and after the agreement to issue shares was announced. Share issue expenses are applied against share capital.

Stock-based compensation plans

The company maintains a stock option plan, which is described in note 7. In accordance with Canadian generally accepted accounting principles, the company uses the fair value method to account for options granted to employees. Accordingly, all stock-based compensation awards are expensed in the financial statements. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

3 Property, plant and equipment

				2007	2006
	Depreciation period	**Cost $**	**Accumulated amortization $**	**Net $**	**Net $**
Office equipment	10 years	14,674	5,165	9,509	5,165
Building	25 years	78,000	24,960	53,040	56,160
Land	-	38,800	-	38,800	38,800
		131,474	30,125	101,349	100,125

The office equipment is held in Canada. The building and the land are held in Brazil.

4 Mining property

	2007 $	2006 $
Aripuana property	884,301	864,301

The Aripuana property is located approximately 20 kilometers from the town of Aripuana in the State of Mato Grasso, Brazil.

In 1996, Karmin acquired the Aripuana 2000-hectare property. Initially focusing on gold, the company discovered a large volcanogenic massive sulphide (VMS) showing, called the Valley Deposit.

(expressed in Canadian dollars)

In 1999, Karmin formed a joint venture with UK-based mining company Anglo American PLC ("Anglo") and an unrelated third party to explore Karmin's property and Anglo's adjoining ground, where a similar VMS discovery had been made. Anglo was committed to spending US$3.25 million by December 31, 2003 to earn a 70% interest in the joint venture.

In 2004, Karmin and Anglo amended the agreement to allow a new partner, Votorantim S.A., to earn into the 70% position of the Aripuana property held by Anglo. Votorantim earned its position by spending US$1.6 million by December 2005 and Karmin's 28.5% interest remained unchanged.

In 2006 and 2007, Votorantim is spending US$3.5 million per year for drilling and completion of an independent scoping study.

On March 30, 2007, Karmin paid an amount of $20,000 to Ste-Geneviève Resources to purchase a 1.5% interest in the Aripuana project. Thus increasing their direct ownership of the project from 28.5% to 30%.

5 Related party balances and transactions

The company entered into the following transactions with related parties:

	2007 **$**	**2006** **$**
Shareholder		
Interest on due to a shareholder	52,541	91,097
Company controlled by a shareholder		
Management fees	40,000	40,000
Rent	8,300	10,000

The amount payable with respect to these and earlier years' management fees and rent included in accounts payable and accrued liabilities are respectively $213,600 and $40,898 (2006 - $171,200 and $32,100). The basis used to measure the related party transactions was the exchange amount based on the negotiated value between the parties.

6 Share capital

Authorized

The company's authorized share capital consists of an unlimited number of common shares.

(expressed in Canadian dollars)

Issued and outstanding

	2007		2006	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Balance – Beginning of year	33,190,434	14,659,295	33,190,434	14,659,295
Issued during year	5,263,157	1,500,000	-	-
Balance – End of year	38,453,591	16,159,295	33,190,434	14,659,295

In November 2006, the TSX Venture Exchange accepted the Company's proposal to issue 5,263,157 common shares at a deemed value of $0.285 per share to settle an outstanding debt for $1,500,000 that was due to a shareholder.

The weighted average number of common shares in 2007 was 35,497,571 (33,190,434 in 2006).

7 Stock options

The company established a stock option plan under which key employees, officers, directors and consultants of the company and its subsidiaries may be granted stock options for shares of the company. A maximum of 3,000,000 shares may be granted (maximum of 5% in favor of one person).

Options granted under the plan expire after the maximum period of ten years following the date of grant and vest over variable periods determined by the Board of Directors upon granting.

The following tables present the stock option activity:

	2007		2006	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding – Beginning of year	1,900,000	0.21	1,800,000	0.20
Granted	1,200,000	0.56	100,000	0.30
Cancelled *	(100,000)	0.21	-	-
Outstanding – End of year	3,000,000	0.35	1,900,000	0.21

* The stock options cancelled have been recorded against the deficit.

(expressed in Canadian dollars)

	Options as at April 30, 2007	Weighted average remaining contractual life (years)	Weigthed average exercise price $
Holders			
Directors and officers			
Outstanding and exercisable	3,000,000	3.55	0.32

Accounting for the stock-based compensation plan

The fair value of options granted for the years ended April 30, 2007 and 2006 was estimated using the Black & Scholes options pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.01%	3.38%
Expected volatility	80%	136%
Dividend yield	Nil	Nil
Weighted average expected life	5 years	2 years
Weighted average fair value of options granted	$0.322	$0.145

The Black & Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to officers and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to officers and directors.

The company recognizes, as a compensation cost arising from awards to officers and directors, the fair value of the stock options at the date of grant. The fair value of stock options granted during the year ended April 30, 2007 is $386,966 ($10,595 in 2006) and has been included in the statement of operations under the item "General and administrative" and has been included in Shareholders' Equity under the "Stock options".

(expressed in Canadian dollars)

8 Income taxes

As at April 30, 2007, the company has available tax losses for Canadian income tax purposes, which may be carried, forward to reduce taxable income derived in future years. A summary of these losses is provided below.

	$
2008	157,000
2009	226,000
2010	200,000
2014	185,000
2015	312,000
2016	246,000
2027	230,000
	1,556,000

The potential income tax benefits of these non-capital losses have been fully subject to a valuation allowance in the consolidated financial statements. In addition, the company has losses carry forward arising in Brazil of approximately $1 million , which have been subject to a valuation allowance in the consolidated financial statements. The tax value of the mining property and its capital cost exceeds the carrying value by approximately $212,000 at the federal level and $187,000 at the provincial level.

9 Segment disclosures

Operating segment

The company has one reportable operating segment, being exploration of mineral properties in Brazil as described in note 2.

Geographical information

The building, land and mining property are held in Brazil and the office equipment is held in Canada, as disclosed in notes 3 and 4.

(expressed in Canadian dollars)

10 Financial instruments

Fair value

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to a shareholder are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Interest rate risk

As at April 30, 2007 and 2006, the company's exposure to interest rate risk is a follows:

Cash and cash equivalents	Variable interest rate
Accounts receivable	Non-interest bearing
Investment in a public company	Variable yield
Accounts payable and accrued liabilities	Non-interest bearing

Foreign exchange risk

The company is subject to a variety of currency risks, including the risks that currencies will not be convertible at satisfactory rates, that the official conversion rates between the different currencies in which the company operates may not accurately reflect the relative value of goods and services available or required in the foreign jurisdictions in which the company operates and that inflation will lead to the devaluation of the currencies in the foreign countries in which the company has operations.