



*(a capital pool company)*

Financial Statements

December 31, 2007  
and  
December 31, 2006

# **DE VISSER GRAY LLP**

## **CHARTERED ACCOUNTANTS**

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### **AUDITORS' REPORT**

To the Shareholders of Artha Resources Corporation

We have audited the balance sheets of Artha Resources Corporation as at December 31, 2007 and 2006 and the statements of operations and deficit and cash flows for the year ended December 31, 2007 and from the period of incorporation on January 9, 2006 to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and cash flows for the year ended December 31, 2007 and from the period of incorporation on January 9, 2006 to December 31, 2006, in accordance with Canadian generally accepted accounting principles.

*"De Visser Gray LLP"*

### **CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
February 5, 2008

**ARTHA RESOURCES CORPORATION**  
**(A Capital Pool Company)**  
**Balance Sheets**

As at December 31,

	2007	2006
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	\$ 1,276,452	\$ 333,976
Accounts receivable	15,020	7,886
Prepaid expenses	8,874	-
	<u>\$ 1,300,346</u>	<u>\$ 341,862</u>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 14,343	\$ 13,110
<b>Shareholders' equity</b>		
Share capital (note 4)	\$ 441,351	\$ 398,681
Subscriptions received	1,164,451	-
Contributed surplus	34,436	33,341
Deficit	(354,235)	(103,270)
	<u>1,286,003</u>	<u>328,752</u>
Continuing operations (note 1)	<u>\$ 1,300,346</u>	<u>\$ 341,862</u>

On behalf of the Board:

*"W. Todd McMurray"*

*W. Todd McMurray*

*"Kamal Nagra"*

*Kamal Nagra*

The accompanying notes are an integral part of these financial statements

**ARTHA RESOURCES CORPORATION**  
**(A Capital Pool Company)**  
**Statements of Operations and Deficit**

For the year ended December 31, 2007 and  
For the period from incorporation on January 9, 2006 to December 31, 2006

	Year ended December 31, 2007	January 9, 2006 (date of incorporation) to December 31, 2006
<b>Expenses</b>		
Bank charges	\$ 870	\$ 529
Expenses relating to identification of qualifying transaction	212,739	72,501
Office and general	740	342
Professional fees	9,927	10,517
Regulatory and transfer agent	30,679	2,622
Stock-based compensation	8,990	25,446
<b>Loss before other items</b>	<b>263,945</b>	<b>111,957</b>
<b>Other items:</b>		
Interest income	(20,123)	(8,687)
Foreign exchange loss	7,143	-
<b>Net loss for the period</b>	<b>(250,965)</b>	<b>(103,270)</b>
<b>Deficit, beginning of period</b>	<b>(103,270)</b>	<b>-</b>
<b>Deficit, end of period</b>	<b>\$ (354,235)</b>	<b>\$ (103,270)</b>
<b>Basic loss per common share</b>	<b>\$ (0.038)</b>	<b>\$ (0.020)</b>
<b>Weighted average number of common shares outstanding</b>	<b>6,688,216</b>	<b>5,205,238</b>

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**ARTHA RESOURCES CORPORATION**  
**(A Capital Pool Company)**  
**Statement of Cash Flows**

For the year ended December 31, 2007 and  
For the period from incorporation on January 9, 2006 to December 31, 2006

	2007	January 9, 2006 (date of incorporation) to December 31, 2006
<b>Cash provided by (used for):</b>		
Operations:		
Net loss	\$ (250,965)	\$ (103,270)
Item not affecting cash:		
Stock-based compensation	8,990	25,446
Changes in non-cash working capital:		
Accounts receivable	(7,134)	(7,886)
Accounts payable	1,233	13,110
Prepaid expenses	(8,874)	-
Net cash used in operating activities	(256,750)	(72,600)
Financing activities:		
Share capital net of issue costs	34,775	406,576
Subscriptions received	1,164,451	-
Net cash provided by financing activities	1,199,226	406,576
Increase in cash and cash equivalents during the period	942,476	333,976
<b>Cash and cash equivalents, beginning of period</b>	<b>333,976</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,276,452</b>	<b>\$ 333,976</b>

The accompanying notes are an integral part of these financial statements

# **ARTHA RESOURCES CORPORATION**

**(A Capital Pool Company)**

## **Notes to Financial Statements**

For the year ended December 31, 2007 and

For the period from incorporation on January 9, 2006 to December 31, 2006

### **1. Incorporation and nature of business**

The Company was incorporated under the British Columbia Business Corporations Act on January 9, 2006 as Touchstones Capital Corporation and is classified as a Capital Pool Company as defined in Listing Policy 2.4 ("Policy 2.4") of the TSX Venture Exchange ("TSX Venture").

On February 8, 2006, the Company changed its name from Touchstones Capital Corporation to Artha Resources Corporation. On June 20, 2007 the Company signed a letter of intent to complete what is intended to be its Qualifying Transaction ("QT"), as defined in Policy 2.4, by the acquisition of an option to earn up to a 70% interest in the Clarkson Hill, WY, DCB and BL uranium properties located in the State of Wyoming, USA. To acquire an initial 60% interest the Company must incur \$5 million in exploration expenditures and issue an aggregate of 1,813,060 common shares in stages over 5 years. An additional 10% interest could be subsequently earned upon the delivery of a positive feasibility study to the optioner within 18 months of the Company earning its initial interest, and the payment of all further exploration costs to that point.

The optioner will also have the right to back in to a 50% interest in the property, subject to the completion of certain expenditure requirements, will have the right to participate in up to 20% of the Company's equity financings for a period of one year, and will be entitled to appoint two members of the Company's board.

The Company is currently seeking TSX-Venture approval of the proposed QT by the preparation and distribution of a formal Filing Statement in this connection.

In conjunction with this proposed QT, the Company intends to complete a non-brokered private placement to raise \$1,515,950 by the issuance of 4,331,286 units as a price of \$0.35 per unit. A unit will consist of one common share and one share purchase warrant, each of which will entitle the holder to purchase an additional common share at a price of \$0.65 for a period of two years. Refer also to note 4 (c).

The Company's continued operations are dependent upon its ability to identify and evaluate potential acquisitions of interest in properties, corporations, asset or business, and once identified and evaluated, to negotiate an acquisition of thereof or participation therein subject to receipt of regulatory and, if required, shareholder approval in order for the Company to complete a QT approved by the TSX Venture.

### **2. Significant accounting policies**

#### **Stock-based compensation plan**

The Company uses the fair value method, under which compensation expense is recorded based on the estimated fair value of the options as determined at the date of grant.

#### **Loss per share**

Basic loss per share is calculated on the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

## 2. Significant accounting policies (continued)

### Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

### Foreign currency

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at rates in effect at the time of the transactions.

## 3. Cash and cash equivalents

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or business for future investment, with the exception that up to 30% of the gross proceeds may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a Qualifying Transaction by the Company as defined under the policies of the TSX Venture.

The Company's excess cash balances are held in accounts at Canadian Chartered Banks. From time to time these funds are invested in fully insured interest-bearing instruments, which are redeemable without penalty at any time.

## 4. Share capital

### (a) Authorized:

Unlimited number of voting common shares without nominal or par value.

### (b) Issued voting common shares:

	Number of Shares	Share Capital	Contributed Surplus
Issued			
Cash – seed shares	3,150,001	\$ 157,500	\$ -
Initial public offering	3,500,000	350,000	-
Share issue costs	-	(101,149)	-
Agent's warrants exercised	2,250	277	(52)
Agent's warrants issued	-	(7,947)	7,947
Stock-based compensation	-	-	25,446
Balance as at December 31, 2006	6,652,251	398,681	33,341
Agent's warrants exercised	347,750	42,670	(7,895)
Stock-based compensation	-	-	8,990
Balance as at December 31, 2007	7,000,001	\$ 441,351	\$ 34,436

(c) At December 31, 2007, the Company had received subscription advance of \$1,164,451 in respect of a private placement of 4,331,286 units at a price of \$0.35.

#### 4. Share capital (continued)

(d) Shares held in escrow:

Of the issued and outstanding common shares, 3,150,001 will be held in escrow pursuant to the requirements of the Exchange, to be released as to 10% thereof on the completion of the Company's Qualifying Transaction and as to 15% on each of the 6, 12, 18, 24, 30, and 36 month anniversary dates thereafter.

(e) Initial public offering:

On May 9, 2006 the Company completed the initial Public Offering of 3,500,000 common shares at \$0.10 per share for gross proceeds of \$350,000. Union Securities Ltd acted as agent in respect of the offering and received a cash commission of \$45,000 as well as a warrant to acquire up to 350,000 common shares at \$0.10 per share, exercisable for a period of eighteen months.

(f) During the year 2007 347,750 (2006 – 2,250) Agent's warrants were exercised to acquire 347,750 (2006 – 2,250) common shares for cash consideration of \$34,775 (2006 - \$225).

#### 5. Stock-based compensation

During fiscal 2007 the Company granted 65,000 stock options exercisable at a price of \$0.38 per share for a period of five years to a Director of the Company. The stock option is subject to vesting as to 25% upon issuance and 25% each six months thereafter pursuant to the Company's Stock Option Plan.

During fiscal 2006 the Company granted to its directors and officers, on the closing date, options to purchase 600,000 common shares at a price of \$0.10 per share. These options are non-transferable and will expire on May 9, 2011 if unexercised. No options have been exercised to date.

A summary of the Company's options outstanding is as follows:

	2006			2007		
	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Life of Options Outstanding	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Life of Options Outstanding
Balance, beginning of year	-	\$ -		600,000	\$ 0.10	3.36 years
Granted	600,000	0.10	4.36 years	65,000	0.13	4.51 years
Cancelled/ expired	-	-		-	-	
Exercised	-	-		-	-	
Balance, end of year	600,000	\$ 0.10		665,000	\$ 0.13	
Weighted average fair value of options granted during 2006				\$ 0.10		
Weighted average fair value of options granted during 2007				\$ 0.38		

During the year stock based compensation costs in the amount of \$8,990 (2006 – \$25,446) were recorded in the Statement of Loss and costs of (2006 - \$7,947) for the agent's warrants were charged as share issuance costs. The fair value of all compensatory options and warrants granted is estimated on grant date using the Black-Scholes option pricing model.

## 5. Stock-based compensation (continued)

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options and Agent's warrants granted:

	2007		2006	
	Stock Options	Agent's Warrants	Stock Options	Agent's Warrants
Risk-free interest rate	3.58% - 3.43%	3.18%	3.43%	3.18%
Expected life of options	5 years	18 months	5 years	18 months
Annualized volatility	93%-43%	43%	43%	43%
Dividend rate	Nil	Nil	Nil	Nil

## 6. Income taxes

Reconciliation between the Company's statutory and effective tax rates is as follows:

	2007		2006	
Net loss for the year before taxes	\$	250,965	\$	103,270
Statutory Canadian corporate tax rate		34.12%		34.12%
Expected tax recovery		(85,629)		(35,236)
Non-deductible compensation expense for tax purposes		3,067		8,682
Share issue costs incurred during the year		(6,902)		(6,902)
Unrecognized benefit of current tax loss		89,464		33,456
Income tax expense	\$	-	\$	-

### Future income tax asset

Non-capital loss carry forward	\$	89,464	\$	33,456
Share issue costs		20,707		27,610
		110,171		61,066
Less valuation allowance		(110,171)		(61,066)
Net future income tax asset	\$	-	\$	-

The Company expects to have a 2007 operating loss for tax purposes of approximately \$260,000, which can be applied against future taxable income until 2027. This potential future tax benefit has been offset entirely by a valuation allowance and has not been recognized in these financial statements.

## 7. Related party transactions

All transactions with related parties occurred in the normal course of business and were measured at the exchange amount, which was the fair value as agreed between management and the related parties. The balances disclosed in the financial statements were unsecured receivable or payable upon demand and arose from the provision of services, expense reimbursements or advances. All material transactions and balances with related parties are described below.

In fiscal 2007, the company paid \$25,000 (2006 - \$Nil) to a director of the company for technical review and evaluation of the exploration project which comprises the proposed QT.

## **8. Subsequent Events**

On January 28, 2008, the Company appointed William Sheriff to the board of directors.